



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF OKAHANDJA**

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 Okahandja 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.

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

WINDHOEK, November 2017

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

1. INTRODUCTION

The accounts of the Municipality of Okahandja for the financial year ended 30 June 2016 are being reported on in accordance with the provisions set out in Section 85 of the Local Authorities Act, 1992 (Act 23 of 1992).

The firm Mostert Landgrebe 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 of Okahandja on behalf of the Auditor-General and under his supervision.

Figures in the report are rounded off to the nearest Namibia dollar and deficits are indicated in (brackets).

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

- Annexure A: Balance sheet
- Annexure B: Abridged income statement
- Annexure C: Cash flow statement
- Annexure D: Notes to the financial statements

The financial statements were submitted by the Accounting Officer to the Auditor-General 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 Annexures A - D.

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 1992, (Act 23 of 1992) and for such internal control as management determines it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

3. AUDITOR'S RESPONSIBILITY

I conducted the audit in accordance with International Standards for Supreme Audit Institutions (ISSAIs). These standards require that I comply 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 of Okahandja during the audit is appreciated.

5. KEY AUDIT FINDINGS

5.1 Property, plant and equipment

There was no updated fixed asset register which auditors could rely upon for audit purposes; therefore auditors were unable to perform any tests on property, plant and equipment.

Recommendation

It is recommended that the Municipality should update the fixed asset register.

5.2 Trade and receivables

At the time of the audit, the Municipality could not provide supporting documents for Build together advances and Natis claims amounting to N\$ 1 230 025 and N\$ 3 262 184 respectively.

Recommendation

It is recommended that the Municipality should provide all supporting documents for audit purposes.

5.3 Cash and Bank

There was no proper bank reconciliation done.

Recommendation

It is recommended that the Municipality should properly reconcile the bank account.

5.4 VAT control account

The auditors could not verify the accuracy of VAT receivable of N\$ 12 576 915 due to the fact that no VAT reconciliation was done.

Recommendation

It is recommended that the Municipality should properly reconcile the VAT control account.

5.5 Valuation roll

The Municipality still works on outdated 2008 valuation roll.

Recommendation

It is recommended that the Municipality should update the valuation roll.

5.6 Tariffs

All services were charged on the 2013/2014 financial tariffs.

Recommendation

It is recommended that the Municipality should use the correct tariffs.

5.7 Pre-paid electricity

No report could be provided by the Municipality on the total prepaid electricity units sold, thus the auditors could not verify prepaid electricity sales.

Recommendation

It is recommended that the Municipality should keep proper record of prepaid electricity unit sold.

5.8 Wrong allocation of expenses

Transactions processed on Finstel were wrongly allocated.

Recommendation

It is recommended that the Municipality should process expenses to the correct accounts.

5.9 Salaries and Wages

The Municipality could not explain the difference of N\$ 1 359 453 between the salaries as per annual financial statements and the salary register.

Recommendation

It is recommended that the Municipality should reconcile these two accounts.

5.10 Provision for bad debts

The average collection period of trade receivables is 221 days (2015: 192 days). Based on an average collection period of 60 days, the auditors are of the opinion that the debtors provision is understated by at least N\$ 16 922 012 (2015: N\$ 30 997 239).

Recommendation

It is recommended that the Municipality should restate the provision for bad debts.

6. BASIS FOR ADVERSE AUDIT OPINION

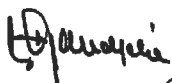
- No proper asset register;
- No list available to verify Build together advances of N\$ 1 230 025;
- No supporting documentation to verify Natis claims of N\$ 3 262 184;
- No proper bank reconciliation;
- No proper VAT reconciliation;
- Salaries and wages overstated by N\$ 1 359 453;
- Outdated valuation roll used;
- All services were charged on the 2013/2014 financial year tariffs;
- No proper records for prepaid electricity sales;
- Understatement of provision for bad debts by N\$ 16 922 012; and
- Wrong allocation of expenses.

7. ADVERSE AUDIT OPINION

The accounts of the Municipality of Okahandja for the financial year ended 30 June 2016 summarised in Annexures A to D, were audited by me in terms of Section 85 of the Local Authorities Act, 1992 (Act 23 of 1992) read with Section 25(1) (b) of the State Finance Act, 1991 (Act 31 of 1991).

In my opinion, because of the significance of the matters discussed in the basis for Adverse Opinion Audit paragraph, the financial statements do not present fairly, in all material respects, the financial position of the Municipality of Okahandja.

WINDHOEK, November 2017


JUNIAS ETUNA KANDJEKE
AUDITOR- GENERAL

ANNEXURE A

**THE MUNICIPALITY OF OKAHANDJA
BALANCE SHEET AT 30 JUNE**

	Note	2016 N\$	2015 N\$
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	2	107 585 114	103 723 474
Investments	3	10 400 793	6 623 382
Loans	4	15 517	15 517
		<u>118 001 424</u>	<u>110 362 373</u>
CURRENT ASSETS			
Trade and other receivables	5	64 313 527	55 631 050
Inventories	6	69 860	69 860
Cash and cash equivalents	7	160	160
		<u>64 383 547</u>	<u>55 701 070</u>
TOTAL ASSETS		<u>182 384 971</u>	<u>166 063 443</u>
FUNDS AND LIABILITIES			
FUNDS AND RESERVES			
Capital outlay	8	95 791 586	94 558 231
Funds and accounts	9	(34 498 782)	23 893 151
		<u>61 292 804</u>	<u>118 451 382</u>
LONG-TERM LIABILITIES			
Long-term loans	10	1 765 223	1 969 137
CURRENT LIABILITIES			
Trade and other payables	11	59 609 395	31 944 757
Bank overdraft	7	59 717 549	13 698 167
		<u>119 326 944</u>	<u>45 642 924</u>
TOTAL FUNDS AND LIABILITIES		<u>182 384 971</u>	<u>166 063 443</u>

THE MUNICIPALITY OF OKAHANDJA
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2016 N\$	2015 N\$
INCOME		137 187 462	144 284 507
EXPENDITURE		(162 332 464)	(188 426 631)
NET OPERATING LOSS		(25 145 002)	(44 142 124)
INVESTMENT INCOME EARNED FOR REVENUE ACCOUNTS		255 878	21 027
NET LOSS FOR THE YEAR		(24 889 124)	(44 121 097)
APPROPRIATION ACCOUNT	12	(27 765 660)	9 197 430
		(52 654 784)	(34 923 667)
ACCUMULATED FUNDS - Beginning of year		(79 584 061)	(44 660 394)
ACCUMULATED FUNDS - End of year		(132 238 845)	(79 584 061)

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

	Note	2016 N\$	2015 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		137 187 462	144 284 507
Cash paid to suppliers		(171 115 963)	(174 972 216)
Cash (utilised)/generated by operations	13	(33 928 501)	(30 687 709)
Investment income		255 878	21 027
Movement in Fund accounts			
- Change in Fund accounts		(5 737 149)	12 003 604
- Change in Capital outlay		1 233 355	9 348 427
Net cash flow from operating activities		(38 176 417)	(9 314 651)
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital expenditure		(3 861 640)	(8 986 629)
Change in investments		(3 777 411)	9 812 443
Change in loans receivables		-	3 934
		(7 639 051)	829 748
CASH FLOW FROM FINANCING ACTIVITIES			
Change in long-term liabilities		(203 914)	(1 066 367)
		(203 914)	(1 066 367)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(46 019 382)	(9 551 270)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		(13 698 007)	(4 146 737)
CASH AND CASH EQUIVALENTS - END OF YEAR		(59 717 389)	(13 698 007)

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

1. ACCOUNTING POLICIES

1.1 Introduction

The annual financial statements set out in Annexures A to C were prepared on the historical cost basis and incorporate the following principal accounting policies, which are consistent in all material aspects with those applied in the previous year.

1.2 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation where assets have been acquired by grant or by donation, less depreciation written off over the expected useful lives as determined by the Municipality from time to time. Property, plant and equipment acquired with loan funds are not depreciated until the loan is repaid, unless the expected lifetime of the asset is less than the repayment period of the loan in which case depreciation is calculated on the shortfall.

1.3 Internal Fund

The following Funds were created by the Municipality:

1.3.1 Housing Fund

The purpose of this Fund is to provide for housing loans. Income to this Fund is transferred from the general income account, external loans from Government and interest on investments and loans.

1.3.2 Capital Reserve Fund

This Fund was created to make provision for unforeseen expenditures as approved by the Municipality.

2. PROPERTY, PLANT AND EQUIPMENT

	<u>2016</u>	<u>2015</u>
	N\$	N\$
Total	107 585 114	103 723 474

3. INVESTMENTS

Commercial Banks	10 400 793	6 623 382
Total	10 400 793	6 623 382

ALLOCATED AS FOLLOWS

Capital Reserve Fund	1 556 151	-
Capital	8 844 642	-
Revenue	-	6 623 382
	10 400 793	6 623 382

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(Continued)

4. LOANS RECEIVABLE	2016	2015
	N\$	N\$
HOUSING FUND		
Erven and housing loans	15 517	15 517
5. TRADE AND OTHER RECEIVABLES		
Services, rates and taxes	71 566 289	51 502 202
Other receivables	13 780 789	6 874 056
Build Together advances	1 230 025	1 254 792
VAT	1 257 691	-
	99 154 018	59 631 050
Provision for bad debts	(34 840 491)	(4 000 000)
	64 313 527	55 631 050
6. INVENTORIES		
Fuel	69 860	69 860
7. CASH AND BANK BALANCES		
Current account	(59 717 549)	(13 698 167)
Petty cash	160	160
	(59 717 389)	(13 698 007)
8. CAPITAL OUTLAY		
Loans redeemed	13 318 919	12 121 738
Revenue contributions	30 107 974	30 071 800
General Capital contributions	52 364 693	52 364 693
	95 791 586	94 558 231

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(Continued)

9. FUNDS AND ACCOUNTS

	2016	2015
	N\$	N\$
Fixed Property Fund	92 169 108	97 966 593
Housing Fund	5 570 955	5 510 619
Revenue account kept in compliance with Section 86(1) of the Local Authority Act, 1992.	(132 238 845)	(79 584 061)
	(34 498 782)	23 893 151

10. LONG -TERM LIABILITIES

The Government of Namibia	1 758 467	1 957 676
National Housing Enterprise	6 756	11 461
	1 765 223	1 969 137

11. TRADE AND OTHER PAYABLES

Trade payables	50 326 212	22 635 483
Loan instalment in arrear	1 586 268	5 804 033
Provisions	5 826 979	1 800 000
Consumer deposits	1 841 763	1 679 742
Difference in Internal loans	28 173	25 499
	59 609 395	31 944 757

12. ADJUSTMENTS TO APPROPRIATION ACCOUNT

Prior year adjustments	3 354 426	9 197 430
Provision for leave and bad debts	(31 120 086)	-
	(27 765 660)	9 197 430

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(Continued)

13. CASH (UTILISED)/GENERATED BY OPERATIONS

	2016	2015
	N\$	N\$
Net operating deficit before transfers	(24 889 124)	(44 121 097)
Adjustments for:		
- Adjustments to appropriation account	(27 765 660)	9 197 430
- Investment income	(255 878)	(21 027)
OPERATING INCOME BEFORE CHANGES IN WORKING CAPITAL	(52 910 662)	(34 944 694)
CHANGES IN WORKING CAPITAL		
Change in trade and other receivables	(8 682 477)	(3 818 905)
Change in inventories	-	-
Change in trade and other payables	27 664 638	8 075 890
	18 982 161	4 256 985
CASH UTILISED BY OPERATIONS	(33 928 501)	(30 687 709)