



**REPUBLIC OF NAMIBIA**



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

# **MUNICIPALITY OF OUTJO**

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

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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 Outjo 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'.

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**WINDHOEK, December 2019**



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

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**1. DISCALIMER AUDIT OPINION**

I have audited the financial statements of the Municipality of Outjo for the financial year ended 30 June 2016. These financial statements comprise the balance sheet, income statement, and notes to the financial statements, including a summary of significant accounting policies.

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 and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

**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 the 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 audit opinion is expressed due to the following (\* recurring finding):

- The Municipality does not have a financial reporting framework and did not prepare a cash flow statement;
- Deficit for the year amounting to N\$ 10 819 956 was omitted from the appropriation account;
- Provision for bad debts overstated by N\$ 4 033 894;
- No supporting documents to verify Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) advance of N\$ 3 908 269 from the government and the transfer of N\$ 417 900 to capital projects;
- Direct deposits amounting to N\$ 2 584 336 not allocated to respective customers' accounts;
- No supporting documents for appropriation account adjustments amounting to N\$ 2 518 080;
- Depreciation for the year amounting to N\$ 1 976 612 and additions of N\$ 637 270 were not accounted for in the financial statements, resulting in property plant and equipment being overstated with N\$ 1 339 342;
- Investments recorded in the financial statements overstated by N\$ 1 287 044;
- Cheques amounting to N\$ 770 860 were cleared before year-end but reported as outstanding;
- No supporting documents for fixed asset additions amounting to N\$ 512 545;
- The auditor draw attention to the financial statements, which indicates that the Municipality incurred a net deficit of N\$ (10 819 956) during the year and, as of that date, the Municipality's current liabilities exceeded its current assets by N\$ 9 210 472. As stated these events or conditions, along with other matters such as increase in accumulated deficit to N\$ (16 479 158) from N\$ (8 889 579), increase in borrowing (bank overdraft) of N\$ (2 144 445) indicate that a material uncertainty exists that may cast significant doubt on the Municipality's ability to continue as a going concern.

- Sale of ervens amounting to N\$ 582 980 were not transferred to revenue account, resulting in understatement of revenue;
- Revenue from NATIS overstated by N\$ 356 136;
- Build together loan debtors overstated by N\$ 344 076;
- Opening balances for property, plant and equipment as well as capital outlay not correctly brought forward to the current year;
- \*Loan instalments not repaid but provided as arrear loan repayments amounting to N\$ 3 097 731;
- \*Direct deposits amounting to N\$ 2 584 336 not cleared; and
- \*Provision for bad debts overstated by N\$ 4 033 894.

### **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 General Accepted Accounting Principles and legislation, 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 of 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 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.


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

- 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

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 10 August 2018 instead of the three months after the financial year-end.



**JUNIAS ETUNA KANDJEKE**  
**AUDITOR-GENERAL**

**WINDHOEK; December 2019**

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

	Note	2016 N\$	2015 N\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	27 012 077	27 012 077
Investments	3	7 211 342	8 839 201
Housing debtors		6 361 443	6 475 835
<b>Current assets</b>			
Accounts receivables	4	278 384	1 924 134
Inventories		108 261	73 028
Bank	5	1 539	497 068
<b>TOTAL ASSETS</b>		<b>40 973 046</b>	<b>44 821 343</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Funds</b>			
Capital outlay	6	25 995 970	25 938 714
Fund accounts	7	4 362 313	8 114 192
<b>Non-current liabilities</b>			
Long-term liabilities	8	1 016 107	1 555 827
<b>Current liabilities</b>			
Accounts payables	9	7 454 211	9 212 610
Bank overdraft	5	2 144 445	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>40 973 046</b>	<b>44 821 343</b>



**THE MUNICIPALITY OF OUTJO**  
**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE**

	Note	<b>2016</b>	<b>2015</b>
		N\$	N\$
Income		24 463 166	26 101 716
Expenditure		(35 456 408)	(24 513 939)
<b>Net operating surplus / (deficit)</b>		<b>(10 993 242)</b>	<b>1 587 777</b>
Investment Income		173 286	-
<b>Net surplus / (deficit)</b>		<b>(10 819 956)</b>	<b>1 587 777</b>

**THE MUNICIPALITY OF OUTJO  
NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2016**

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## **1. ACCOUNTING POLICIES**

### **1.1 Basis of presentation**

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment, marketable securities and investment properties where appropriate.

### **1.2 Property, plant and equipment and depreciation**

All plant and equipment are initially recorded at cost. Cost includes all costs directly attributable to bringing the assets to working condition for their intended use. All other plant and equipment are stated at historical cost or valuation where applicable.

Depreciation is calculated on property, plant and equipment except where the assets are financed by loans.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimation recoverable amount, the assets or cash generating units are written down to their recoverable amount.

#### **Subsequent expenditure**

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential over the total life of the asset more than the most recently assessed standard of performance of the existing asset will flow to the municipality. All other repairs and maintenance are charged to surplus or deficit for the year in which they are incurred.

### **1.3 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in current liabilities.

### **1.4 New Development Fund**

The purpose of this fund is to make provision for future capital development projects of the Municipality. Income is obtained from the Revenue Account as well as donation from the Government.

**THE MUNICIPALITY OF OUTJO**  
**NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE (continued)**

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### **1.5 Inventory**

Inventories include those assets that are held for consumption and for provision of goods and services. Inventories are measured at the lower of cost and estimated selling price less costs to complete and sell, on the first in, first out (FIFO) basis.

### **1.6 Internal reserve fund**

The municipality established internal reserves in line with Section 80 of the Local Authorities Act 23 of 1992.

#### **Fixed property reserve**

Established by the municipality as a revolving fund to fund infrastructure development including development of new municipal areas. Contributions to the fund are by way of sales of land and qualifying government contributions.

Sales of land are recognised in the statement of surplus or deficit and subsequently transferred to the fund through the Statement of Changes in Net Assets to the reserve. Time to time the municipality receives government contributions for infrastructure development. Government contribution is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions, or obligations embodied in the funding agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Unconditional grants and receipts are recognised in the surplus or deficit upon receipt. Subsequently the funds recognised as revenue is transferred to fixed property reserve through the Statement of Changes in Net Assets.

#### **Other reserves**

Municipality established other reserves for example sanitation reserves, to fund other municipality projects. Contributions to and from the reserve are transferred via the Statement of Changes in Net Assets to the reserve in line with the amount provided for in the operating budget.

All reserves are supported by investments held with financial institutions and to a certain extent with accounts receivable. Interest earned on the investments backing up this fund must be recorded as part of interest earned in surplus or deficit for the year and can be transferred via the Statement of Changes in Net Assets to the Fund.

### **1.7 Revenue**

Revenue is recognised to the extent that the municipality has transferred the significant risks and rewards of ownership of goods to the buyer or has rendered services under an agreement provided the amount of revenue can be measured reliably and it is probable that economic benefits associated with the transactions will flow to the municipality. Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes and discounts. Interest is recognised in surplus or deficit, using the effective interest rate method.

**THE MUNICIPALITY OF OUTJO**  
**NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE (continued)**

	<b>2016</b>	<b>2015</b>
	N\$	N\$
<b>2. Property, plant and equipment</b>		
Income assets	6 496 855	6 496 855
Loan assets	1 505 000	1 505 000
General capital assets	19 010 222	19 010 222
	<u>27 012 077</u>	<u>27 012 077</u>
<b>3. INVESTMENTS</b>		
Build together fund	286 525	1 615 429
TIPPEG fund	6 908 951	7 187 612
HIV fund	-	36 159
Sports and social fund	15 866	-
	<u>7 211 342</u>	<u>8 839 200</u>
<b>4. ACCOUNTS RECEIVABLES</b>		
Service rates and taxes	23 958 229	23 429 801
Value added tax	814 508	122 738
Cenored surcharges	89 944	89 944
Suspense account	91 397	37 079
Deposits	284 776	284 776
Creditors	932	933
Sub total	<u>25 239 786</u>	<u>23 965 271</u>
Less: Provision for bad debts	<u>(24 961 402)</u>	<u>(22 041 137)</u>
	<u>278 384</u>	<u>1 924 134</u>
<b>5. BANK AND CASH</b>		
Current account	(2 144 445)	495 529
Petty cash	1 539	1 539
	<u>(2 142 906)</u>	<u>497 068</u>
<b>6. CAPITAL OUTLAY</b>		
Loans	488 893	431 637
Income assets	6 496 855	6 496 855
General capital	19 010 222	19 010 222
	<u>25 995 970</u>	<u>25 938 714</u>

**THE MUNICIPALITY OF OUTJO**  
**NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE (continued)**

	<b>2016</b>	<b>2015</b>
	N\$	N\$
<b>7. FUND ACCOUNTS</b>		
Capital reserve fund	1 359 541	1 380 542
TIPPEG fund	10 986 175	7 495 806
HIV/AIDS fund	20 602	36 159
Sports and social fund	15 866	-
Build together fund	8 459 287	8 091 264
Sub total	20 841 471	17 003 771
Revenue account	(16 479 158)	(8 889 579)
	<b>4 362 313</b>	<b>8 114 192</b>
<b>8. LONG-TERM LIABILITIES</b>		
The Government of Namibia	1 016 107	1 073 363
Consumer deposits	-	482 464
	<b>1 016 107</b>	<b>1 555 827</b>
<b>9. TRADE PAYABLES</b>		
Accrued creditors	120 159	456 312
Sundries	1 385 392	3 472 796
Loan instalment in arrears	3 097 731	2 915 511
Accounts received in advance	-	382 283
Consumer deposits	534 376	-
Provisions	2 316 553	1 985 708
	<b>7 454 211</b>	<b>9 212 610</b>

