



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF OTJIWARONGO
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 Otjiwarongo 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, October 2017

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 OTJIWARONGO
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

1. Report on the Financial Statements

1.1 INTRODUCTION

The accounts of the Municipality of Otjiwarongo 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, MAC & Associates 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 his behalf 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 Otjiwarongo for the financial year ended 30 June 2016. These financial statements comprise of the following:

Annexure A: Balance sheet;
Annexure B: Income statement;
Annexure C: Cash flow statement; and
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, except that they were only submitted on 7 December 2016 instead of three (3) months after the year end as required by the Act.

The financial statements and notes to the financial statements provided by the Accounting Officer are attached as Annexures A to 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, (Act 23 of 1992) and relevant legislation, and for such internal control as management determines is necessary to enable the preparation of 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. 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 sufficient and appropriate to provide a basis for the qualified 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 INCORRECT BANK RECONCILIATION

Monthly bank reconciliations were not being performed due to difficulties with the new accounting system, Munsoft. At year-end, the bank reconciliation was done manually but is not balancing by N\$ 1 771 561 due to omitted outstanding payments done through electronic funds transfer. The reported cash book balance is therefore misstated by N\$ 1 771 561.

Recommendations

It is recommended that the Munsoft service provider should be requested to rectify the systems related problems; and bank reconciliations should be done on a monthly basis and reviewed by the Finance Manager.

5.2 PROVISION FOR THE LEVY PAYABLE

The Council has been making a provision for the levy payable to the Regional Council based on 50% of the rate specified in the Local Authorities Act, which is 5% of the rates and taxes levied. No reconciliation and information were provided to enable quantifying the amount of the cumulative understatement.

Recommendation

It is recommended that the Municipality should comply with the Local Authorities Act and pay or accrue the levy based on 5% of the rates and taxes levied.

5.3 PROVISION FOR BAD DEBTS

The Municipality maintained the provision for bad debts at the same level as in prior year (N\$ 21 289 003) while the total debtors in the 90 days age category (and above) stands at N\$ 33 939 531 resulting in understatement of the provision by N\$ 12 650 528.

Recommendation

It is recommended that the Municipality should provide for all debtors over 90 days net of the related payments received after year end.

5.4 TARIFF RATES

Incorrect tariffs rates were used on some customer accounts for rates and taxes, sewerage and water revenue streams.

Recommendation

It is recommended that the customers' database should be reviewed to ensure that the billing information for each individual customer is correct.

5.5 PHYSICAL QUANTITIES OF INVENTORIES

The auditors did not attend the physical counting of inventories at year-end, as result an amount of N\$ 101 910 could not be confirmed.

Recommendations

It is recommended that the Municipality should introduce and update inventory cards after each inventory count.

5.6 MINISTERIAL DIRECTIVE

The salary structure of the Municipality did not comply with the Ministerial directive concerning the standardised salary structure for Category A Local Authorities. As a result, the salaries paid for some positions are higher than those set by the Minister.

Recommendations

It is recommended that the Municipality should comply with Ministerial directives or seek exemption which should be communicated in writing.

5.7 UNSUPPORTED ADJUSTMENTS POSTED TO THE APPROPRIATION ACCOUNT

All uncleared differences arising on the data migration from Finstel System to Munsoft System amounting to N\$ 2 345 731 were posted to the appropriation account. The validity of the amount could not be ascertained.

Recommendation

It is recommended that all differences arising on data migration should be investigated, analysed and then posted to the relevant accounts.

5.8 CAPITALISED EXPENDITURE

Operating expenditure (training, licence fees, conversion of Finstel data, accommodation and on-site assistance) relating to Munsoft, amounting to N\$ 850 200 were incorrectly capitalised. The reported asset is therefore overstated by the said amount.

Recommendation

It is recommended that the Municipality should ensure that all operating expenses are expensed.

5.9 CIRCULAR D3/2015

The Chief Executives Officer of the Otjiwarongo Municipality for the year under review did not submit statements to the Auditor-General as per Circular D3/2015.

Recommendations

It is recommended that the Chief Executive officer should submit all annual report statements to the Auditor-General including Circular D3/2015 statements.

6. BASIS FOR QUALIFIED OPINION

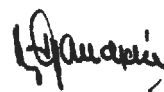
- Unreconciled differences on bank reconciliation amounting to N\$ 1 771 561;
- Understatement of the levy payable to the Regional Council;
- Understatement of the provision for bad debts by N\$ 12 650 528;
- Use of incorrect tariff rates;
- Lack of supporting documents for the physical quantities of inventories;
- Unconfirmed inventories amounting to N\$ 101 910;
- Lack of compliance with the Ministerial directive on salaries;
- Unsupported adjustments amounting to N\$ 2 345 731 posted to the appropriation account; and
- Overstatement of the capitalised expenditure amounting to N\$ 850 200.

7. QUALIFIED OF AUDIT OPINION:

The accounts of the Municipality of Otjiwarongo for the financial year ended 30 June 2016, summarised in annexure A to D, were audited by me in terms of the provisions of section 85 of the Local Authorities Act, 1992, Act 23 of 1992.

Except for the matters referred to in the preceding paragraph, the annual financial statements, in my opinion present fairly, in all material respects the financial position of the Municipality of Otjiwarongo as at 30 June 2016.

WINDHOEK, October 2017



**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**MUNICIPALITY OF OTJIWARONGO
BALANCE SHEET AS AT 30 JUNE**

	Note	2016 N\$	2015 N\$
ASSETS			
Non-current assets		179 368 264	171 862 455
Property, plant and equipment	3	116 855 318	86 498 634
Investments	4	58 049 713	72 799 744
Property loans	9	4 463 233	12 564 077
Current assets		27 629 848	22 099 195
Trade and othe receivables	5	26 657 008	21 726 616
Inventories	8	101 910	367 179
Cash and cash equivalents	10	870 930	5 400
Total assets		206 998 112	193 961 650
EQUITY AND LIABILITIES			
Equity		193 911 996	179 465 891
Capital outlay	2.2	102 992 956	71 475 598
Funds and accounts	2.1	90 919 040	107 990 293
Non-current liabilities		2 023 819	3 759 635
Long-term loans	7	2 023 819	2 149 465
Consumer deposits		-	1 610 170
Current liabilities		11 062 297	10 736 124
Trade and other payables	6	11 062 297	9 857 931
Bank overdraft	10	-	878 193
Total liabilities		13 086 116	14 495 759
Total equity and liabilities		206 998 112	193 961 650

MUNICIPALITY OF OTJIWARONGO
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2016 N\$	2015 N\$
Income		91 724 742	86 021 289
Expenditure		(96 069 280)	(85 837 467)
Net operating (deficit)/surplus		(4 344 538)	183 822
Adjustments	11	(3 298 847)	(216 959)
Net deficit for the year		(7 643 385)	(33 137)
Accumulated (deficit)/ surplus			
-Beginning of the year		5 235 345	5 268 482
-End of the year		(2 408 040)	5 235 345

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

	Note	2016 N\$	2015 N\$
Cash utilised by operating activities			
Cash received from customers		91 724 742	86 021 289
Cash paid to suppliers and employees		(102 828 884)	(88 943 199)
Net cash flows from operating activities	12	(11 104 142)	(2 921 910)
Cash flows from investing activities			
Movement in property, plant and equipment		(30 356 684)	(10 678 939)
Decrease in property loans		8 100 844	1 392 174
Decrease/(increase) in investments		14 750 031	(9 889 391)
Net cash flows from investing activities		(7 505 809)	(19 176 156)
Cash flows from financing activities			
(Decrease)/increase in funds accounts		(9 427 868)	9 092 526
Increase in capital outlay		31 517 358	12 215 941
Decrease in long term loans		(125 646)	(113 202)
(Decrease)/increase in consumer deposits		(1 610 170)	142 753
		20 353 674	21 338 018
Net decrease in cash and cash equivalents		1 743 723	(760 048)
Net cash and cash equivalents			
– at beginning of the year		(872 793)	(112 745)
– at the end of the year		870 930	(872 793)

MUNICIPALITY OF OTJIWARONGO**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

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 acquired with loan funds are stated at cost and no depreciation is provided thereon until the loan is fully redeemed. All other items of property, plant and equipment are stated at cost or valuation, and except for fixed property, the cost or valuation of these items of property, plant and equipment is depreciated on the straight line basis over their expected useful lives as follows:

Buildings	20 years
Furniture and equipment	10 years
Motor vehicles	5 years
Tools and equipment	5 years
Infrastructure	15 to 20 years

1.3 Internal funds

The following Funds were maintained by the Municipality in terms of section 58 (1) and 80(4) of the Local Authorities Act, Act 23 of 1992.

1.3.1 Capital Development Fund

The purpose of the Fund is to make provision for future capital development projects of the Council. Income is derived from the Revenue Account and donations from the Government.

1.3.2 Renewal Fund

Its purpose is to provide for replacement of assets and for additional depreciation on assets, which abnormally decreased in value. Income for this account is derived from general revenue contributions as well as interest earned on investment.

1.3.3 Revenue account

All monies received by and accrued to and expenses paid, except for allocations to other Funds, are reflected in this account, and are kept in compliance with Section 86 (1)(b) of the Act.

1.3.4 Capital Reserve Fund

The purpose of the Fund is to build-up a general capital reserve to ensure that the Municipality's financial position is stable. Income to this Fund is transferred from the general income account.

MUNICIPALITY OF OTJIWARONGO**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016
(continued)**

Proceeds of sale of developed property accumulate in this Fund, and it is used to develop properties.

1.3.5 Erven Trust Fund

Proceeds on sale of property developed by the Municipality accumulate in this Fund. Costs incurred in the development of new townships are charged to this account.

1.3.6 Housing Levy Fund

The purpose of this Fund is to build up a reserve to undertake improvements of the Municipality's infrastructure. The Municipality levies charges to consumers to build up this Fund.

1.3.7 Tarrif Stabilisation Fund

The purpose of this Fund is to build up a reserve to prevent unnecessary fluctuation in tariffs for electricity and water during a financial year. Unforeseen increases in electricity and water tariffs and surcharges levied on the electricity accounts of Namibia Power Corporation (Proprietary) Limited will be partly subsidised from this account.

1.3.8 Fixed Property Fund

Proceeds on the sale of properties developed by the Municipality accumulate in this Fund. Costs incurred in the purchases of land are charged to this account.

1.3.9 Betterment Fund

The purpose of this Fund is to provide for future improvements of municipal assets. Income to this Fund is transferred from the general income account and a certain part of the proceeds of the sale of land.

1.3.10 Housing Scheme Fund

The purpose of this Fund is to finance electrical reticulation network projects. Revenue is derived from interest on investments, internal loans and contributions from revenue.

1.3.12 Single Quarters Housing Scheme

The purpose of this Fund, to administer money received from the Government of Namibia to finance the building of houses to replace the single quarters.

1.3.13 Municipal Study Loan Fund

The purpose of this Fund is to provide loans for capacity building and training of staff.

1.3.14 Disaster Fund

The purpose of this Fund is to build-up reserves to assist with costs of disasters, which may occur in the town.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016
(continued)

1.3.15 Social Upliftment Fund

The purpose of this Fund is to build-up enough reserves for social activities, which will involve the town's community.

1.3.16 Build Together Fund

The purpose of this Fund is to provide housing loans to the low-income group. Income to this Fund is derived from Government contributions, repayments, interest on investments and loans.

1.3.17 Capacity Building Fund and Marketing Promotion Fund

The purpose of this Fund is to provide funds for capacity building of staff as well as marketing and promotion of the town.

1.4 Capital redemption on loans

Capital redemptions on external and internal loans are charged against income. A similar amount is credited to the Loan Redemption Fund for the duration of the loan. As and when the loan is fully redeemed, the Loan Redemption Fund is transferred to the Revenue Contribution.

1.5 Inventories

Inventories are measured at lower of cost and net realisable value. The cost of inventories comprise all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

	2016	2015
	N\$	N\$
2. OWN FUNDS		
2.1 Funds and accounts		
Internal Funds		
Fixed Property Fund	3 976 296	4 222 473
Betterment Fund	1 501 546	1 287 375
Capital Reserve Fund	3 478 788	3 733 677
Capital Development Fund	9 136 809	11 224 718
Renewal Fund	1 312 838	1 306 791
Personnel Housing Fund	2 181 501	2 116 632
Erven Trust Fund	44 402 297	44 227 000
Municipal Study Loan Fund	423 942	389 875
Housing Fund (GRN)	1 557 689	1 554 441
Build Together Fund	11 831 983	11 622 862
BT- Informal Settlement Fund	208 546	208 546
Single Quarters Housing Scheme	4 274 618	4 273 198
Social Upliftment Fund	567 512	534 778
Disaster Fund	420 289	221 764
TIPEEG Project Fund	8 052 426	15 830 818
	<u>93 327 080</u>	<u>102 754 948</u>
Revenue kept in compliance with Section 86(1) of the Local Authority Act, 1991	(2 408 040)	5 235 345
	<u>90 919 040</u>	<u>107 990 293</u>
2.2 Capital Outlay		
Loans redeemed	12 144 184	10 983 511
Revenue contributions	90 848 772	60 492 087
	<u>102 992 956</u>	<u>71 475 598</u>
3. PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	<u>116 855 318</u>	<u>86 498 634</u>
Financed by		
Loan Funds	26 006 546	26 007 406
Income Funds	90 848 772	60 491 228
	<u>116 855 318</u>	<u>86 498 634</u>

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

ANNEXURE D

	2016	2015
	N\$	N\$
4. Investments		
Commercial banks	14 982 744	29 732 805
CENORED (Pty) Limited	43 066 969	43 066 969
	58 049 713	72 799 774
Allocated to:		
Fixed Property Fund	898 965	1 486 640
Capital Reserve Fund	599 310	799 339
Betterment Fund	749 137	950 718
Capital Development Fund	809 068	1 605 995
Build Together Fund	1 607 657	1 607 657
Revenue	43 066 969	43 066 969
Erven Trust Fund	8 445 764	16 592 575
TIPEEG Project Fund	1 872 843	6 689 881
	58 049 713	72 799 774
5. Trade and other receivables		
Trade receivables	41 543 739	38 606 789
Value Added Tax	4 054 990	2 443 899
Sundry debtors	2 347 282	1 964 931
Less provision for bad debts	(21 289 003)	(21 289 003)
	26 657 008	21 726 616
6. Trade and other payables		
Trade payable	2 429 405	2 382 837
Consumer deposits	1 753 246	-
Sundry creditors	3 001 032	-
Provision for leave pay	3 878 614	3 766 661
Loan installments in arrears	-	3 708 433
	11 062 297	9 857 931
7. Long-term loans		
Government of Namibia	2 023 819	2 149 465
	2 023 819	2 149 465

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

	2016	2015
	N\$	N\$
8. Inventories		
Consumable stores	101 910	367 179
	101 910	367 179
9. Property loans		
Erven Trust Fund	2 251 514	3 018 012
Single Quarters Housing Scheme	2 437 529	2 611 305
Build Together Fund	4 450 193	4 941 528
Personnel Housing Scheme	888 110	1 044 505
Other	(5 564 113)	948 727
	4 463 233	12 564 077
10. Cash and cash equivalents		
Bank	865 530	(878 193)
Petty cash	5 400	5 400
	870 930	(872 793)
Presented as follows:		
Current assets	870 930	5 400
Current liabilities	-	878 193
11. ADJUSTMENTS		
Prior adjustments - expenditure	(1 065 207)	(580 950)
Prior adjustments - income	112 091	363 991
Munsoft conversion	(2 345 731)	-
	(3 298 847)	(216 959)
12. CASH (UTILISED)/GENERATED BY OPERATING ACTIVITIES		
Net (deficit)/surplus for the year, per income statement	(4 344 538)	183 822
Adjustments on appropriation account	(3 298 847)	(216 959)
	(7 643 385)	(33 137)
Operating profit before working capital changes		
Working capital changes		
- Accounts receivables	(4 930 392)	(5 469 586)
- Inventories	265 269	(244 023)
- Accounts payables	1 204 366	2 824 836
	(3 460 757)	(2 888 773)
	(11 104 142)	(2 921 910)