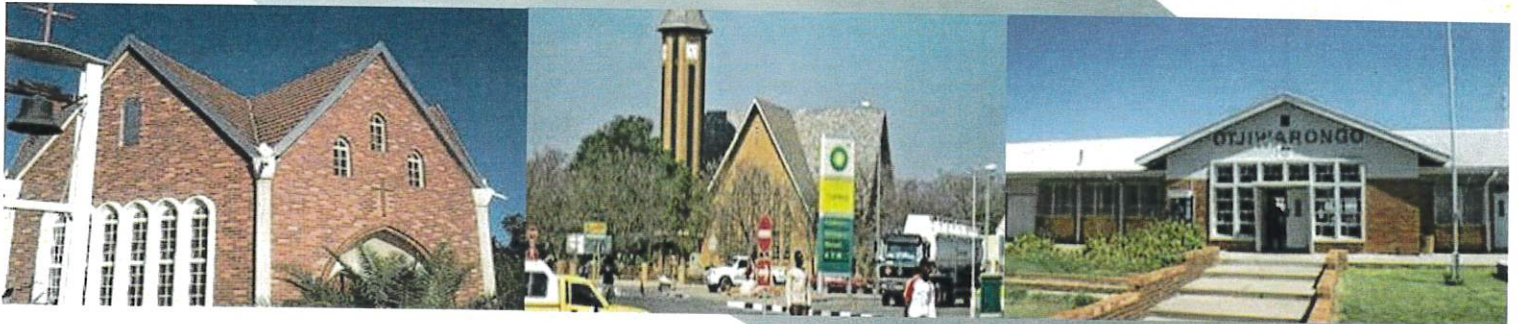




REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF OTJIWARONGO
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

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REPUBLIC OF NAMIBIA



TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY

I have the honour to submit herewith my report on the accounts of the Municipality of Otjiwarongo for the financial year ended 30 June 2020, in terms of Article 127(2) of the Namibian Constitution. The report is transmitted to the Honourable Minister of Finance in terms of Section 27(1) of the State Finance Act, 1991 (Act 31 of 1991) to be laid upon the Table of the National Assembly in terms of Section 27(4) of the Act.

A handwritten signature in black ink, appearing to read 'Junias Etuna Kandjeke'.

WINDHOEK, January 2022

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE MUNICIPALITY OF OTJIWARONGO
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

1. ADVERSE OPINION

I certify that I have audited the financial statements of the Municipality of Otjiwarongo for the financial year ended 30 June 2020, provided by the Accounting Officer as attached in Annexure A. These financial statements comprise the statement of financial position, statement of financial performance, statement of changes in net equity, cash flow statement, variance analysis, notes to the financial statements for the year then ended, and a summary of significant accounting policies.

In my opinion, because of the significance of matters discussed in the Basis for Adverse audit Opinion paragraph, the financial statements do not present fairly the financial position of the Municipality of Otjiwarongo for the financial year ended 30 June 2020 and its financial performance for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

2. BASIS FOR ADVERSE OPINION

I conducted my audit in accordance with International Standards for Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the audit report. I am independent of the entity in accordance with the Code of Ethics for Supreme Audit Institutions together with the ethical requirements that are relevant to the audit of the financial statements, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the Code of Ethics.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The adverse audit opinion is expressed due to the following:

2.1 Comparative figures and opening balances

Due to the disclaimer of opinion issued in the 2019 period, auditors could not obtain sufficient appropriate audit evidence to satisfy themselves that the comparative figures are free of material misstatements, fairly presents the financial position at the prior financial period end, the financial performance and cash flows for the period then ended, and the opening balances used in the current financial period.

2.2 Cash and Bank

Auditors could not obtain the reconciliation of N\$ 2 414 981 between the cash and bank per the financial statements and the cash and bank confirmed by the bank. Although the difference is not material as an absolute amount, owing to the nature of the Bank balance consisting of payments and receipts, auditor were unable to quantify to what extent the payments and receipts could be material. There were no alternative procedures the auditor could perform to obtain audit evidence that all the cash and cash equivalents have been properly recorded in the books of accounts. Consequently, the auditors were unable to satisfy themselves as to the completeness, existence and valuation of cash and cash equivalents and the related financial statement areas.

2.3 Inventory

Auditors did not observe the counting of physical inventories stated at N\$ 20 782 679 in the financial statements, hence auditors were unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the existence, completeness and valuation of the inventory quantities by alternative audit procedures. Consequently, auditors were unable to satisfy themselves as to the existence, completeness, valuation and accuracy of inventory and related financial statement areas.

2.4 Investment Property

The Municipality has undetermined land measuring 6 361 hectares that has not been valued or disclosed in the financial statements as investment properties. There is currently no accounting policy pertaining to the undetermined land.

2.5 Unallocated deposits

The municipality has an unallocated deposits account in payables under exchange transactions amounting to N\$ 4 857 615 included in this amount were debit balances amounting to N\$ 8 464 758 which emanated from the conversion from Finstel to Munsoft accounting system which management could not reconcile and there were no alternative procedures auditors could perform to obtain audit evidence supporting the existence, completeness, valuation and accuracy of unallocated deposits. Consequently, auditors were unable to satisfy themselves as to the existence, completeness, valuation and accuracy of Payables under exchange transactions and related financial statement areas.

2.6 Restatement of comparative figures

The Municipality restated the prior period comparative figures with the adoption of IPSAS, however there was no disclosure note in the annual financial statements explaining the restatements as required by IPSAS. The auditors were therefore unable to satisfy themselves as to the presentation of the comparative figures in the annual financial statements.

2.7 Annual Financial Statements

The annual financial statements submitted did not meet the requirements of the International Public Sector Accounting Standards regarding the disclosure list of standards adopted, and the list of standards applied for exemption.

2.8 Budget used for the Statement of Comparison of Budget and Actual Amounts

The budget disclosed in the annual financial statements does not agree to the budget approved by the Minister of Urban and Rural Development on 19 September 2019. The auditors were unable to satisfy themselves as to the presentation of the budget in the annual financial statements.

3. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS), and for such internal control as management determines it necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

4. AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards for Supreme Audit Institutions, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards for Supreme Audit Institutions, I exercise professional scepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting

from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
- I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my report unless law or regulation precludes public disclosure about the matter or, when in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

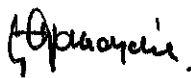
5. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The accounts were submitted later than required by the Accounting Officer to the Auditor-General on 30 November 2020 in terms of Section 87 (1) of the Local Authorities Act, 1992.

ACKNOWLEDGEMENT

The co-operation and assistance by the management and staff of the Municipality of Otjiwarongo during the audit is appreciated.

WINDHOEK, January 2022


JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

ANNEXURE A

MUNICIPALITY OF OTJIWARONGO
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2020 N\$	2019 N\$
Revenue			
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	3	28 407 846	26 748 394
Transfer revenue			
Transfers from other government entities	4	3 897 556	2 659 601
Levies	5	153	292
Fines, penalties and levies		67 979	4 731
Total revenue from non-exchange transactions		32 373 534	29 413 018
Revenue from exchange transactions			
Service charges	6	70 743 159	64 629 181
Rendering of services		12 254 298	7 804 510
Electricity surcharges		7 283 111	7 653 044
Rental of facilities and equipment	7	-	29 200
Dividends received		616 000	-
Miscellaneous other revenue		29 348	-
Interest received – investment	8	702 973	-
Total revenue from exchange transactions		91 628 889	80 115 935
Total revenue	2	124 002 423	109 528 953
Expenses			
Bulk purchases	9	(30 370 241)	(28 980 504)
Employee costs	10	(78 368 816)	(61 072 342)
Remuneration of councilors	11	(557 721)	(570 223)
Depreciation and amortisation expense	12	(12 643 066)	-
Debt impairment	13	(4 757 172)	-
General Expenses	14	(20 984 405)	(17 998 654)
Interest paid	15	(172 207)	(952 168)
Total expenses		(147 853 628)	(109 573 891)
Deficit for the year		(23 851 205)	(44 938)

MUNICIPALITY OF OTJIWARONGO
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE

ANNEXURE B

	Note	2020 N\$	2019 N\$
Assets			
Current Assets		51 835 053	31 802 277
Cash and cash equivalents	17	18 648 025	11 532 399
VAT receivable	18	2 460 303	10 541 939
Receivables from exchange transactions	19	9 118 436	8 366 812
Recoverable from non-exchange transaction	20	494 043	588 207
Inventories	22	20 782 679	644 582
Loans to employees	23	331 567	128 338
Non-Current Assets		181 283 109	186 004 387
Property, plant and equipment	24	132 423 324	136 977 056
Investments in CENORED	25	43 066 969	43 066 969
Long term receivables from exchange transactions	21	5 792 816	5 960 362
Total Assets		233 118 162	217 806 664
Liabilities			
Current Liabilities		36 559 662	18 658 184
Payables under exchange transactions	26	34 369 450	16 428 569
Consumer deposits	27	1 977 926	1 964 866
Payables under non-exchange transactions	28	-	264 749
Current Portion - GRN loans		212 286	-
Non-Current Liabilities		1 154 076	1 557 436
Non-current portion - GRN loans		1 154 076	1 557 436
Total Liabilities		37 713 738	20 215 620
Net Assets/Equity		195 404 424	197 591 044
Total Net Asset & Liabilities		233 118 162	217 806 664

MUNICIPALITY OF OTJIWARONGO
STATEMENT OF CHANGES IN NET ASSET FOR THE YEAR ENDED 30 JUNE

	Accumulated surplus N\$	Total net assets/equity N\$
Balance at 01 July 2018	240 998 164	240 998 164
Changes in net assets/equity Surplus for the year	(44 938)	(44 938)
Direct adjustments to appropriation	(43 356 444)	(43 356 444)
Other adjustments	(5 738)	(5 738)
Total changes	(43 407 120)	(43 407 120)
Balance at 01 July 2019	197 596 781	197 596 781
Changes in net assets/equity Surplus for the year	(23 851 205)	(23 851 205)
Direct adjustments to appropriation	21 658 848	21 658 848
Total changes	(2 192 357)	(2 192 357)
Balance at 30 June 2020	195 404 424	195 404 424

MUNICIPALITY OF OTJIWARONGO
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

ANNEXURE D

	2020	2019
Note	N\$	N\$
Cash flows from operating activities		
Deficit	(23 851 205)	(44 938)
Adjustments for:		
Depreciation and amortization expense	12 643 066	-
Debt impairment	4 757 172	-
Changes in working capital:		
Inventories	(20 138 097)	610 892
Receivables from exchange transactions	15 411 648	(4 850 278)
Debt impairment	(4 757 172)	-
Other receivables from non-exchange transactions	94 164	(2 358)
Payables under exchange transactions	17 940 883	(1 217 177)
Taxes and transfers payable (non exchange)	(264 749)	264 749
Consumer deposits	13 060	64 700
Net cash flows from operating activities	1 848 770	(5 174 410)
Cash flows from investing activities		
Purchase of property, plant and equipment	(8 089 835)	(7 302 916)
Proceeds from sale of long term receivables from exchange transactions	167 546	397 088
Net cash flows from investing activities	(7 922 289)	(6 905 828)
Cash flows from financing activities		
Movement in non-current portion - GRN loans	(191 074)	(172 012)
Movement in loans to employees	(203 229)	(2 030)
Other cash items direct to accumulative surplus	13 583 448	(1 574 272)
Net cash flows from financing activities	13 189 145	(1 748 314)
Net increase/(decrease) in cash and cash equivalents	7 115 626	(13 828 552)
Cash and cash equivalents at the beginning of the year	11 532 399	25 360 951
Cash and cash equivalents at the end of the year	18 648 025	11 532 399

ANNEXURE E

**MUNICIPALITY OF OTJIVARONGO
STATEMENT OF COMPARISONS OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE**

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
	N\$	N\$	N\$	N\$	N\$
Revenue from non-exchange transactions					
Property rates	28 668 119	-	28 668 119	28 407 846	(260 273)
Transfers from other government - entities	-	-	-	3 897 556	3 897 556
Levies -	-	-	-	153	153
Fines, penalties and levies -	-	-	-	67 979	67 979
Total revenue from non-exchange transactions	28 668 119	-	28 668 119	32 373 534	3 705 415
Revenue from exchange transactions					
Service charges	81 094 366	-	81 094 366	70 743 159	(10 351 207)
Rendering of services -	-	-	-	12 254 298	12 254 298
Royalty income	8 000 000	-	8 000 000	7 283 111	(716 889)
Dividends received (trading) -	-	-	-	616 000	616 000
Miscellaneous other revenue -	-	-	-	29 348	29 348
Interest received - investment -	-	-	-	702 973	702 973
Total revenue from exchange transactions	89 094 366	-	89 094 366	91 628 889	2 534 523
Total revenue	117 762 485	-	117 762 485	124 002 423	6 239 938
Expenditure					
Bulk purchases	(24 838 676)	24 838 676	-	(30 370 241)	(30 370 241)
Employee costs	(64 013 327)	64 013 327	-	(78 368 816)	(78 368 816)
Remuneration of councillors	(767 820)	767 820	-	(557 721)	(557 721)
Depreciation and amortisation - expense	-	-	-	(12 643 066)	(12 643 066)
Debt impairment	-	-	-	(4 757 172)	(4 757 172)
General Expenses	(27 936 662)	-	(27 936 662)	(20 984 405)	6 952 257

ANNEXURE E

MUNICIPALITY OF OTJIWARONGO

STATEMENT OF COMPARISONS OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE (Continued)

Interest paid (206,000)	-	(206 000)	172 207	33 793
Total expenditure	89 619 823	(28 142 662)	(147 853 628)	(119 710 966)
Deficit before taxation -	-	89 619 823	(23 851 205)	(113 471 028)
Actual Amount on Comparable - Basis as Presented in the Budget and Actual Comparative Statement	-	89 619 823	(23 851 205)	(113 471 028)

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1. Presentation of Annual Financial Statements

The Municipality of Otjiwarongo adopted the accrual basis International Public Sector Accounting Standards (IPSAS) on 1 July 2019, had previously been preparing its financial statements on the accrual basis of General Acceptance Municipal Accounting Policies (GAMAP). In the adoption of accrual basis IPSAS's it has chosen to utilise some of the transitional exemptions allowed by IPSAS 33, "**First time adoption of Accrual basis IPSASs**".

Some of the transitional exemptions utilised affects the fair presentation of the financial statements, as well as compliance with the accrual basis IPSAS's during the period of transition and therefore the Municipality of Otjiwarongo cannot assert full compliance with accrual basis IPSAS's. During this transition period the financial statements will be known as the "**Transitional IPSAS Financial Statements**" and certain disclosures and reconciliations are required to provide sufficient and relevant information to the users of the financial statements.

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the year ended 30 June 2019 the Municipality has adopted the accounting framework as set out in paragraph 1 above. The details of the resulting changes in Accounting Policies and comparative restatements are set out below and in the relevant Notes to the Annual Financial Statements.

The changes in Accounting Policy are only applied if:

- (a) It is required by a Standard of IPSAS; or
- (b) Results in the Annual Financial Statements provide reliable and more relevant information about the effects of transactions, other events or conditions on the Municipality's financial position, financial performance or cash flows.

1.1 Presentation currency

These annual financial statements are presented in Namibian Dollar, which is the functional currency of the Municipality of Otjiwarongo.

1.2 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by Municipality of Otjiwarongo, which represents an increase in net assets, other than increases relating to contributions from owners.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.2 Revenue from non-exchange transactions (continued)

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset once is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the Municipality of Otjiwarongo satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the Municipality of Otjiwarongo.

When, as a result of a non-exchange transaction, the Municipality of Otjiwarongo recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The Municipality of Otjiwarongo recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.2 Revenue from non-exchange transactions (continued)

Resources arising from taxes satisfy the definition of an asset when the Municipality of Otjiwarongo controls the resources as a result of past events (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a Time-proportionate Basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Transfers

Apart from Services in kind, which are not recognised, the council recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The Council recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The Municipality of Otjiwarongo recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.2 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the Municipality of Otjiwarongo.

Where the Municipality of Otjiwarongo collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the Municipality of Otjiwarongo and the fair value of the assets can be measured reliably.

1.3 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Municipality of Otjiwarongo has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the Municipality of Otjiwarongo retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality of Otjiwarongo; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.3 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of June 2020. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality of Otjiwarongo;
- the stage of completion of the transaction at the 30 June 2020 can be measured reliably;
- and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality of Otjiwarongo, and
- The amount of the revenue can be measured reliably.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
 - the cost or fair value of the item can be measured reliably.
- Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.4 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	20 Years
Buildings	20 Years
Plant and machinery	10 Years
Furniture and fixtures	5 Years
Motor vehicles	5 Years
Office equipment	5 Years
IT equipment	3 Years
Computer software	3 Years
Infrastructure	15 to 20 Years
Bins and containers	3 Years
Communication equipment	3 Years
Park facilities	15 Years
Specialised vehicles	10 Years
Tools and loose gear	3 Years
Wastewater network	15 Years
Water network	15 Years

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue. Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the Municipality of Otjiwarongo with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return. Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

Reversal of an impairment loss

The Municipality of Otjiwarongo assess at each 30 June 2020 whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the Municipality of Otjiwarongo estimates the recoverable service amount of that asset.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or collectability.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from Municipality of Otjiwarongo's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, Municipality of Otjiwarongo shall estimate cash flows considering all contractual terms of the financial instrument

(for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of IPSAS on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the Municipality of Otjiwarongo shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.7 Financial instruments (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavorable to the Municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions. Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.7 Financial instruments (continued)

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Classification

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the Municipality of Otjiwarongo had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the Municipality of Otjiwarongo designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
- non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
- financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.7 Financial instruments (continued)

The Municipality of Otjiwarongo has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long - term Receivables	Loans and Receivables
Receivable from Exchange Transactions	Loans and Receivables
Receivable from Non-Exchange Transactions	Loans and Receivables
Bank, cash and Cash Equivalent - Notice Deposit	Available for sale Investments
Current Portion of long - term Receivables	Loans and Receivables

The Municipality of Otjiwarongo has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long - term Liabilities amortised cost	Financial liability measured at
Payable from Exchange Transactions amortised cost	Financial liability measured at
Payable from Non- Exchange Transactions amortised cost	Financial liability measured at
Current portion of Long - term Liabilities amortised cost	Financial liability measured at

Initial recognition

The Municipality of Otjiwarongo recognises a financial asset or a financial liability in its statement of financial position when the Municipality of Otjiwarongo becomes a party to the contractual provisions of the instrument.

The Municipality of Otjiwarongo recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The Municipality of Otjiwarongo measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The Municipality of Otjiwarongo measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.7 Financial instruments (continued)

The Municipality of Otjiwarongo first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the Municipality of Otjiwarongo analyses a concessionary loan into its component parts and accounts for each component separately. The Municipality of Otjiwarongo accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- Non-exchange revenue, in accordance with the Standard of IPSAS on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The Municipality of Otjiwarongo measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Municipality of Otjiwarongo establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an Municipality of Otjiwarongo calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.7 Financial instruments (continued)

Reclassification

The Municipality of Otjiwarongo does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the Municipality of Otjiwarongo cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the Municipality of Otjiwarongo reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The Municipality of Otjiwarongo assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.7 Financial instruments (continued)

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The Municipality of Otjiwarongo derecognises financial assets using trade date accounting. The Municipality of Otjiwarongo derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.7 Financial instruments (continued)

- the Municipality of Otjiwarongo transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the Municipality of Otjiwarongo, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the Municipality of Otjiwarongo :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the Municipality of Otjiwarongo transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.7 Financial instruments (continued)

For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in deficit.

If a transfer does not result in derecognition because the Municipality of Otjiwarongo has retained substantially all the risks and rewards of ownership of the transferred asset, the Municipality of Otjiwarongo continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the Municipality of Otjiwarongo recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The Municipality of Otjiwarongo removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of IPSAS on Revenue from Non-exchange Transactions (Taxes and Transfers).

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.7 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in deficit.

Distributions to holders of residual interests are debited by the Municipality of Otjiwarongo directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the Municipality of Otjiwarongo currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the Municipality of Otjiwarongo does not offset the transferred asset and the associated liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.8 Inventories (continued)

Current replacement cost is the cost the Municipality of Otjiwarongo incurs to acquire the asset on the period ended 30 June 2020.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the Municipality of Otjiwarongo.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.9 Employee benefits (continued)

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.9 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.10 Borrowing costs

The Municipality has adopted the Benchmark approach, thus borrowing costs are recognised as an expense in the period in which they are incurred irrespective how the borrowed funds were utilised.

1.11 Related parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned by the Namibia Government. As a consequence of the constitutional independence of the three spheres of government in Namibia, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.12 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.12 Significant judgements and sources of estimation uncertainty (continued)

Trade receivables / Held to maturity investments and/or loans and receivables

The entity assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables,

i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.12 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.13 . Going concern assumption

These annual financial statements have been prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

1.14 . Investments in CENORED

An investment in an associate is carried at cost less any accumulated impairment.

1.15. Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1.16. Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred.

The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17. Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

ANNEXURE F

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

	2020	2019
	N\$	N\$
2 Revenue	12 400 423	109 528 953
Rendering of services	12 254 298	7 804 510
Service charges	70 743 159	64 629 181
Electricity Surcharges	7 283 111	7 653 044
Rental of facilities and equipment	-	29 200
Dividends received	616 000	-
Miscellaneous other revenue	29 348	-
Interest received - investment	702 973	-
Property rates	28 407 846	26 748 394
Transfers from government entities	3 897 556	2 659 601
Levies	153	292
Fines, penalties and levies	67 979	4 731
The amount included in revenue arising from exchanges of goods or services are as follows:	91 628 889	80 115 935
Service charges	70 743 159	64 629 181
Rendering of services	12 254 298	7 804 510
Electricity Surcharges	7 283 111	7 653 044
Rental of facilities and equipment	-	29 200
Dividends received	616 000	-
Miscellaneous other revenue	29 348	-
Interest received – investment	702 973	-
The amount included in revenue arising from non-exchange transactions is as follows:	32 373 534	29 413 018
Property rates	28 407 846	26 748 394
Transfer revenue		
Transfers from government entities	3 897 556	2 659 601
Levies	153	292
Fines, penalties and levies	67 979	4 731

ANNEXURE F

MUNICIPALITY OF OTJIWARONGO

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

	2020	2019
	N\$	N\$
3 Property rates		
Rates received	28 407 846	26 748 394
Residential	31 122 124	29 357 946
Less: Income forgone	(2 714 278)	(2 609 552)
4 Transfers from other government entities		
Capital grants	3 897 556	2 659 601
Government grant	2 983 738	2 599 997
Road Fund Administration	913 818	59 604
5 Levies		
Dog tax	153	292
6 Service charges	70 743 159	64 629 181
Sale of water	44 108 498	39 904 713
Solid waste	9 071 420	8 184 719
Refuse removal	17 563 241	16 539 749
7 Rental of facilities and equipment		
Rental income - third party	-	29 200
8 Interest received - investment		
Other financial asset	702 973	-
9 Bulk purchases		
Water	30 370 241	28 980 504
10 Employee related costs	78 368 816	61 072 342
Basic	28 819 588	28 616 735
Medical aid - company contributions	8 164 078	7 760 980
Social security	154 401	215 321
Other allowances	1 616 261	1 925 318
Defined contribution plans	5 622 277	5 770 672
Overtime payments	1 954 283	1 683 551
Long-service awards	-	13 092
13th Cheques	2 746 744	2 856 319
Acting allowances	171 589	194 664
Car allowance	2 613 576	2 753 462
Housing benefits and allowances	9 617 563	9 282 228
Leave and severance expenses	16 888 456	-

ANNEXURE F

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

	2020	2019
	N\$	N\$
10 Employee related costs (Continued)		
Accounting Officer	1 758 077	-
Annual Remuneration	667 588	-
Car Allowance	168 009	-
Performance Bonuses	14 351	-
Contributions to UIF, Medical and Pension Funds	224 967	-
Other	683 162	-
Remuneration of Strategic Executive: Finance	1 228 697	-
Annual Remuneration	544 625	-
Car Allowance	122 922	-
Contributions to UIF, Medical and Pension Funds	243 767	-
Other	317 383	-
Remuneration of other executives	3 221 818	-
Annual Remuneration	1 457 506	-
Car Allowance	267 737	-
Other	1 496 575	-
<p>The Strategic Executives: Community Services position was filled as from 01 September 2019, after the employment services of the former Strategic Executive with the Municipality of Otjiwarongo terminated due to resignation.</p> <p>The employment services of the Strategic Executives: Human Resources and Administration terminated on 13 March 2020 due to resignation.</p>		
11 Remuneration of councilors	557 721	570 223
Mayor	100 910	-
Deputy Mayor	88 489	-
Chairperson of Management Committee	92 228	-
Councilors	276 094	570 223
12 Depreciation and amortisation expense		
Property, plant and equipment	12 643 066	-
13 Debt impairment		
Debt impairment expense	4 757 172	-

ANNEXURE F

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

	2020	2019
	N\$	N\$
14 General expenses	20 984 405	17 998 654
Advertising	103 536	139 193
Bank charges	853 051	961 108
Cleaning	28 216	12 692
Consulting and professional fees	5 217	-
Consumables	32 400	32 057
Entertainment	60 977	117 697
Gifts	2 576	26 299
Insurance	1 102 386	996 522
IT expenses	240 387	227 696
Medical expenses	43 938	44 450
Fuel and oil	2 107 763	1 892 456
Postage and courier	98 552	79 835
Printing and stationery	206 708	310 062
Promotions	63 424	71 898
Protective clothing	318 036	132 310
Security (Guarding of municipal property)	1 422 108	1 306 903
Software expenses	659 577	650 193
Staff welfare	516 371	822 599
Subscriptions and membership fees	94 455	138 340
Telephone and fax	607 960	805 267
Training	273 461	121 042
Travel - local	383 582	349 296
Refuse	135 960	104 544
Title deed search fees	216	1 656
Electricity	1 889 925	1 537 718
Uniforms	-	89 390
Other expenses	9 733 623	7 027 431
15 Interest paid		
Amortisation of held to maturity liabilities	172 207	952 168
16 Operating (deficit) surplus		
Operating (deficit) surplus for the year is stated after accounting for the following:		
Depreciation on property, plant and equipment	12 643 066	-
Employee costs	78 926 537	61 642 565

ANNEXURE F

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

	2020	2019
	N\$	N\$
17 Cash and cash equivalents	18 648 025	11 532 399
Cash and cash equivalents consist of:		
Cash on hand	5 400	5 400
Bank balances	4 125 888	6 132 184
Short-term deposits	14 516 737	5 394 815
18 VAT receivable		
VAT	2 460 303	10 541 939
19 Receivables from exchange transactions	9 118 436	8 366 812
Trade debtors	9 089 405	8 264 643
Employee costs in advance	29 031	102 169
20 Recoverable from non-exchange transaction	494 043	588 207
Grants and other transfer payments	(646 358)	-
Other receivables from non-exchange revenue	1 140 401	588 207
21 Long term receivables from exchange transactions		
Long term receivables from exchange	5 792 816	5 960 362
22 Inventories		
Consumables	20 782 679	644 582
23 Loans to employees		
Loans to directors, managers and employees	331 567	128 338
At beginning of the year	128 338	128 338
Advances	203 229	-

The loans to directors, managers and employees at no interest p.a, and are repayable over 2 years.

ANNEXURE F

**MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE**

24 Property, plant and equipment

	2020	2019	
	N\$	N\$	
Land	2 633 522	-	-
Property, Plant and Equipment	181 766 719	(51 976 917)	129 789 802
Total	184 400 241	(51 976 917)	132 423 324
			176 310 406
			176 310 406
			136 976 555
			136 976 555

	Opening balance	Additions	Total
Land	-	2 633 522	2 633 522
Property, Plant and Equipment	136 977 055	5 456 313	129 789 802
Reconciliation of property, plant and equipment - 2019	136 977 055	8 089 835	132 423 324
		8 089 835	132 423 324

	Opening balance	Additions through entity combinations	Total
Property, Plant and Equipment	140 171 749	16 524 391	136 977 055
		(9 221 475)	(10 497 610)
		(12 643 566)	(12 643 566)
		(12 643 566)	132 423 324

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

	2020	2019
	N\$	N\$
24 Property, Plant and Equipment (Continued)		
Capitalized expenditure (excluding borrowing costs)	5 456 312	
Motor vehicles	1 959 370	-
Office equipment	8 446	-
Infrastructure	223 895	-
Bins and containers	588 248	-
Water network	2 676 353	-
Reconciliation of Work-in-Progress 2020		
	Included within	Total
	Infrastructure	
Additions/capital expenditure	2 633 522	2 633 522
25 Investments in associates		
	Carrying	Carrying
	Amount 2020	Amount 2019
	N\$	N\$
CENORED	43 066 969	43 066 969
Movements in carrying value		
Opening balance	43 066 969	43 066 969
26 Payables under exchange transactions	34 369 450	16 428 569
Trade payables	3 794 655	3 929 056
Accrued leave pay	6 365 153	4 152 651
Severance provision	13 270 662	-
Employees home loan bank Collateral	2 241 077	-
Other payables	-	5 739
Regional Council (5%) payable	3 607 033	6 291 409
Other creditors	233 255	2 049 714
Unallocated receipts	4 857 615	-
27 Consumer deposits		
Rates Water	1 977 926	1 964 866
28 Non-exchange payables		
Suspense	-	264 749

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

29. First-time adoption of International Public Sector Accounting Standards

The entity has applied IPSAS 1, First-time adoption of International Financial Reporting Standards, to provide a starting point for the reporting under International Reporting and Accounting Standards. Based on these principles the standards have been applied retrospectively and the 2019 comparatives contained in these annual financial statements differ from those published in the annual financial statements for the year ended 30 June 2020.

Reconciliation of equity at 30 June 2019

	Note	As reported under previous GAMAP N\$	Effects of transition to IPSAS N\$	IPSAS N\$
Accumulated surplus		240 998 164	(43 356 444)	197 641 720

Notes

Previously Council maintained various funds, and depreciation was expensed to capital outlay fund. The movement above is the write off of the funds to accumulated surplus.

30. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

31. Events after the reporting date

Management is not aware of any qualifying events after reporting date.

32. Unauthorised expenditure

Management is not aware of any unauthorised expenditure

