



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

# MUNICIPALITY OF OKAHANDJA

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

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**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 2019, 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, September 2020**

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

**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 2019**

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**1. DISCLAIMER AUDIT OPINION**

I have audited the financial statements of the Municipality of Okahandja for the financial year ended 30 June 2019. These financial statements comprise the statement of financial position, statement of comprehensive income, statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.

In my opinion, because of the significance of the matters discussed in the Basis for Disclaimer Audit Opinion paragraph, the financial statements do not present fairly, in all material respects, the financial position of the Municipality of Okahandja as at 30 June 2019 and its financial performance and their cash flow for the year then ended.

**2. BASIS FOR DISCLAIMER AUDIT OPINION**

I conducted my audit in accordance with International Standards for Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the entity in accordance with code of ethics for Supreme Audit Institutions together with the ethical requirements that are relevant to my audit of the financial statements in Namibia, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the code of ethics. I believe that the audit evidence I have obtained is not sufficient and appropriate to provide a basis for my opinion.

Disclaimer opinion is expressed due to the following:

**2.1 Trade and other receivables**

The provision for doubtful debts that are 120 days and +120 days old in the debtors age analysis are understated by N\$ 23 919 348. The Credit Control and Debt Collection Policy and Procedures paragraph 14.3 states that provision for doubtful debts or bad debts will be provided for in the balance sheet for debts that are 120 and +120 days old in the debtor's age analysis.

The auditors could not obtain a schedule of VAT returns that substantiate the VAT receivable balance of N\$ 17 966 159 recognized in the books of accounts receivables; therefore, no reasonable assurance regarding the existence, accuracy and valuation of the VAT receivable balance could be obtained.

**2.2 Cash and cash equivalents**

The auditors could not verify the validity and completeness of the deposits not yet banked of N\$ 2 439 544 due to lack of supporting documentation. Furthermore, there is improper accounting treatment of cheques written off at year-end but not presented for payment amounting to N\$ 4 317 469 that were accounted for as bona fide payments instead of creditors as at year end.

## **2.3 Accounts payables**

The Municipality policy states that they only pay out 40 leave days per employee, however they fully provided for the outstanding leave days per employee, thus the provision for leave is overstated by N\$ 3 813 646.

The auditors could also not obtain the listing of consumer deposit of N\$ 2 415 789, thus the completeness, existence and valuation of consumer deposit on the financial statements could not be verified. There were no alternative procedures auditors could perform to satisfy ourselves as to the completeness, existence and valuation of consumer deposit.

## **2.4 Non-submission of supporting documents**

The auditors could not obtain the following supporting documentation and/or proof of authorisation of the journals processed in the appropriation account:

- Listing of unclaimed deposits amounting to N\$ 52 771 983 written off and no proof of Council approval;
- Proof of Council approval for writing off of Natis claim of N\$ 3 727 992;
- Listing of missing deposits written off due to suspected fraud amounting to N\$ 2 340 215;
- Proof of Council approval for manual correction of bank balance by N\$ 10 570 487; and
- Proof of Council approval for increase in provision for bad debts of N\$ 20 945 697.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Section 86 of the Local Authorities Act, 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. In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the entity's financial reporting process.

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

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

My powers and duties towards auditing and reporting on the financial statements are outlined under Section 25(1) (c), Section 26 (1) and Section 27(3) of the State Finance Act, 1991 (Act 31 of 1991).

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence, obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

- I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.
- From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my report unless law or regulation precludes public disclosure about the matter or, when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **5. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS (COMPLIANCE)**

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 except that they were only submitted to the Auditor-General on the 05 February 2020 instead of three months after the financial year-end.

## **6. ACKNOWLEDGEMENT**

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



**WINDHOEK, September 2020**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**



## ANNEXURE A

**THE MUNICIPALITY OF OKAHANDJA  
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE**

	Note	2019 N\$	2018 N\$
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>122 648 455</b>	<b>128 340 245</b>
Property, plant and equipment	2	85 413 643	83 711 352
Loans receivable	3	15 517	15 517
Investments	4	37 219 295	44 613 376
<b>Current assets</b>		<b>58 423 237</b>	<b>67 793 836</b>
Trade and other Receivables	5	57 356 111	67 793 676
Bank and cash	6	1 067 126	160
<b>TOTAL ASSETS</b>		<b>181 071 692</b>	<b>196 134 081</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Funds and reserves</b>		<b>162 899 724</b>	<b>115 034 792</b>
Capital outlay	7	84 825 251	82 982 002
Funds and accounts	8	78 074 473	32 052 790
<b>Non-current liabilities</b>		<b>588 391</b>	<b>729 350</b>
Long-term liabilities	9	588 391	729 350
<b>Current liabilities</b>		<b>17 583 577</b>	<b>80 369 939</b>
Trade and other payables	10	17 583 577	61 101 311
Bank overdraft		-	19 268 628
<b>TOTAL FUNDS AND LIABILITIES</b>		<b>181 071 692</b>	<b>196 134 081</b>

## ANNEXURE B

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

	Note	<b>2019</b>	<b>2018</b>
		N\$	N\$
INCOME		93 613 278	82 312 480
EXPENDITURE		(89 743 802)	(81 184 877)
NET OPERATING SURPLUS/DEFICIT		<b>3 869 475</b>	<b>1 127 603</b>
INVESTMENT INCOME EARNED			
ALLOCATED TO REVENUE ACCOUNTS		694 483	985 384
NET SURPLUS AFTER INTEREST		4 563 958	2 112 987
APPROPRIATION ACCOUNT	11	40 905 218	49 096 435
NET SURPLUS AFTER APPROPRAITIONS		45 469 176	51 209 422
REVENUE ACOCUNT - Beginning of year		(20 787 673)	(71 997 095)
REVENUE ACCOUNT - End of year		<b>24 681 503</b>	<b>(20 787 673)</b>

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

	Note	<b>2019</b>	<b>2018</b>
		N\$	N\$
<b>Cash flow from operating activities</b>			
Cash receipts from customers		93 613 278	82 312 480
Cash paid to suppliers		(81 918 754)	(35 848 424)
		11 694 524	46 464 056
Investment income		694 483	985 384
<b>Net cash generated by operating activities</b>	12	<b>12 389 007</b>	<b>47 449 441</b>
Increase in capital outlay		1 843 249	(14 821 737)
Decrease/Increase in Fund account		552 506	(58 841 151)
<b>Cash flow from operating activities</b>		<b>14 784 762</b>	<b>(26 213 447)</b>
<b>Cash flows from investing activities</b>			
Net capital expenditure		(1 702 291)	31 894 867
Decrease/(Increase) in investments		7 394 081	(9 493 493)
<b>Cash flow from financing activities</b>		<b>(140 959)</b>	<b>(77 940)</b>
(Decrease) increase in long term liabilities		(140 959)	(77 940)
<b>Net decrease / increase in cash and cash equivalents</b>		<b>20 335 593</b>	<b>(3 890 013)</b>
Cash and cash equivalents - beginning of year		(19 268 467)	(15 378 454)
Cash and cash equivalents - end of year		<b>1 067 126</b>	<b>(19 268 467)</b>

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

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**1. ACCOUNTING POLICIES**

**1.1 Introduction**

The annual financial statements set out in Annexures A to D 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**

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 Council 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 Funds**

The following Funds were created by the Town Council:

**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 Council.

**2. PROPERTY, PLANT AND EQUIPMENT**

	<b>2019</b>	<b>2018</b>
	N\$	N\$
<b>Total</b>	<b>85 413 643</b>	<b>83 711 352</b>

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

	<b>2019</b>	<b>2018</b>
	N\$	N\$
<b>3. LOANS RECEIVABLE</b>	<b>15 517</b>	<b>15 517</b>
Ervens and housing loans	15 517	15 517
<b>4. INVESTMENTS - Commercial Banks</b>	<b>37 219 295</b>	<b>44 613 376</b>
Capital reserve fund	10 739 219	18 210 557
Housing fund	2 350 709	2 273 452
Censored equity	24 129 367	24 129 367
<b>5. TRADE AND OTHER RECEIVABLES</b>	<b>57 356 111</b>	<b>67 793 676</b>
Service, rates and taxes	140 114 951	130 410 706
Other receivables	32 668	3 727 992
Build together advances	1 161 364	1 176 741
VAT	17 966 159	13 451 571
Provision for bad debts	(101 919 031)	(80 973 334)
<b>6. CASH AND BANK BALANCES</b>	<b>1 067 126</b>	<b>(19 268 468)</b>
Current account	1 066 966	(19 268 628)
Petty cash	160	160
<b>7. CAPITAL OUTLAY</b>	<b>84 825 251</b>	<b>82 982 002</b>
Revenue contributions	83 369 643	81 667 352
Loans redeemed	1 455 608	1 314 650

## ANNEXURE D

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

	<b>2019</b>	<b>2018</b>
	N\$	N\$
<b>8. FUNDS AND ACCOUNTS</b>	<b>78 074 473</b>	<b>32 052 790</b>
Capital Reserve Fund	47 579 919	47 113 181
Housing Fund	5 813 050	5 727 282
Revenue account kept in compliance with Section 86 (1) of the Local Authority Act, 1992.	24 681 504	(20 787 673)
<b>9. LONG-TERM LIABILITIES</b>	<b>588 391</b>	<b>729 350</b>
The Government of Namibia	588 391	729 350
<b>10. TRADE AND OTHER PAYABLES</b>	<b>17 583 577</b>	<b>61 101 311</b>
Trade payables	6 257 237	50 651 806
Loan instalments in arrear	2 220 776	2 009 273
Provision for leave	6 689 774	6 261 205
Consumer refundable deposits	2 415 790	2 179 027

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

	<b>2019</b>	<b>2018</b>
	N\$	N\$
<b>11. ADJUSTMENTS TO APPROPRIATION ACCOUNT</b>	<b>40 905 218</b>	<b>49 096 435</b>
Prior Year Adjustments	-	(17 397 120)
Leave pay provision and bad debts	(21 374 265)	(160 220)
Cenored control account	-	(387 050)
Unclaimed deposits	-	(65 226)
Receipts and other adjustments	-	74 138 040
Corrections to government loans	-	(138 885)
Departmental accounts	-	(6 708 304)
Meatco sewerage levies written off	-	(184 800)
Correction to bank balance	10 570 487	-
Expired cheques	2 340 215	-
Adjustments to revenue	463 889	-
Natis Refund written off	(3 727 992)	-
Adjustments to expenditure	(139 097)	-
<b>12. CASH GENERATED/(UTILISED) BY OPERATIONS</b>		
Net operating surplus/(deficit) before transfers	4 563 958	2 112 987
Adjustments for:		
- Adjustments to appropriation account	40 905 218	49 096 435
<b>OPERATING SURPLUS BEFORE CHANGES IN WORKING CAPITAL</b>	<b>45 469 176</b>	<b>51 209 422</b>
<b>CHANGES IN WORKING CAPITAL</b>		
Change in trade and other receivables	10 437 565	(51 189 024)
Change in inventories	-	69 860
Change in trade and other payables	(43 517 734)	47 359 183
	(33 080 169)	(3 759 981)
<b>CASH GENERATED/(UTILISED) BY OPERATIONS</b>	<b>12 389 007</b>	<b>47 449 441</b>

