



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF USAKOS
FOR THE FINANCIAL YEARS ENDED 30 JUNE 2011, 2012 AND 2013**

Published by authority

Price (Vat excluded) N\$ 23.00
Report no: 2016/98

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 Usakos for the financial years ended 30 June 2011, 2012 and 2013 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, September 2016

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF USAKOS
FOR THE FINANCIAL YEARS ENDED 30 JUNE 2011, 2012 AND 2013**

1. REPORT ON THE FINANCIAL STATEMENTS

1.1 INTRODUCTION

This report on the accounts of the Municipality of Usakos for the financial years ended 30 June 2011, 2012 and 2013 are presented to the National Assembly in accordance with provisions set out in Section 85 of the Local Authorities Act, 1992 (Act 23 of 1992).

Figures in this report are rounded 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 Usakos for the years ended 30 June 2011, 2012 and 2013. These financial statements comprise of the following:

Annexure A: Balance Sheet
Annexure B: Income Statement
Annexure C: Cash Flow Statement
Annexure D: Notes to the Financial Statements

The Municipality financial statements were submitted by the Accounting Officer to the Auditor-General in compliance with Section 87 of the Local Authorities Act, 1992.

The financial statements and notes to the financial statements provided by the Accounting Officer are attached as Annexure 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 86 of the Local Authorities Act, 1992 and relevant 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.

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 responsible 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 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 circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.

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 of the audit opinion.

4. ACKNOWLEDGEMENT

I wish to express my gratitude to management and staff of Municipality of Usakos for cooperating and assisting with the audit.

5. KEY AUDIT FINDINGS

5.1 INVESTMENT IN ERONGO RED

The Municipality of Usakos could not provide the auditors with supporting documents with regards to the investment in Erongo Red. The existence of the investment could not be confirmed.

5.2 PROVISION FOR BAD DEBTS

The average collection period of trade receivables is 530 days for 2013, 523 days for (2012), 421 days for (2011) and 676 days for (2010). The Municipality should attend to the arrears as a matter of urgency.

Based on an average collection period of 60 days, the auditors are of the opinion that the provision for bad debts are understated by N\$ 704 056 for (2013) and N\$ 5 492 191 for (2012) and N\$ 5 092 610 for (2011).

5.3 INVENTORIES

Inventories are not recorded in the general ledger of the Municipality and consequently not reflected in the financial statements.

5.4 ARREAR EXTERNAL LOANS

The instalments on external loans from the Central Government were not paid since the year (2001) up to date. No provision for interest on arrear payments has been made.

5.5 CONSUMER DEPOSITS

Consumer deposits are not sufficient to cover one month's charges.

5.6 VAT AND P.A.Y.E RETURNS

Not all VAT and P.A.Y.E returns were submitted timeously to the Directorate: Inland Revenue. No provision for penalties and interest has been made in the financial statements.

5.7 TRADE PAYABLES

No reconciliations for trade payables were available for audit purpose, and trade payables could not be verified.

5.8 CHARGES

Rates and taxes were not charged as per tariffs approved in the Government Gazette.

5.9 BANK RECONCILIATION

Cash book ledger balance and bank balance does not balance.

5.10 BUILD TOGETHER LOANS

The auditors were unable to confirm Build Together loans amounting to N\$ 4 857 039 for 2013 and N\$ 3 760 986 for 2012 due to non-submission of supporting documents.

5.11 NON-COMPLIANCE TO SECTION 87(2) (c)

The additional reporting requirements set in the Auditor-General Circular D3/2015 were not submitted as per Section 87(2) (c) of the Local Authorities act, 1992.

6. BASIS FOR DISCLAIMER OF AUDIT OPINION

- No provision for interest on external loans arrear payments;
- Penalties and interest on VAT and PAYE were not provided;
- No reconciliations for trade payables were available for audit purposes;
- The bank and cash ledger does not reconcile;
- No list for Build Together loans amounting to N\$ 4 857 039 was provided;
- Rates and taxes were not charged as per tariffs approved in the Government Gazette;
- Consumer deposits are not sufficient to cover one month's charges;
- Inventories are not recorded in the general ledger of the Municipality;
- No supporting documents with regards to the investment in Erongo Red; and
- Non-compliance to Section 87(2) (c).

7. DISCLAIMED AUDIT OPINION

The accounts of the Municipality of Usakos for the financial years ended 30 June 2011, 2012 and 2013 summarized in Annexure A to D, were audited by me in terms of the provisions of Section 85 of the Local Authorities Act, 1992, read with Section 25 (1) (b) of the State Finance Act, 1991.

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 for an audit opinion. Accordingly, I do not express an audit opinion on the financial statements.



WINDHOEK, September 2016

JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

MUNICIPALITY OF USAKOS
BALANCE SHEET AS AT 30 JUNE

| | Note | 2013 N\$ | 2012 N\$ | 2011 N\$ | 2010 N\$ |
|------------------------------------|------|-------------------|-------------------|-------------------|-------------------|
| ASSETS | | | | | |
| NON CURRENT ASSETS | | | | | |
| Property, plant and equipment | 2 | 20 714 701 | 15 331 286 | 9 842 502 | 9 707 513 |
| Investments | 3 | 10 166 217 | 9 798 813 | 5 052 062 | 4 157 432 |
| Loans receivable | 4 | 4 857 039 | 3 760 986 | 3 216 612 | 2 586 187 |
| | | 2 735 722 | 985 012 | 6 708 146 | 5 791 745 |
| Trade and other receivables | 5 | 2 591 867 | 983 512 | 6 708 146 | 5 791 036 |
| Cash and bank balances | | 143 855 | 1 500 | - | 709 |
| TOTAL ASSETS | | 38 473 679 | 29 876 097 | 24 819 322 | 22 242 877 |
| FUNDS AND LIABILITIES | | | | | |
| FUNDS AND RESERVES | | | | | |
| Capital outlay | 6 | 19 853 525 | 14 419 234 | 8 822 729 | 8 625 414 |
| Funds and accounts | 7 | 11 649 819 | 7 685 467 | 9 059 023 | 6 196 643 |
| | | 885 772 | 941 598 | 1 002 856 | 1 068 752 |
| Long-term loans | 8 | 886 772 | 942 598 | 2 002 856 | 2 068 752 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 9 | 6 084 563 | 6 829 798 | 5 934 714 | 6 352 068 |
| Bank overdraft | | - | 928 611 | 78 167 | 177 530 |
| TOTAL FUNDS AND LIABILITIES | | 38 473 679 | 29 876 097 | 24 819 322 | 22 242 877 |

ANNEXURE B

MUNICIPALITY OF USAKOS
INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE

| | Note | 2013 | 2012 | 2011 | 2010 |
|---|------|--------------------|--------------------|------------------|--------------------|
| | | N\$ | N\$ | N\$ | N\$ |
| INCOME | | 16 988 746 | 12 076 536 | 10 283 429 | 6 105 791 |
| EXPENDITURE | | (16 892 556) | (12 788 664) | (8 504 435) | (7 553 979) |
| OPERATING SURPLUS | | | | | |
| /(DEFICIT) | | 96 190 | (712 128) | 1 778 994 | (1 448 188) |
| INTEREST ON INVESTMENTS | | 123 478 | 235 765 | 5 991 | - |
| NET OPERATING SURPLUS / (DEFICIT) AFTER INTEREST | | 219 668 | (476 363) | 1 784 985 | (1 448 188) |
| APPROPRIATION ACCOUNT | 10 | 37 036 | (6 929 545) | (224 081) | 2 860 881 |
| NET SURPLUS/(DEFICIT) AFTER APPROPRIATIONS | | 256 704 | (7 405 908) | 1 560 904 | 1 412 693 |
| REVENUE ACCOUNT - Beginning of year | | (7 172 065) | 233 843 | (1 327 061) | (2 739 754) |
| REVENUE ACCOUNT - End of year | | (6 915 361) | (7 172 065) | 233 843 | (1 327 061) |

MUNICIPALITY OF USAKOS
CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE

| | 2013 | 2012 | 2011 | 2010 |
|--|--------------------|---------------------|--------------------|--------------------|
| | N\$ | N\$ | N\$ | N\$ |
| CASH FLOW FROM OPERATING ACTIVITIES | 7 973 664 | 9 992 223 | 2 144 406 | 1 288 469 |
| Cash receipts from customers | 16 988 746 | 12 076 536 | 10 283 429 | 6 105 791 |
| Cash paid to suppliers | (18 280 499) | (13 948 935) | (9 963 617) | (6 115 164) |
| Cash utilised by operations | (1 291 753) | (1 872 399) | 319 812 | (9 373) |
| Investment income | 123 478 | 235 765 | 5 991 | - |
| Increase in Fund accounts | 3 707 648 | 6 032 352 | 1 301 476 | 1 297 842 |
| Increase in Capital outlay | 5 434 291 | 5 596 505 | 197 315 | - |
| CASH FLOW FROM INVESTING ACTIVITIES | (6 846 872) | (10 779 909) | (1 660 044) | (1 366 740) |
| Net capital expenditure | (5 383 415) | (5 488 784) | (134 989) | (54 942) |
| Change in investments | (367 404) | (4 746 751) | (894 630) | (1 046 520) |
| Change in loans receivable | (1 096 053) | (544 374) | (630 425) | (265 278) |
| CASH FLOW FROM FINANCING ACTIVITIES | (55 826) | (61 258) | (65 896) | (49 137) |
| Change in long-term liabilities | (55 826) | (61 258) | (65 896) | (49 137) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 1 070 966 | (848 944) | 98 654 | (127 408) |
| CASH AND CASH EQUIVALENTS BEGINNING OF YEAR | (927 111) | (78 167) | (176 821) | (49 413) |
| CASH AND CASH EQUIVALENTS END OF YEAR | 143 855 | (927 111) | (78 167) | (176 821) |

MUNICIPALITY OF USAKOS

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 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. No provision for depreciation is made.

1.3 Investments

Investments are reflected at face value.

1.4 Trade receivables

Accounts receivable are recorded at originated cost less an allowance for bad debts.

1.5 Cash and cash equivalents

It consists of cash on hand and the current account with banks, all of which are available for immediate use by the Council.

1.6 Trade and other payables

All financial liabilities are recorded at cost.

1.7 Internal Funds

Internal Funds were created as follows by the Municipality:

1.7.1 Fixed Property Fund

Proceeds from the sale of land that has been developed by the Municipality of Usakos, accumulated in this fund. Costs incurred on the development of land are charged to this Fund.

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

1.7.2 Capital Reserve Fund

This Fund was created to make provision for unforeseen expenditure, as approved by the Municipality

1.7.3 Renewal Fund

The purpose of this Fund is to provide for future replacement of assets and for additional depreciation on assets which have permanently declined in value. Income for this account is derived from general revenue contributions as well as interest on investments.

1.7.4 Housing Funds

These Funds is applied only for the purpose of providing loans to house owners in respect of purchase price, building costs and improvements made.

| | 2013 | 2012 | 2011 | 2010 |
|---|-------------------|-------------------|------------------|------------------|
| | N\$ | N\$ | N\$ | N\$ |
| 2. PROPERTY, PLANT AND EQUIPMENT | 20 714 701 | 15 331 286 | 9 842 502 | 9 707 513 |
| External loans | 861 176 | 912 052 | 962 928 | 1 021 821 |
| Internal loans | - | - | 56 845 | 60 278 |
| Loans redeemed | 528 730 | 477 854 | 461 133 | 411 496 |
| Contributions from income | 12 315 224 | 6 876 446 | 1 332 838 | 1 185 160 |
| General capital | 7 009 571 | 7 064 934 | 7 028 758 | 7 028 758 |
| 3. INVESTMENTS | 10 166 217 | 9 798 813 | 5 052 062 | 4 157 432 |
| Commercial banks | 7 705 990 | 7 338 586 | 2 591 835 | 1 697 205 |
| Erongo Red | 2 460 227 | 2 460 227 | 2 460 227 | 2 460 227 |
| ALLOCATED AS FOLLOWS | 10 166 217 | 9 798 813 | 5 052 062 | 4 157 432 |
| Revenue | 2 460 227 | 2 460 227 | 2 460 227 | 2 460 227 |
| Housing Fund | 748 716 | 1 798 203 | 2 591 835 | 1 697 205 |
| Capital Development Fund | 6 957 274 | 5 540 383 | - | - |

MUNICIPALITY OF USAKOS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

(continued)

| | 2013 | 2012 | 2011 | 2010 |
|---|-------------------|-------------------|------------------|------------------|
| | N\$ | N\$ | N\$ | N\$ |
| 4. LOANS RECEIVABLE | 4 857 039 | 3 760 986 | 3 216 612 | 2 586 187 |
| Build Together loans | 4 857 039 | 3 760 986 | 3 216 612 | 2 586 187 |
| 5. TRADE AND OTHER RECEIVABLES | 2 591 867 | 983 512 | 6 708 146 | 5 791 036 |
| Consumers | 8 616 580 | 7 598 820 | 7 129 379 | 6 211 983 |
| Provision for bad debts | (7 600 705) | (7 431 932) | (621 198) | (621 198) |
| VAT receivable | 1 122 233 | 754 292 | - | 126 633 |
| Accrued interest | 86 068 | - | - | - |
| Sundry debtors - Natis | 365 086 | 59 727 | 59 727 | - |
| Provision for stores | 2 605 | 2 605 | 25 051 | - |
| Staff loans | - | - | 115 187 | 73 618 |
| 6. CAPITAL OUTLAY | 19 853 525 | 14 419 234 | 8 822 729 | 8 625 414 |
| Loans redeemed | 528 730 | 477 854 | 461 133 | 411 496 |
| Revenue contributions | 12 315 224 | 6 876 446 | 1 332 838 | 1 185 160 |
| General capital contributions | 7 009 571 | 7 064 934 | 7 028 758 | 7 028 758 |
| 7. FUNDS, ACCOUNTS AND RESERVES | 11 649 819 | 7 685 467 | 9 059 023 | 6 196 643 |
| Capital Reserve Fund | 10 163 051 | 6 506 918 | 506 918 | 506 918 |
| Fixed Property Fund | 1 535 909 | 1 535 909 | 1 535 910 | 1 530 484 |
| Renewal Fund | 364 597 | 364 597 | 364 597 | 364 597 |
| Housing Fund | 6 501 623 | 6 450 108 | 6 417 755 | 5 121 705 |
| Revenue account kept in compliance with Section 86(1) of the Local Authority Act, 1992. | (6 915 361) | (7 172 065) | 233 843 | (1 327 061) |
| 8. LONG-TERM LIABILITIES | 885 772 | 941 598 | 1 002 856 | 1 068 752 |
| External loans - Government | 861 176 | 912 052 | 962 928 | 1 009 132 |
| Instalment sale agreements | - | - | - | 12 689 |
| Housing Fund loans | 24 596 | 29 546 | 39 928 | 46 931 |

MUNICIPALITY OF USAKOS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

(continued)

| | 2013 | 2012 | 2011 | 2010 |
|---|--------------------|--------------------|------------------|------------------|
| | N\$ | N\$ | N\$ | N\$ |
| 9. TRADE AND OTHER PAYABLES | 6 084 563 | 5 901 187 | 5 856 547 | 6 174 538 |
| Trade payables | 2 283 119 | 2 332 587 | 2 593 905 | 2 997 603 |
| Consumer and other deposits | 285 126 | 270 242 | 263 690 | 267 928 |
| Government loans instalments in arrear | 2 316 455 | 2 156 453 | 1 996 451 | 1 894 808 |
| Regional Council | 765 448 | 708 808 | 652 266 | 152 266 |
| Provisions - Bonus, leave | 434 415 | 433 097 | 334 648 | 400 109 |
| Suspence account | - | - | - | 456 987 |
| Salaries | - | - | - | 4 837 |
| VAT | - | - | 15 587 | - |
| 10. ADJUSTMENTS TO APPROPRIATION ACCOUNT | 37 036 | (6 929 545) | (224 081) | 2 860 881 |
| Erongo Red investment recognised in the accounts | - | - | - | 2 460 227 |
| Government loans written off | - | - | - | 579 648 |
| Prior year adjustments | 37 036 | (6 929 545) | (241 922) | 5 583 |
| Provision for bad debts | - | - | - | (305 198) |
| VAT correction | - | - | - | 120 621 |
| Current year surplus | - | - | 86 | - |
| Mistake on summarises income and expenditure statement | - | - | 17 755 | - |
| 11. CASH GENERATED/(UTILISED) BY OPERATIONS | (1 291 753) | (1 872 399) | 319 812 | (9 373) |
| Net operating surplus/(deficit) before interest and transfers | 96 190 | (712 128) | 1 778 994 | (1 448 188) |
| Sundry adjustments | - | - | - | (2 724 036) |
| Adjustments to appropriation account | 37 036 | (6 929 545) | (224 081) | 2 860 881 |
| Change in trade and other receivables | (1 608 355) | 5 724 634 | (917 110) | (66 023) |
| Change in trade and other payables | 183 376 | 44 640 | (317 991) | 1 367 993 |

