REPUBLIC OF NAMIBIA




REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

MUNICIPALITY OF WINDHOEK

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

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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 Windhoek for the financial year ended 30 June 2016, 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.

WINDHOEK, February 2018

JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE MUNICIPALITY OF WINDHOEK FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

1. INTRODUCTION

The accounts of the Municipality of Windhoek for the year ended 30 June 2016 are being reported on in accordance with Section 28 (1) of the Local Authorities Act, 1992 (Act 23 of 1992).

The firm BDO Namibia Chartered Accountants of Windhoek has been appointed by the Auditor-General in terms of Section 26(2) of the State Finance Act, 1991, to audit the accounts of the Municipality on behalf of the Auditor-General and under his supervision.

Figures in the report are rounded off to the nearest Namibia Dollar. Deficits are indicated in (brackets).

I certify that I have audited the accompanying financial statements of the Municipality of Windhoek for the year ended 30 June 2016. These financial statements comprise the following:

Annexure A: Statement of financial position;
Annexure B: Statement of financial performance;
Annexure C: Cash flow statement;
Annexure D: Notes to the annual financial statements; and
Annexure E: Segmental statement of financial performance.

The financial statements were submitted to the Office of the Auditor-General by the Accounting Officer in compliance with Section 87 (1) of the Local Authorities Act, 1992.

The financial statements, notes to the financial statements and general information provided by the Accounting Officer are attached as Annexure A to E.

2. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Section 87 (1) of the Local Authorities Act, (Act 23 of 1992) and relevant legislation, 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.

3. AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on the audit. The said firm conducted the audit in accordance with International Standards on Auditing. These standards require that the firm complies with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Powers and duties

Section 25 (1) (c) of the State Finance Act, 1991, provides that the Auditor-General should satisfy himself that:

(a) all reasonable precautions have been taken to ensure that all monies due to the State are collected, and that the laws relating to the collection of such monies have been complied with;

(b) all reasonable precautions have been taken to safeguard the receipt, custody and issue of and accounting for, the State's assets, such as stores, equipment, securities and movable goods; and

(c) the expenditure has taken place under proper authority and is supported by adequate vouchers or other proof.

In addition, Section 26 (1) (b) (iv) of the State Finance Act, 1991, empowers the Auditor-General to investigate and report on the economy, efficiency and effectiveness of the use of the State's resources.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is insufficient and inappropriate to provide a basis for the audit opinion.

4. ACKNOWLEDGEMENT

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

5. KEY AUDIT FINDINGS

5.1 Property, plant and equipment

The fixed asset register could not be provided for audit purpose.

Recommendation

A fixed asset register that agrees to the annual financial statements must be prepared and provided for audit purpose.

5.2 Long term loans and creditors

There is a material difference of N$ 70 927 956 (2015: N$ 78 274 493) between the long term loans as per the financial statements and the confirmations received from the financial institutions.

The Council could not provide supporting documentation or reasons for N$ 469 143 759 of long-term loans redemptions transferred to creditors. Auditors could not establish the specific loan to which the amount relates.

Recommendation

The Municipality should liaise with the Ministry of Finance and reconcile the long-term loan balances between the two entities and make the necessary adjustments in the Municipality's financial records.

5.3 Debtors, and other receivables and related financial statement areas

Bad debts written off from receivables amounting to N$ 60 512 827 recognised in the statement of financial performance is not supported by any listing or basis of calculation. The trade debtors above 90 days outstanding amounted to N$ 417 554 478. Debtors and other receivables are materially understated by N$ 187 061 971.

Recommendation

The Municipality should establish a basis for calculating the bad debts written off and document it in its procedure manuals for future reference. The Municipality should continually assess the recoverability of debtors and other receivables to ensure that the impairment represents the current affairs of the Municipality.

5.4 Provision for normal staff leave

Management overprovided for leave by N$ 50 388 561. There is a difference of N$ 8 096 945 (2015: N$ nil) between bonus balance as disclosed in the annual financial statements and the balance as per the payroll records. The net effect is an overstatement of N$ 42 291 616.

Recommendation

The Municipality should ensure that the provision for normal staff leave as disclosed in the annual financial statements agrees to the payroll records and is calculated accurately as at year-end.

5.5 Going Concern and Commercial Insolvency

The auditors draw attention to the going concern of the Municipality as the 2017 financial budget indicates that management foresee a loss of N$ 148 858 870 for the year ending 30 June 2017. These conditions indicate the existence of material uncertainties, which may cast doubt on the City's abilities to continue as a going concern.

The Municipality is currently commercially viable and this is due to implementation of the International Public Sector Accounting Standards (IPSAS) whereby certain accounts were reclassified and written down to N$ nil value. However if losses are allowed to continue unabated; these operating deficits will eventually erode the equity base, which will result in the Municipality being factually insolvent.

Recommendation

The Municipality should implement measures to reduce its financial losses.

5.6 Suspense account

There is an un-cleared suspense account balance of N$ 45 158 062 (2015: N$ 144 717 871) which is included in the receivables from non-exchange transaction (2015: creditors and other payables). Sufficient audit evidence could thus not be obtained regarding the completeness of receivables from non-exchange transactions and the related income statement accounts in the annual financial statements.

Recommendation

Suspense accounts must be cleared on a timely basis (not less often than a month) so that any suspicious transactions are investigated immediately and corrective action taken to safeguard the resources and assets of the Municipality.

5.7 Public Private Partnership (PPP) profit sharing

There is N$ 19 518 784 share of profit from a PPP Project that the Council did not account for in the council books at year-end.

Recommendation

The Council should ensure that all profit sharing from PPP projects is recognised in the financial statements.

5.8 Sale of Erven

There is a difference of N$ 91 181 066 between sale of land recorded in the financial statements and the list of Erven sale transactions that were successfully concluded during the year under review. The Council could not provide reasons relating to this matter.

Recommendation

The Council should reconcile sale of land to what is recorded in the financial statements to ensure that there are no variances.

5.9 Compliance with applicable financial reporting standards

The Council did not comply with certain International Public Sector Accounting Standards (IPSASs). These include:
IPSAS 20 Related Parties – Non-disclosure of related parties;
IPSAS 33 First time adoption and IPSAS 19 - non-disclosure of contingent liabilities and assets;
IPSAS 1.150 (b) – non-disclosure of the nature of operations and principal activities;
IPSAS 24.39 – did not explain the budgetary basis adopted and approved; and
IPSAS 30.18 – did not disclose the carrying values of assets pledged as collateral for liabilities.

Recommendation

The Council should ensure that compliance with applicable reporting standards is adhered to at all times without compromise.

5.10 Subsequent events not disclosed

On 8 November 2016, management took a decision and approved the disposal of 149 motor vehicles, plant and equipment and acquired 316 motor vehicles through hire purchases over the next 5 years. The replacement cost is expected to cost N$ 307 538 200. This exercise is expected to save the Municipality N$ 39 850 564 in service costs. The Council did not disclose these events in the annual financial statement.

Recommendation

The Council should ensure that all relevant subsequent events are disclosed in the annual financial statements.

5.11 Revenue from fines

Cut-off of revenue from fines was not accurately applied on revenue from fines on both receipts from fines paid in the general ledger and fines issued in the Total Client System (TCS) by the City Police department.

Recommendation

The Council should implement controls to ensure the accurate cut-off over revenue from fines over receipts from fines and issuing of fines.

6. BASIS FOR DISCLAIMER

- Fixed asset register could not be provided for audit purpose;
- Difference amounting to N$ 70 927 956 on long term loans;
- Debtors and other receivables are understated by N$ 187 061 971;
- Going concern and commercial insolvency;
- N$ 19 518 784 share of profit not accounted for in the financial statements;
- Unexplained difference of N$ 91 181 066 of sale of erven;
- Non-compliance with IPSAS;
- Non adjusting subsequent events not disclosed in the annual financial statements;
- Documents amounting to N$ 469 143 759 were not provided for audit purpose;
- Leave pay provision is overstated by N$ 50 388 561; and
- Completeness of revenue from fines not properly accounted for due to cut off.

7. DISCLAIMER OF OPINION

The accounts of the Municipality of Windhoek for the financial year ended 30 June 2016 summarized in Annexures A to E were audited in terms of the provision of Section 85 of the Local Authorities Act, 1992.

Because of the significance of the matters described in the Basis for Disclaimer of audit Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

WINDHOEK, February 2018

JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

ANNEXURE A

MUNICIPALITY OF WINDHOEK
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE

	Note	2016	2015
		N$	N$
ASSETS			
Non-current assets		3 857 701 846	3 886 483 350
Property, plant and equipment	2	3 779 401 837	3 541 847 839
Investments	3	16 496 797	271 840 804
Long-term receivables	4	61 803 212	72 794 706
Current assets		888 234 471	639 262 959
Inventory	5	66 340 113	61 981 023
Receivables from exchange transactions	6	314 475 374	577 239 675
Receivables from non-exchange transactions	6	78 634 317	-
VAT receivable	7	85 660 042	-
Current portion of Long term Receivables	4	7 444 329	-
Cash resources	8	335 680 296	42 261
Total assets		**4 745 936 317**	**4 425 746 309**
FUNDS AND LIABILITIES			
Funds and reserves		362 510 726	4 881 803 464
Funds	9	362 510 726	4 670 744 360
Reserves		-	211 059 104
Accumulated surplus/(deficit)		1 508 001 396	(2 024 067 894)
Non-current liabilities		794 471 153	354 944 541
Long-term loans	10	304 751 365	330 277 905
Employee Benefit liabilities	11	489 719 788	-
Consumer deposits		-	24 666 636
Current liabilities		2 080 953 042	1 313 066 198
Payables from exchange transactions	12	1 477 004 639	1 126 499 054
Payables from non-exchange transactions	12	8 785 344	-
Unspent Conditional Grants and Receipts	13	265 041 448	-
Consumer deposits	14	52 140 001	-
Current Portion of Long-term Liabilities	10	58 539 035	-
Current Portion of Employee Benefit	11	29 601 638	-
Provisions	15	-	135 857 315
Bank overdraft	8	189 840 937	50 709 829
Total funds and liabilities		**4 745 936 317**	**4 525 746 309**

ANNEXURE B

MUNICIPALITY OF WINDHOEK
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE

	2016	2015
	N$	N$
Revenue	3 601 327 702	2 990 809 910
Expenditure	(3 592 859 641)	(3 446 551 825)
Surplus/(deficit) for the year	**8 468 061**	**(455 741 915)**
Transfer from/(to) Funds	(27 024 547)	23 974 110
Net deficit for the year	(18 556 486)	(431 767 805)
Accumulated funds at the beginning of year	1 526 557 882*	(1 592 300 090)
Accumulated funds at the end of the year	**1 508 001 396**	**(2 024 067 895)**

* Accumulated surplus at beginning of the year has been adjusted due to IPSAS implementation which resulted in an increase of N$ 3 974 733 214 and is restated further by N$ (424 107 437).

ANNEXURE C

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

	Note	2016	2015
		N$	N$
Cash generated by operations			
Cash generated from operations	A	-	(455 741 915)
Cash generated by increase in working capital	B	-	152 166 387
Cash receipts		**3 435 516 875**	-
Property rates		333 930 399	-
Government Grants and Subsidies		127 163 159	-
Public Contributions and Donations		51 744 005	-
Service charges		2 695 046 707	-
Interest received		5 254 258	-
Dividends received		280 953	-
Other receipts		222 097 394	-
Payments		**(3 291 261 210)**	-
Employee related cost		(1 106 642 760)	-
Remuneration of Councillors		(6 190 217)	-
Interest paid		(47 354 967)	-
Suppliers paid		(1 713 723 379)	-
Other payments		(417 349 887)	-
Cash generated by operations		**144 255 665**	**(303 575 528)**
Net increase in Funds		-	344 695 634
Net increase in reserves		-	26 663 169
Net decrease/(increase) in long-term debtors		-	8 036 551
Net (decrease)/increase in provisions		-	(3 023 117)
		-	376 372 237
Cash generated by operating activities		**144 255 665**	**72 796 709**
Purchase of Property, Plant & Equipment		(383 036 753)	-
Proceeds on Disposal of Property, Plant & Equipment		17 800	-
Profit on sale of Land		117 537 975	-
Decrease/ (Increase) in Non- Current Investments		11 009 780	-
(Increase)/ Decrease in Long- term Receivables		(4 303 291)	-
Net cash flow from investing activities		**(258 774 489)**	-
Cash flows from financing activities			
Proceeds from borrowings		112 952 842	34 829 790
Net capital expenditure		-	(200 884 294)
Transfers (to)/from funds		-	23 974 110
Repayment of borrowings		(59 728 671)	-
Net cash flow from financing activities		**53 224 171**	**(142 080 394)**
Net movement in cash funds		**(61 294 653)**	**(69 283 685)**
Cash and cash equivalents -		(14 042 223)	
At the beginning of the year		221 173 236	290 456 921
Cash and cash equivalents –At the end of the year	C	**145 836 360**	**221 173 236**

ANNEXURE C

MUNICIPALITY OF WINDHOEK
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE (continued)

NOTES TO THE CASH FLOW

	2016	2015
	N$	N$
A. CASH GENERATED BY OPERATIONS		
Net (deficit) for the year	-	(455 741 915)
Provision for depreciation	-	-
	-	**(455 741 915)**
B. CASH GENERATED BY INCREASE IN WORKING		
Increase in inventory	-	(3 429 400)
Increase in debtors	-	(62 171 484)
Increase in creditors and other	-	215 129 687
Increase in consumer deposits	-	2 637 584
	-	**152 166 387**
C. CASH AND CASH		
Investments	-	271 840 804
Cash resources	335 680 296	42 261
Bank overdraft	(189 840 937)	(50 709 829)
	145 839 359	**221 173 236**

MUNICIPALITY OF WINDHOEK
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1 Basis of presentation

The City of Windhoek adopted accrual basis International Public Sector Accounting Standards (IPSAS) on 1 July 2015, having previously prepared its financial statements on the accrual basis accounting standards of the Institute of Municipal Financial Officers (IMFO). In the adoption of accrual basis IPSAS's, it has elected to utilise some of the transitional exemptions allowed by IPSAS 33, "First Time Adoption of Accrual Basis IPSAS's".

Some of the transitional exemptions utilised do affect the fair presentation of the financial statements, as well as compliance with accrual basis IPSAS's, during the period of transition and therefore City of Windhoek 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.

1.1 Changes in Accounting Policy and Comparability

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

The municipality has adopted the accounting framework as set out in paragraph 1 above for the first time for the year ended 30 June 2016. The details of the resulting changes in Accounting Policy and comparative restatements are set out below and in the relevant Notes to the Annual Financial Statements.

The municipality changes an Accounting Policy only if the change:

(a) Is required by a Standard of IPSAS; or
(b) Results in the Annual Financial Statements providing 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.

1.2 Critical Judgements, Estimations and Assumptions

In the application of the municipality's Accounting Policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1.2.1 Revenue Recognition

Accounting Policy 9.2 on Revenue from Exchange Transactions and Accounting Policy 9.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in IPSAS 9 (Revenue from Exchange Transactions) and IPSAS 23 (Revenue from Non-exchange Transactions). As far as Revenue from Non- exchange Transactions is concerned (see Basis of Preparation above), and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.2.2 Financial Assets and Liabilities

The classification of Financial Assets and Liabilities, into categories, is based on judgement by management. Accounting Policy 7.1 on Financial Assets Classification and Accounting Policy 7.2 on Financial Liabilities Classification describe the factors and criteria considered by the management of the municipality in the classification of Financial Assets and Liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of Financial Instruments as set out in IPSAS 29 (Financial Instruments: Recognition and Measurement).

1.2.3 Impairment of Financial Assets

Accounting Policy 7.4 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of Financial Assets as set out in IPSAS 29 (Financial Instruments: Recognition and Measurement) and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

- Impairment of Trade Receivables:

The calculation in respect of the impairment of Debtors is based on an assessment of the extent to which Debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This is performed per service-identifiable categories across all classes of debtors.

The total increase in estimation of the impairment of Receivables from Exchange Transactions, Receivables from Non-exchange Transactions and that of Long-term Receivables are disclosed in the Municipality's Annual Financial Statements.

1.2.4 Defined Benefit Plan Liabilities

As described in Accounting Policy 11.2, Employee Benefits – Post-employment Benefits, the municipality obtains actuarial valuations of its Defined Benefit Plan Liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IPSAS 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the relevant Notes to the Annual Financial Statements.

1.2.5 Provisions and Contingent Liabilities

Management judgement is required when measuring Contingent Liabilities.

1.2.6 Budget Information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant Notes to the Annual Financial Statements.

1.3 Presentation Currency

The Annual Financial Statements are presented in Namibian Dollar, rounded off to the nearest Dollar, which is the municipality's functional currency.

1.4 Going Concern Assumption

The Annual Financial Statements have been prepared on a Going Concern Basis.

1.5 Offsetting

Assets, Liabilities, Revenues and Expenses have not been offset except when offsetting is required or permitted by an IPSAS.

1.6 Transitional Exemptions and Provisions

As CoW adopted accrual basis IPSAS's for the first time at 1 July 2015 and is making use of some of the transitional provisions, details of the progress in adopting accrual basis IPSAS's is provided below.

Transitional exemptions utilised that do affect fair presentation

CoW utilised the following transitional exemptions that do affect the fair presentation of the financial statements:

- IPSAS 6 Consolidated and Separate Financial Statements
- IPSAS 7 Investments in Associates
- IPSAS 8 Interests in Joint Ventures
- IPSAS 9 Revenue from Exchange Transactions
- IPSAS 11 Construction Contracts
- IPSAS 12 Inventories
- IPSAS 13 Leases
- IPSAS 16 Investment Property
- IPSAS 17 Property, Plant and Equipment
- IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets
- IPSAS 20 Related Party Disclosures
- IPSAS 22 Disclosure of Information about the General Government Sector
- IPSAS 23 Revenue from Non-exchange Transactions (Taxes and Transfers)
- IPSAS 27 Agriculture
- IPSAS 31 Intangible Assets

Transitional exemptions utilised that do not affect fair presentation

- IPSAS 1 Presentation of Financial Statements

A first-time adopter is encouraged, but not required, to present comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements presented in accordance with this IPSAS. Therefore, CoW has not presented comparative information.

- IPSAS 10 Financial Reporting in Hyperinflationary Economies
- IPSAS 18 Segment Reporting
- IPSAS 21 Impairment of Non-cash Generating Assets
- IPSAS 26 Impairment of Cash Generating Assets

IPSAS's adopted in full

The following IPSAS standards have been considered and, where applicable, applied in full:
- IPSAS 2 Cash Flow Statements
- IPSAS 4 The Effects of Changes in Foreign Exchange Rates
- IPSAS 5 Borrowing Costs
- IPSAS 24 Presentation of Budget Information in the Financial Statements
- IPSAS 25 Employee Benefits
- IPSAS 28 Financial Instruments: Presentation
- IPSAS 29 Financial Instruments: Recognition and Measurement
- IPSAS 30 Financial Instruments: Disclosure
- IPSAS 32 Service Concession Arrangements: Grantor

1.7 Impact Statement on the Implementation of IPSAS and Opening Balance Adjustments

The adoption of the new accounting policies has resulted in changes to the assets and liabilities recognised in the Statement of Financial Position. Accordingly, the last audited Statement of Financial Position, dated 30 June 2015, has been restated and the resulting changes are reported in the Statement of Changes in Net Assets/Equity and under Note 45 "First Implementation of IPSAS' of the Municipality's Annual Financial Statements.

The revised 30 June 2015 Statement of Financial Position is described in the financial statements as the 1 July 2015 Opening Balance (Restated).

Specific disclosures relating to the transitional provisions have been included in the relevant notes for each specific item affected by these transitional provisions.

Reconciliations relating to the adoption of accrual basis IPSAS's have been presented in Note 45 of the Municipality's Annual Financial Statements.

2. NET ASSETS

Included in the Net Assets of the municipality are the following Funds and Reserves that are maintained in terms of specific requirements:

2.1 Statutory Funds

2.1.1 Betterment Contribution Fund:

The Betterment Contribution Fund was established in terms of Section 42 of the Townships and Division of Land Ordinance, 1963 Ordinance 11 of 1963).
The Betterment Contribution Fund contains all proceeds from betterment contributions and sale of land. Monies standing to the credit of the Betterment Contribution Fund shall be applied in such manner as the Minister may approve, towards the discharge of any debt of the municipality, or otherwise for any purpose for which capital money may be applied.

2.1.2 Endowment Fund:

The Endowment Fund was established in terms of Section 19(5) of the Town Planning Ordinance, 1954 (Ordinance 18 of 1954).

The Endowment Fund contains all proceeds from endowment contributions on sub-divisions of land. Monies standing to the credit of the Endowment Fund shall be used to finance and carry out betterment works or for erecting, constructing or acquiring amenities or public places in the public interest.

2.1.3 Housing Fund:

The Housing Fund was established in terms of Section 58 of the Local Authorities Act,1992 (Act 23 of 1992).

The Housing Fund contains all proceeds from housing developments, which include proceeds of loans raised, rental income, redemption of loans granted, sale of houses, interest from investments and other moneys accruing to the fund.

Unexpended moneys in the Housing Fund which are not required for immediate use may be invested with such financial institution as may be approved by the Minister.

Monies standing to the credit of the Housing Fund are used only for purposes of the construction, acquisition or maintenance of dwellings; loans granted; repayment of loans raised; costs incurred in connection with the administration of housing schemes and any other purpose approved in writing by the Minister.

2.2 Accumulated Surplus

The Accumulated Surplus contains accumulated surpluses, after appropriations to and from Statutory Funds.

3. PROPERTY, PLANT AND EQUIPMENT

3.1 Transitional Provisions

The municipality has taken advantage of the transitional provisions in IPSAS 33 with the implementation of IPSAS 17, which allows 3 years for the recognition and/or measurement of Property, Plant and Equipment.

It is therefore possible that some items of Property, Plant and Equipment have not been recognised and/or measured in accordance with IPSAS 17. The municipality is in the process of recognising and/or measuring all its Property, Plant and Equipment for inclusion in the 2017/18 Annual Financial Statements.

3.2 Initial Recognition

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 year.

The cost of an item of Property, Plant and Equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, Plant and Equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grants or donations, deemed cost, being the fair value of the asset on initial recognition. 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of Property, Plant and Equipment acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as Property, Plant and Equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of Property, Plant and Equipment, they are accounted for as Property, Plant and Equipment.

3.3 Subsequent Measurement

Subsequent expenditure relating to Property, Plant and Equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all Property Plant and Equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of Property, Plant and Equipment that were impaired, lost or given up is included in the Statement of Financial Performance when the compensation becomes receivable.

3.4 Derecognition

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the proceeds from disposals are included in the Statement of Financial Performance as a gain or loss on disposal of Property, Plant and Equipment.

4. INTANGIBLE ASSETS

4.1 Transitional Provisions

The municipality has taken advantage of the transitional provisions in IPSAS 33 with the implementation of IPSAS 31, which allows 3 years for the recognition and/or measurement of Intangible Assets.

It is therefore possible that some items of Intangible Assets have not been recognised and/or measured in accordance with IPSAS 31. It is also possible that some items of Intangible Assets have been included in Property, Plant and Equipment in accordance with the previous basis of accounting. The municipality is in the process of recognising and/or measuring all its Intangible Assets for inclusion in the 2017/18 Annual Financial Statements.

5. INVESTMENT PROPERTY

5.1 Transitional Provisions

The municipality has taken advantage of the transitional provisions in IPSAS 33 with the implementation of IPSAS 16, which allows 3 years for the recognition and/or measurement of Investment Property.

It is therefore possible that some items of Investment Property have not been recognised and/or measured in accordance with IPSAS 16. It is also possible that some items of Investment Property have been included in Property, Plant and Equipment in accordance with the previous basis of accounting. The municipality is in the process of recognising and/or measuring all its Investment Property for inclusion in the 2017/18 Annual Financial Statements.

6. IMPAIRMENT OF ASSETS

6.1 Transitional Provisions

As CoW has utilised the transitional provisions relating to certain assets (IPSAS 16, 17 and 31), it will only fully adopt IPSAS 21 and 26 when the IPSAS standards relating to assets are adopted in full or when the exemptions expire, whichever comes first.

7. FINANCIAL INSTRUMENTS

The municipality has various types of Financial Instruments and these can be broadly categorised as Financial Assets, Financial Liabilities or Residual Interests in accordance with the substance of the contractual agreement. The municipality only recognises a Financial Instrument when it becomes a party to the contractual provisions of the instrument.

Initial Recognition

Financial Assets and Financial Liabilities are recognised on the municipality's Statement of Financial Position when it becomes party to the contractual provisions of the instrument.

The municipality does not offset a Financial Asset and a Financial Liability unless a legally enforceable right to set off the recognised amounts currently exist and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair Value Methods and Assumptions

The fair values of Financial Instruments are determined as follows:

- The fair values of quoted investments are based on current bid prices.
- If the market for a Financial Asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Effective Interest Rate Method

The Effective Interest Method is a method of calculating the amortised cost of a Financial Asset or a Financial Liability 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.

Amortised Cost

Amortised Cost 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 Rate Method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

7.1 Financial Assets – Classification

A Financial Asset is any asset that is cash, a contractual right to receive cash or another financial asset from another entity.

In accordance with IPSAS 29 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

- **Financial Assets at Fair Value through Surplus or Deficit** are financial assets that meet either of the following conditions:
(i) They are classified as held for trading; or

(ii) Upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

- **Held-to-Maturity Investments** are non-derivative financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

• **Loans and Receivables** are non-derivative Financial Assets with fixed or determinable payments that are not quoted in an active market. They are included in Current Assets, except for maturities greater than 12 months, which are classified as Non- current Assets. Loans and Receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. After initial recognition, Financial Assets are measured at amortised cost, using the Effective Interest Rate Method less a provision for impairment.

• **Available-for-Sale Investments** are non-derivative financial assets that are designated as available for sale or are not classified as:
(i) Loans and Receivables;
(ii) Held-to-Maturity Investments; or
(iii) Financial Assets at Fair Value through Surplus and Deficit.

The municipality has the following types of Financial Assets as reflected on the face of the Statement of Financial Position or in the Notes thereto:

Type of Financial Asset	Classification in terms of IPSAS 29
Non-current Investments	Held-to-Maturity Investments
Long-term Receivables	Loans and Receivables
Receivables from Exchange Transactions	Loans and Receivables
Receivables from Non-exchange Transactions	Loans and Receivables
Bank, Cash and Cash Equivalents – Notice Deposits	Held-to-Maturity Investments
Bank, Cash and Cash Equivalents – Call Deposits	Available-for-Sale Investments
Bank, Cash and Cash Equivalents – Bank	Available-for-Sale Investments
Bank, Cash and Cash Equivalents – Cash	Available-for-Sale Investments
Current Portion of Non-current Investments	Held-to-Maturity Investments
Current Portion of Long-term Receivables	Loans and Receivables

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). Cash Equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, which are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprise cash-on-hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises Cash and Cash Equivalents as Financial Assets at Amortised Cost.

7.2 Financial Liabilities – Classification

A Financial Liability is a contractual obligation to deliver cash or another Financial Assets to another entity.

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial Liabilities may be measured at:

(i) Financial Liabilities at Fair Value through Surplus or Deficit; or
(ii) Financial Liabilities at Amortised Cost.

The municipality has the following types of Financial Liabilities as reflected on the face of the Statement of Financial Position or in the Notes thereto:

Type of Financial Asset	Classification in terms of IPSAS 29
Long-term Liabilities	Financial Liabilities at Amortised Cost
Payables from Exchange Transactions	Financial Liabilities at Amortised Cost
Payables from Non-exchange Transactions	Financial Liabilities at Amortised Cost
Bank Overdraft	Financial Liabilities at Amortised Cost
Short-term Loans	Financial Liabilities at Amortised Cost
Current Portion of Long-term Liabilities	Financial Liabilities at Amortised Cost

Financial Liabilities that are measured at Fair Value are Financial Liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of Financial Instruments where there is recent actual evidence of short-term profiteering or are derivatives).

Bank Overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

7.3 Initial and Subsequent Measurement

7.3.1 Financial Assets:

At Fair Value through Surplus or Deficit
Financial Assets at Fair Value through Surplus and Deficit are initially and subsequently, at the end of each financial year, measured at fair value with the profit or loss being recognised in the Statement of Financial Performance.

Held-to-Maturity Investments
Held-to-Maturity Investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an Effective Yield Basis.

Loans and Receivables

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and Receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Loans and Receivables are measured at amortised cost, using the Effective Interest Rate Method less a provision for impairment.

Available-for-Sale Investments

Available-for-Sale Investments are initially measured at Fair Value plus directly attributable transaction costs. They are subsequently measured at Fair Value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the Statement of Financial Performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the Statement of Financial Performance.

7.3.2 Financial Liabilities:

At Fair Value through Surplus or Deficit

Financial Liabilities that are measured at Fair Value through Surplus or Deficit are stated at Fair Value, with any resulted gain or loss recognised in the Statement of Financial Performance.

At Amortised Cost

Any other Financial Liabilities are classified as Other Financial Liabilities (All Payables, Loans and Borrowings are classified as Other Liabilities) and are initially measured at Fair Value, net of transaction costs. Trade and Other Payables, Interest-bearing Debt including Finance Lease Liabilities, Non-interest-bearing Debt and Bank Borrowings are subsequently measured at amortised cost using the Effective Interest Rate Method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank Borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the Accrual Basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

7.4 Impairment of Financial Assets

Financial Assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial Assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IPSAS 29.

7.4.1 Financial Assets at Amortised Cost

Accounts Receivable encompasses Long-term Debtors, Receivables from Exchange Transactions (Consumer Debtors) and Receivables from Non-exchange Transactions (Other Debtors).

Initially Accounts Receivable are valued at fair value excluding transaction costs, and subsequently carried at amortised cost using the Effective Interest Rate Method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of Accounts Receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IPSAS 29 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial

Assets with similar credit risk characteristics. The amount of the provision is the difference between the Financial Asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of Financial Assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the Financial Asset is reduced by the impairment loss directly for all Financial Assets carried at Amortised Cost with the exception of Consumer Debtors, where the carrying amount is reduced through the use of an allowance account. When a Consumer Debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, 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 through the Statement of Financial Performance to the extent that the carrying amount of

The investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

7.4.2 Financial Assets Available-for-Sale

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the Statement of Financial Performance even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from net assets and recognised in the Statement of Financial Performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in Statement of Financial Performance.

Impairment losses recognised in the Statement of Financial Performance for an investment in an equity instrument classified as available-for-sale are not reversed through the Statement of Financial Performance.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the Statement of Financial Performance, the impairment loss must be reversed, with the amount of the reversal recognised in the Statement of Financial Performance.

7.5 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expires or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred Financial Asset, the municipality continues to recognise the Financial Asset and also recognises a collateralised borrowing for the proceeds received.

7.6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the 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, in the Statement of Financial Performance.

8. INVENTORIES

8.1 Transitional Provisions

The municipality has taken advantage of the transitional provisions in IPSAS 33 with the implementation of IPSAS 12, which allows 3 years for the recognition and/or measurement of Inventories.

It is therefore possible that some items of Inventories have not been recognised and/or measured in accordance with IPSAS 12. The municipality is in the process of recognising and/or measuring all its Inventories for inclusion in the 2017/18 Annual Financial Statements.

9. REVENUE RECOGNITION

9.1 General

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below, except when specifically stated otherwise. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from Exchange Transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from Non-exchange Transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

9.2 Revenue from Exchange Transactions

9.2.1 Service Charges

Service Charges are levied in terms of approved tariffs.

Service Charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

Service charges relating to sewerage and sanitation for residential properties are recognised on a monthly basis in arrears by applying the approved tariff to all properties. Tariffs are levied based on the extent of each property. All other properties are levied based on the water consumption, using the tariffs approved by Council, and are levied monthly.

9.2.2 Prepaid Electricity and Water

Revenue from the sale of electricity and water prepaid meter cards are recognised at the point of sale. Revenue from the sale of prepaid meter cards are recognised based on an estimate of the prepaid service consumed as at the reporting date.

9.2.3 Rentals Received

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

9.2.4 Finance Income

Interest earned on investments is recognised in the Statement of Financial Performance on the Time-proportionate Basis that takes into account the effective yield on the investment.

9.2.5 Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

9.2.6 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

9.2.7 Revenue from Agency Services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

9.2.8 Sale of Goods (including Houses)

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

(a) The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods;
(b) The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
(c) The amount of revenue can be measured reliably;
(d) It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

9.3 Revenue from Non-exchange Transactions

An inflow of resources from a Non-exchange Transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a Non-exchange Transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

9.3.1 Rates and Taxes

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.

9.3.2 Fines

Fines constitute both spot fines and summonses. Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably.

Revenue for fines is recognised when the fine is issued at the full amount of the receivable, considering the use estimates to determine the amount of revenue that the municipality is entitled to collect.

Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment is not be made at the time of initial recognition.

9.3.3 Public Contributions

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Assets acquired from non-exchange transactions are measured at fair value in accordance with the IPSAS's.

9.3.4 Government Grants and Receipts

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be
considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

10. PROVISIONS

10.1 Transitional Provisions

The municipality has taken advantage of the transitional provisions in IPSAS 33 with the implementation of IPSAS 19, which allows 3 years for the recognition and/or measurement of certain Provisions.

Where a first-time adopter takes advantage of the exemption in IPSAS 33.36 which allows a 3 year transitional relief period to not recognise and/or measure Property, Plant and Equipment, it is not required to recognise and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption for IPSAS 17 has expired, and/or the relevant asset is recognised and/or measured in accordance with IPSAS 17, whichever is earlier.

It is therefore possible that some Provisions relating to the dismantling and removal of items of Property, Plant and Equipment have not been recognised. If relevant, Provisions of this nature will be recognised and measured when the related asset(s) have been recognised.

11. EMPLOYEE BENEFIT LIABILITIES

11.1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

11.2 Post-employment Benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post-employment plans.

11.2.1 Defined Contribution Plans

A **Defined Contribution Plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

National-administered Defined Benefit Plans

The municipality contributes to a National-administered Defined Benefit Plan on behalf of its qualifying employees. This fund is a multi-employer fund. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. This defined benefit fund is actuarially valued annually on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

11.2.2 Defined Benefit Plans

A **Defined Benefit Plan** is a post-employment benefit plan other than a defined contribution plan.

Post-retirement Health Care Benefits

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all Medical Aid Funds, with which the Municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the Projected Unit Credit Method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance. Past-service costs are recognised immediately in the Statement of Financial Performance.

Long-service Allowance

12. The municipality has an obligation to provide Long-service Allowance Benefits to its qualifying employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 20, 25, 30, 35 and 40 years of continued service. The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

13. LEASES

13.1 Transitional Provisions

The municipality has taken advantage of the transitional provisions in IPSAS 33 with the implementation of IPSAS 13, which allows 3 years for the recognition and/or measurement of certain Leases where a first-time adopter takes advantage of the exemptions relating to assets which allows a 3 year transitional relief period to not recognise assets under IPSAS 16, 17, 31 and 32, it is not required to apply the requirements related to Finance Leases until the exemption that provided the relief has expired, and/or when the relevant assets are recognised in accordance with the applicable IPSAS's, whichever is earlier.
The only Leases recognised by CoW are the vehicles acquired under hire-purchase agreements as these were recognised under the previous basis of accounting.

14. BORROWING COSTS

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset in accordance with the requirements of IPSAS 5. To the extent that the municipality borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the municipality that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the municipality capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The municipality ceases to capitalise borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the municipality shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

15. GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:
(a) Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
(b) Expect to be repaid in future; or
(c) Expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

16. VALUE ADDED TAX

The municipality accounts for Value Added Tax in accordance with section 18 of the Value-Added Tax Act (Act No 10 of 2000).

17. SERVICE CONCESSION ARRANGEMENTS: GRANTOR

A Service Concession Arrangement is a binding arrangement between the municipality and an operator in which:

(a) The operator uses the service concession asset to provide a public service on behalf of the municipality for a specific period of time; and
(b) The operator is compensated for its services over the period of the service concession arrangement.

The municipality analyses all aspects of Service Concession Arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the municipality recognises that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognised are measured at their fair value. To the extent that an asset has been recognised, the municipality also recognises a corresponding liability, adjusted by a cash consideration paid or received.

17.1 Initial Measurement of Related Liability

Where a first-time adopter elects to measure Service Concession Assets using deemed cost, the Related Liabilities shall be measured as follows:

(a) For the Liability under the Financial Liability Model , the remaining contractual cash flows specified in the binding arrangement and the rate prescribed in IPSAS 32; or
(b) For the Liability under the grant of a right to the Operator Model, the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the Service Concession Arrangement.

A first-time adopter shall recognise and/or measure any difference between the value of the Service Concession Asset and the Financial Liability under the Financial Liability Model described above, in Opening Accumulated Surplus or Deficit in the period in which the items are recognised and/or measured.CoW has considered the stipulations in IPSAS 32 in full and found that no arrangements falling within the ambit of this standard existed at year-end and therefore the standard is not applicable to its financial statements for the year.

18. FOREIGN CURRENCIES

Transactions in foreign currencies are translated to the functional currency of the municipality at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost and fair value in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the Statement of Financial Performance.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Cash flows arising from transactions in a foreign currency are recorded in Namibia Dollars by applying, to the foreign currency amount, the exchange rate between the Namibia Dollar and the foreign currency at the date of the cash flow.

19. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in Accounting Policies that are affected by management have been applied retrospectively in accordance with IPSAS 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Changes in Accounting Policies are disclosed in the Notes to the Annual Financial Statements where applicable.

Changes in Accounting Estimates are applied prospectively in accordance with IPSAS 3 requirements. Details of changes in estimates are disclosed in the Notes to the Annual Financial Statements where applicable.

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with IPSAS 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Correction of Errors are disclosed in the Notes to the Annual Financial Statements where applicable.

20. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

21. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent Liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent Assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent Assets and Contingent Liabilities are not recognised. Contingencies are disclosed in Notes to the Annual Financial Statements.

22. COMMITMENTS

Commitments are future expenditure to which the municipality committed and that will result in the outflow of resources. Commitments are not recognised in the Statement of Financial Position as a liability or as expenditure in the Statement of Financial Performance, but are included in the disclosure Notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific IPSAS.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure Notes to the Annual Financial Statements.
- Other commitments for contracts that are non-cancellable or only cancellable at significant cost, should relate to something other than the business of the municipality.

23. RELATED PARTIES

23.1 Transitional Provisions

The municipality has taken advantage of the transitional provisions in IPSAS 33 with the implementation of IPSAS 20, which allows 3 years for the disclosure of Related Party Relationships, Related Party Transactions and Information about Key Management Personnel.

24. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as Non-adjusting Events after the Reporting Date have been disclosed in Notes to the Annual Financial Statements.

25. SEGMENT REPORTING

25.1 Transitional Provisions

The municipality has taken advantage of the transitional provisions in IPSAS 33 with the implementation of IPSAS 18, which allows 3 years for the disclosure of Segment Information.

26. COMPARATIVE INFORMATION

26.1 Current Year Comparatives

In accordance with IPSAS 1 budgeted amounts have been provided for published budgets and forms part of the Annual Financial Statements.

26.2 Prior Year Comparatives

Comparative information for prior years has not been disclosed. This is due to the first-time adoption of Accrual Basis IPSAS's as explained in Note 1, Basis of Preparation.

26.3 Budget Information

The annual budget figures have been prepared in accordance with the IPSAS's and are consistent with the Accounting Policies adopted by the Council for the preparation of these Annual Financial Statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over- or under spending on line items.
The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification.

The approved budget covers the period from 1 July 2015 to 30 June 2016.

MUNICIPALITY OF WINDHOEK
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE (continued)

1. GENERAL INFORMATION

City of Windhoek (the municipality) is a local government institution in Windhoek, the capital of Namibia, under the jurisdiction of the Khomas Regional Council. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Local Authorities Act.

	2016	2015
	N$	N$
2. PROPERTY, PLANT AND EQUIPMENT		
Rates and general services	-	2 952 582 484
Electricity supply	768 124 004	716 958 817
Infrastructure, Water and Waste Management	2 142 403 907	719 395 327
Chief Executive Officer	127 718 259	-
Economic Development and Environment	292 070 572	-
Finance	43 497 649	-
Human Resources	3 483 109	-
Information, Communication and Technology	3 438 840	-
Urban Planning and Property Management	319 975 707	-
City Police	107 086 363	-
Community Services	952 905 731	-
Total cost	4 760 704 141	4 388 936 628
Accumulated depreciation	(981 302 304)	(847 088 789)
	3 779 401 837	**3 541 847 839**
3. INVESTMENTS		
Cash investments allocated to:		
-Funds	-	119 326 373
-Unspent money on capital expenditure	-	152 514 431
-Listed shares	16 496 797	-
	16 496 797	**271 840 804**
4. LONG-TERM DEBTORS		
Loans granted against first mortgage bonds over fixed property	45 565 606	31 272 908
Erven loans	-	17 535 674
Staff vehicle loans	23 681 935	23 986 124
Less short-term portion	(7 444 329)	
	61 803 212	**72 794 706**
5. INVENTORY		
Central stores	-	59 548 983
Fuel and oil	4 043 780	2 432 040
Maintenance material	60 521 399	-
Consumable stores	1 417 441	-
Spare Parts and meters	357 493	-
	66 340 113	**61 981 023**

	2016	2015
6. RECEIVABLES	N$	N$

6.1 RECEIVABLES FROM EXCHANGE TRASACTIONS

	2016	2015
Electricity	127 780 482	-
Refuse	31 173 478	-
Sewerage	26 783 993	-
Water	122 735 061	-
Housing debtors	101 284 496	-
Other receivables	188 517 171	-
Accruals	123 924 676	-
VAT debtor control	20 926 898	21 284 127
Service accounts	-	678 759 482
Accrued interest	-	3 107 719
Bursaries	-	3 931 292
Sundry debtors	-	24 951 895
	743 126 255	732 034 515
Less: Provision for bad debts	(428 650 881)	(154 794 840)
	314 475 374	**577 239 675**

6.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

	2016	2015
Assessment Rates Debtors	60 171 308	-
Short-term Loans	6 791 525	-
Sundry Debtors	44 537 584	-
Suspense Accounts	45 158 062	-
	156 658 479	
Less: Provision for bad debts	(78 024 162)	-
	78 634 317	**-**

7. VAT Receivables

	2016	2015
VAT receivable	85 660 042	-
	85 660 042	**-**

8. CASH AND CASH EQUIVALENTS

	2016	2015
Bank Overdraft	(189 840 937)	(50 709 829)
Cash Resources	335 680 296	42 261
	145 839 359	**(50 667 568)**

		2016	2015
		N$	N$
9.	**FUNDS**		
	Capital Development Fund	-	1 055 022 593
	Betterment Fund	-	1 433 226 248
	Betterment Contribution Fund	114 987 312	106 647 863
	Endowment Fund	33 591 407	30 754 779
	Parking Provision Fund	-	(2 809 285)
	Housing Fund	213 932 007	195 851 957
	Arterial Fund	-	6 147 059
	Other Capital Receipts	-	1 845 903 145
		362 510 726	**4 670 744 359**
10.	**LONG-TERM LOANS**		
	Government and Commercial Banks	-	202 384 910
	Hire-Purchase Agreements	-	127 892 996
	Annuity Loans	264 780 891	-
	Finance Lease Liabilities	98 509 509	-
		363 290 400	**330 277 906**
	Less current portion	(58 539 035)	-
		304 751 365	**330 277 906**
11.	**EMPLOYEE BENFITS LIABILITIES**		
	Post-retirement Health Care Benefits Liability	445 471 322	-
	Long Service Awards Liability	73 850 104	-
		519 321 426	-
	Less current portion	(29 601 638)	-
	Post-retirement Health Care Benefits Liability	6 860 712	-
	Long Service Awards Liability	22 740 926	-
		489 719 788	-
12.	**TRADE AND OTHER PAYABLES**		
12.1	**FROM EXCHANGE TRANSACTIONS**		
	Normal leave	259 845 250	-
	Bonus leave	12 093 465	-
	Payments received in advance	72 380 302	-
	Trade creditors	102 752 899	945 441 961
	Retentions	51 249 134	36 339 222
	Other creditors	978 683 589	144 717 871
		1 477 004 639	**1 126 499 054**
12.2	**FROM NON-EXCHANGE TRANSACTIONS**		
	Suspense accounts	7 479 853	144 717 871
	Sundry deposits	1 305 491	-
		8 785 344	**144 717 871**

MUNICIPALITY OF WINDHOEK
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE (continued)

	2016	2015
	N$	N$
13. UNSPEND CONDITIONAL GRANTS AND RECEIPTS		
National government grants	189 298 599	-
Other spheres of government - MURD	74 630 622	-
Public contributions	1 112 227	-
	265 041 448	-
14. CONSUMER DEPOSITS		
Electricity	39 065 017	-
Water	13 074 984	-
	52 140 001	-
15. PROVISIONS		
Normal leave	-	100 000 000
Bonus leave	-	20 000 000
Informal settlement	-	11 926 024
Bursaries	-	3 931 291
	- *	**135 857 315**

* The provisions for 2016 are classified as trade and other payables from exchange transactions.

	Actual Income 2016	Actual Expenditure 2016	Surplus/ (Deficit) 2016
	N$	N$	N$
Description			
Office of the Chief Executive	1 291 516	9 815 252	(8 523 737)
Economic development and environment	218 384 348	382 645 346	(164 260 998)
Electricity	1 685 719 055	1 580 031 680	105 687 375
Finance	409 333 960	76 561 782	332 772 178
Human Resources	(1 894)	(1 894)	-
Infrastructure, water & technical services	918 901 153	819 750 280	99 150 873
Information & communication technology	404 896	404 896	-
Urban planning & property management	226 224 557	113 538 127	112 686 430
City Police	66 462 871	367 831 859	(301 368 988)
Community Services	74 607 241	242 282 314	(167 675 073)
Total	**3 601 327 703**	**3 592 859 642**	**8 468 061**