KARIBIB TOWN COUNCIL

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ACCOUNTING POLICY

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Policy Number: FIN-02/2020	**Approval Date:**
Compiled by: Manager- Finance	**Compilation Date: 2020/06/30**

Notwithstanding the review as may be determined, this policy shall remain effective until approved otherwise by Council and may be reviewed on an earlier date as deemed necessary.

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENT

1. PREAMBLE

The Accounting Policies for Karibib Town Council have been prepared in accordance with International Public Sector Accounting Standards (IPSASs 33), from July 2019(Having previously prepare its financial statements according to IAS and IFRS). The Financial Statements are presented in Namibian dollars, which is the functional and reporting currency of the Town Council and all values are rounded off to the nearest dollar. Where there is no specific guidance in the Standard, the Council has developed its own accounting policy which is aimed at creating information which is:

- Relevant to the decision-making needs of users; and reliable, in that the financial statements;
- Represent fairly the financial position, financial performance and cash flows of the entity;
- Reflect the economic substance of transactions, other events and conditions and not merely the legal form;
- Are neutral i.e. free from bias;
- Are prudent;
- Are complete in all material respects.

This document outlines how the Council will account for all income, expenditure, assets, equity, and liabilities held and incurred during the financial year under review.

The accounting policies of the Council are updated regularly to reflect any changes in IPSASs, Local Authority Act, State Finance Act and Treasury Instruction, other change in statute impacting on the authority's accounts.

The Accounting Policies of the Council as far as possible have been developed to ensure that the accounts of the Council are understandable, relevant, free from material error or misstatement, reliable and comparable.

The document has been divided into three distinct categories which are Accounting Principles, Capital Accounting and Revenue Accounting.

2. ACCOUNTING PRINCIPLES

2.1. GOING CONCERN

The Council prepares its accounts on the basis that it remains a going concern; that an organization will continue to operate in a feasible future.

2.2. ACCRUAL CONCEPT

The Council accounts for income and expenditure in the period to which the service has taken place, rather than when cash payments are received or made. Where income and expenditure has been recognized but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Statement of Financial Position. Equally, where cash has been received or paid which is not yet recognized as income or expenditure, a payable (income in advance) or receivable (payment in advance) is recorded in the Statement of Financial Position.

2.3. TAXES

Income Tax

Council is a local authority and is exempted from paying income tax in terms of Income Tax Act, Act 24 of 1981, as amended.

Value Added Tax

Council is a registered Value Added Tax (VAT) payer in terms of the Value Added Tax Act, Act 10 of 2000, as amended, and submits its returns bi-monthly to the inland revenue. VAT collected is payable to Ministry of Finance. Any amounts outstanding (payment or receipt) at the year-end date is held as a creditor or debtor after netting off the amounts either due or owed. Amount owed/ receivable may not balance with Receiver of Revenue figures because of different accounting concept that the government is using.

Pay As You Earn (PAYE)

Council deducts PAYE from employees' remuneration and pays it over to Inland Revenue via the Electronic Funds Transfer (EFT) on or before the 20th of the following month of deductions. Monthly returns are completed and submitted to the Inland Revenue.

2.4. CHANGES IN ACCOUNTING POLICY, ERROR AND CORRECTIONS

Where there is a known future change in accounting policy in terms of IPSAS 3, the Council will disclose the following in the notes to the accounts, in the notes, the council should provide:

- The reason why applying the new accounting policy provide reliable and more relevant information
- If retrospective application is impractical for the period, prospective application for new accounting policies for transaction, event, or other circumstances is applied.

Errors include the effects of mathematical mistakes, misunderstanding in applying accounting policies, oversights and misinterpretations of facts.

Where those errors are thought to be significant, an adjustment will be entered into financial statements comparative balances as restated figures.

Errors which are found and not significant, will not result in prior year adjustment and will be corrected as a current year entry. In addition, errors as a result of information which was not known to the council or could not have reasonably been determined when Financial Statements were authorized for issue, will be corrected in the current year and accumulated profit/loss will be reinstated.

2.5. UNIDENTIFIED INCOME

All unidentified income received is initially recorded to an income suspense account. Monthly updates of the content of the suspense accounts are circulated to the Finance Manager, to ensure the balances are cleared as soon as possible. Any items of revenue not cleared at year end will be treated as sundry revenue.

2.6. EVENTS AFTER REPORTING PERIOD

Where there is a material post balance sheet event before the date the accounts are authorized for issue, a disclosure in the notes to the accounts will be included. If this event provides additional evidence of conditions that existed at the Balance Sheet date, and materially affects the amounts to be included in the accounts; adjusting items will be shown in the accounts.

2.7. CONTINGENT ASSETS AND LIABILITIES

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. These are not recognized in the Statement of Financial Position but disclosed in a note to the accounts.

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognized in the Statement of Financial Position but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

2.8. CASH AND CASH EQUIVALENT

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in the value.

Overdraft are reported under Current liabilities in the Statement of Financial Position, on the Statement of Cash Flow, only the net will be disclosed under cash and cash equivalent in the Statement of cash Flow Statement.

ACCOUNTING FOR CONSUMER DEPOSIT AND EMPLOYEE BENEFIT PROVISION.

Consumer Deposit is accounted under current liabilities, because Account Receivable to which the account is related to is accounted under Current Asset.

Provision for Employee Benefit is accounted under Non-Current Liabilities, this is because, Karibib Town Council will continue to exist in a near feasible future (going concern)

Provision for employees' severance where the employee is known employees who will retire, resigns or dies in the next 12 months, this will be accounted under non-current liabilities.

3. FUNDS

The Town Council also maintains the following Funds in terms of the authorizations in Section 80 of the Local Authorities Act, Act 23 of 1992 as amended:

3.1. Build Together Fund

This is a revolving fund consisting of funds originally from government for Decentralization Build Together Fund beneficiaries. Disbursements of funds to beneficiaries for progress payment are made from this fund. Loan repayments are deposited on this fund. Interest earned is capitalized to this fund. Servicing of land benefitting Decentralized Build Together beneficiaries may be sourced from this fund.

4. CAPITAL ACCOUNTING

4.1. RECOGNITION OF CAPITAL EXPENDITURE

Capital expenditure is recognized in terms of IPSAS 16: Investment Properties, IPSAS 17: Property, Plant and Equipment and IPSAS 36 (revised): Investment in Associate and Joint Venture.

Property, Plants and Equipment (PPE) are initially recognized 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.

Carrying amount for an item for PPE is determined by cost less accumulated depreciation. The carrying amount of an item of Property, Plant and Equipment is derecognized on a disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from de-recognition of an item of Property Plant and Equipment is included in surplus or deficit when the item is derecognized.

Depreciation is calculated using straight line methods to write the cost of each asset over the useful life as follows:

4.2. PROPERTY, PLANT & EQUIPMENT (PPE)- IPSAS 17

• Buildings and Plants	50 Years	2%
• Service infrastructure	20 Years	5%
• Heavy Vehicles, Machinery and Equipment	7 Years	20%
• Office Equipment	5 Years	20%
• Light and sedan Vehicles	6 Years	20%
• Office Furniture and Fittings	5 Years	25%
• Computer Equipment's	5 Years	25%
• Other Assets	4 Years	25%

- Intangible assets (impairment assessments)
- Land

  These shall include all erven registered in the name of Council, serviced and un-serviced (including townlands and/or farms) readily available for sale to individuals, institutions or developers. The land shall not be depreciated during the reporting period but shall be removed from the list upon disposal of such land. Variations in land values shall be as a result of general and/or interim valuation process conducted in line with the provisions of the Local Authorities Act, Act 23 of 1992, as amended.
- Investment properties

These are items of land and/or building held sorely for the purpose of rental income generation or capital appreciation.
Asset owned by the council which are occupied by employees or other social groups are not to be classified as investment properties.

- Assets held for sale.

The council will classify the asset as held for sale where the following condition are met:

1. The asset is a condition required for sale
2. The assets sale is highly probable
3. The completion is expected to be completed with 12 months.

Non-current asset held for sale are not to be depreciated.

- Investments.

Investment include share owned by an organization which do not meet the requirement to be classified as investment in associate in term of IPSAS 36. Investment may also include cash held at the bank which will not be used in the next 12 months.

1.3. INVESTMENT PROPERTIES-IPSAS 16

Investment properties are measured using fair value model, using the gazette valuation as a model to account for all investment properties. Fair value is time specific as of given date, however the council opt not to revalue every year but rather to use general valuation and interim valuation (Cost outweighs benefits).

1.4. NON-CURRENT ASSET VALUATION METHODOLOGY

Non-current asset is initially recorded at cost less accumulated depreciation and impairment. The council does not carry out market valuation because cost outweigh the benefit, unless required, example when the asset is to be sold. The council may also make use of the valuation roll to determine the value for the assets. The council recognize intangible Assets at cost, revaluation of intangible asset will only be done annually where there a determinable market value for the asset.

Assets that are fully depreciated and still in use are recorded in the Statement of Financial Position at a rate of N$1. It is up to management discretion to decide whether to do an asset valuation, taking into consideration the cost implications.

1.5. IMPAIREMENT OF NON-CURRENT ASSET

At the end of reporting period, the council **may** assess whether there is a need for impairment assessment. Considering the benefits and the cost to be incurred.

1.6. DISPOSAL OF NON-CURRENT ASSET

When the asset is disposed of or decommissioned, the net value (Asset book value less receipt from disposal) for the asset in the Statement of Financial Position is written off to the Statement of Financial Performance as part of gain or loss on disposal.

3.7 TRAVELING COST AND TRANSPORTATION COST

Traveling cost for a service provider and transportation cost that raises from item/asset purchased by council for used are to be included on the invoice as part of that item/asset's total cost.

5. REVENUE ACCOUNTING

5.1. RECOGNITION OF REVENUE AND EXPENDITURES

REVENUE RECOGNITION

Revenue is derived from various sources. Revenue comprises the fair value of the consideration received or receivables for the sales of goods and services in the ordinary course of the Council activities. Revenue is shown net of value added tax, returns and other discounts.

Revenue from exchange transactions refers to transaction that occurred to Karibib Town Council directly in return for service rendered/ goods sold, the value of which approximates the consideration received or receivables.

Revenue from non-exchange transaction refers to transactions where the Council received revenue from another entity without directly giving approximately equal value in exchange.

5.2. REVENUE FROM NON-EXCHANGE TRANSACTIONS- IPSAS 23

Taxes, Fees and Fines

Council recognizes revenue fees, taxes and fines when the event occurs, and the asset recognition criteria are met. To the extent, there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenue is recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to council and the fair value of the asset can be measured reliably.

Government subsidies and other government entities

Council measures revenue received from government and other government entities at fair value and recognizes them as revenue upon obtaining control of the asset if the transfer is free from conditions and it is probable that the economic benefits or services potential related to the asset will flow to council and can be measured reliably.

Conditional grants, donations and funding's are recognised as revenue to the extent that the Council 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 these criteria, conditions or obligations have not been met. Where such requirements are not enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered as 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 council with no future related costs, are recognised in the statement of Financial Performance in the period in which they become receivable.

5.3. REVENUE FROM EXCHANGE TRANSACTIONS- IPSAS 9

Rendering of services

Council recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be measured reliably. When the outcome of the transaction cannot be measured reliably, revenue is recognized only to the extent the expenses incurred are recoverable.

Sale of Water

Revenue from the sale of water is recognised when the amount of revenue can be measured reliably, and it is probable that the economic benefits or service potential associated with the transaction will flow to Council.

Interest Income

Interest income is accrued using effectively yield method. The method applies this yield to the principal outstanding to determine interest income each period. Interest income is included in the revenue.

Dividends

Dividends or similar distribution is recognized as revenue when Council's right to receive payment is established.

5.4. BORROWING COSTS

Council capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying assets as part of the cost of that assets in accordance with the requirements of IPSAS 5.

Council ceases to capitalise borrowing costs when substantially the activities necessary to prepare the qualifying assets for its intended use has been completed.

5.5. RELATED PARTIES DISCLOSURE

Individuals as their close family members and/or entities are related parties if one party has the ability, directly or indirectly to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the Mayor, Management Committee Member, Council Members, Chief Executive Officer and all other Managers reporting directly to the Chief Executive Officer.

5.6. EMPLOYEES COST

The council account for total benefit earned by employees during the financial year as salaries and wages in the statement of financial performance. Council members allowance is also recognized under this category separately.

5.7. RESEARCH AND OTHER RELATED COST

Payment for environmental impact assessment, drafting of infrastructure plans and other expenditure relating to capital project to determine the feasibility are treated in the Statement of Financial Performance.

5.8. PROVISION FOR DOUBFUL DEBTS

Council maintain a provision for any non-payment, at each Balance sheet date, the council make an assessment as to whether impairment loss need to be recognized.

- Firstly, whether there is evidence of impairment for individual debtors that are significant.
- Secondary, there is evidence of impairment for the group of similar debtors.

The factor to be used will be disclosed in the notes the annual financial statement. Provision for impairment is only applicable to debtors who owe for more than 120 days.

Provision not made for housing and sales of erven debtors. Housing and sales of erven debtors account for 20% of the total outstanding debtors. Therefore, only 80% is considered when calculating provision for doubtful debts.

5.9. DEBTORS WITH CREDIT BALANCE

Only debtors with a credit balance more than N$50 000, 00 will be reclassified to be payable in the statement of financial position.

5.10. INVENTORY FOR CONSUMABLES- IPSAS 12

Inventory is recognized at the lower of cost, or net realizable value. Inventory is recorded in terms of average cost, with exception to expiry goods which are recognized on the first in, first out. Inventories are recognized as expense when deployed for utilization or consumption in the ordinary course of Council.

5.11. BUDGET INFORMATION- IPSAS 24

The annual budget figures have been prepared in accordance with the IPSAS 24. This has to be consistent with the accounting policies adopted by the council for the preparation of these Annual Financial Statement. The amounts are scheduled as a separate additional Financial Statement called the Statement of Comparison of Budget and Actual amounts.

6. COMPARATIVE FIGURES

Where necessary, comparative figures for the financial year might be amended or re-configured to conform to the required changes in the presentation.

7. APPLICATIONS

Accounting policies is applicable as from 1st July 2020, and all future financial statements are to be prepared based on this policy.

8. POLICY REVIEW

This policy shall be reviewed based on audit demands aligned with any alterations (amendments) to the International Public Sector Accounting Standards (IPSAS).

9. APPROVAL

This Tariff policy was tabled, discussed and approved as follow:

Council Resolution Number: ______________________

Date: ____

Signatures,

CHIEF EXECUTIVE OFFICER **CHAIRPERSON OF COUNCIL**