



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF OKAKARARA
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015**

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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 Town Council of Okakarara for the financial year ended 30 June 2015, 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, August 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 TOWN COUNCIL OF OKAKARARA
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015**

1. Report on the Financial Statements

1.1 INTRODUCTION

The accounts of the Town Council of Okakarara for the year ended 30 June 2015 are being reported on in accordance with the provisions set out in Section 85 of the Local Authorities Act, (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 Town Council 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 Town Council of Okakarara for the financial year ended 30 June 2015. These financial statements comprise 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 29 September 2016 instead of three months (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-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 of 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 given by the management and staff of the Town Council during the audit is appreciated.

5. KEY AUDIT FINDINGS

Issues that were also reported in the previous financial year are indicated by way of an asterisk (*).

5.1 NON-PERFORMANCE OF BANK RECONCILIATION (*)

Monthly bank reconciliations were not performed during the year under review. At 30 June 2015, the cashbook is reflecting a balance of N\$ 7 599 006 while the bank statement is reflecting N\$ 516 538 resulting in an unexplained difference of N\$ 7 082 468. As a result, the accuracy of the reported cashbook balance could not be ascertained.

5.2 RECOVERABILITY AND ACCURACY OF THE TRADE RECEIVABLES (*)

The Town Council did not provide the basis of the provision for doubtful debts of N\$ 16 746 394 reflected in these financial statements, as a result, the adequacy of the reported provision could not be ascertained. There was no reconciliation done to ascertain if all receipts and direct deposits were posted to the respective customers' accounts. As a result, the accuracy of the reported trade receivables could not be ascertained.

5.3 LACK OF BREAKDOWN OF THE BUILD TOGETHER LOANS (*)

As at year-end, the Build Together loans amounted to N\$ 5 304 468 and no breakdown or reconciliation was provided for the amount. In addition, the individual loan accounts had not been created on the Finstel system to enable proper loan management (levying of monthly charges and processing of repayments). As a result, the auditors were unable verify the accuracy, completeness and validity of the reported amount.

5.4 LATE SUBMISSION OF ANNUAL FINANCIAL STATEMENTS TO THE OFFICE OF THE AUDITOR-GENERAL (*)

The Town Council submitted the financial statements for the 2015 year to the Office of the Auditor-General on 29 September 2016 while Section 87 of the Local Authorities Act, 1992 (Act No. 23 of 1992) requires that annual financial statements need to be submitted within three months after the financial year-end.

5.5 OMISSION OF INVENTORIES (*)

No inventory count and valuation were done at year-end and as a result, inventories are not disclosed in the financial statements although the Town Council always holds some inventories.

5.6 MISSING SUPPORTING DOCUMENTS (*)

Numerous important source documents for expenditure incurred, subsidies received and sale of erven income could not be found at the time of the audit.

5.7 VALUE ADDED TAX

There was no proof of submission of VAT returns during the period under review since the copies of the VAT returns submitted during the period were not provided for audit purposes. The Town Council did not provide the supporting documents for accrued VAT penalties amounting to N\$ 1 455 117, as well as outstanding PAYE amounting to N\$ 307 231. The outstanding balance relating to import VAT is not included in the financial statements.

5.8 MISSTATEMENT OF TRADE AND OTHER PAYABLES (*)

There was no reconciliation of the balance in the salaries control account amounting to N\$ 369 529. As a result, the validity of the said amount could not be ascertained. The leave pay provision is understated by N\$ 349 073 due to an error in calculation of the rate per day. Furthermore, the outstanding levies payable to the Regional Council are understated by N\$ 730 658 due to omission of accruals for the period 2011 to 2014.

5.9 UNSUPPORTED ADJUSTMENTS POSTED TO THE APPROPRIATION ACCOUNT (*)

The Council could not provide supporting documentation for journals posted to the appropriation account amounting to N\$ 6 285 939.

5.10 UNDERSTATEMENT OF INTEREST IN ARREARS (*)

No explanation was provided for the material difference between the computed expected interest in arrears of N\$ 4 024 848 and the actual interest per financial statements of N\$ 726 408.

5.11 NON-COMPLIANCE WITH THE GOVERNMENT GAZETTE

Rates and taxes on business improvements were levied based on a rate of 0.093713 while the Government Gazette provided for 0.0093713. As a result, the levied amounts on applicable properties are ten (10) times more than what they should have been, but the exact amount of the overstatement was not provided.

The refuse tariff for business was levied based on a rate of N\$ 100 per bin while the Government Gazette provided for N\$ 75. As a result, the levied amounts on applicable consumers are 33.33% more than what they should have been, but the exact amount of the overstatement was not provided.

5.12 OVERSTATEMENT OF THE EXTERNAL LOAN BALANCE

The external loan reflected in the financial statements to the value of N\$ 281 486 was overstated by N\$ 51 483 due to incorrect treatment of monthly capital repayments.

5.13 OVERSTATEMENT OF SUNDRY INCOME

The sundry income of N\$ 272 697 reflected in the Town Council's financial statements is overstated by N\$ 183 223 due to inclusion of amounts relating to the previous financial period.

5.14 INTERNAL CONTROLS

The accounting and internal controls were found to be inadequate. Proper segregation of duties is not feasible due to the small number of staff employed. While increased management involvement reduces risks, the risk arises that management and Council could override existing controls, a potentially dangerous practice, which Council should vigilantly guard against.

5.15 NON-COMPLIANCE TO THE AUDITOR-GENERAL CIRCULAR D3/2015

The Chief Executive Officer of Town Council of Okakarara for the year under review did not submit respective statements as required by Circular D3/2015 of the Auditor- General.

5.16 ACCOUNTING POLICY AND REPORTING FRAMEWORK

The Town Council of Okakarara did not attach its accounting policy and they did not indicate the accounting Framework they used to prepare the financial statements.

6. BASIS FOR DISCLAIMER OF AUDIT OPINION

- Unexplained difference amounting to N\$ 7 082 468 bank reconciliation;
- Unsupported provision for bad debts and accuracy of the trade receivables balance;
- Lack of breakdown for the Build Together loans account amounting to N\$ 5 304 468;
- Late submission of annual financial statements to the Office of the Auditor-General;
- Omission of inventories;
- Missing supporting documents for material expenses and income;
- Missing Value Added Tax returns;
- Lack of reconciliation of the salaries control amounting to N\$ 369 529;
- Understatement of the leave pay provision by N\$ 349 073;
- Understatement of the amount payable to the Regional Council by N\$ 730 658;
- No supporting documents on VAT amounting to N\$ 1 455 117;
- Outstanding PAYE of N\$ 307 231;
- Omission of the import VAT liability;
- Unsupported adjustments posted to the appropriation account;
- Understatement of interest in arrears by N\$ 3 301 440;
- Non-compliance with the Government Gazetted rates & taxes;
- Overstatement of the external loan balance by N\$ 51 483;
- Overstatement of sundry income by N\$ 183 223;
- Non-compliance to the auditor-general circular d3/2015; and
- No accounting policy and reporting framework.

7. DISCLAIMED AUDIT OPINION

The accounts of the Okakarara Town Council for the financial year ended 30 June 2015, summarised in Annexures A to D were audited by me in terms of Section 85 of the Local Authorities Act, 1992 read with Section 25(1) 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 appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.



WINDHOEK, August 2017

JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

**TOWN COUNCIL OF OKAKARARA
BALANCE SHEET ON 30 JUNE**

	Note	2015 N\$	2014 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	3	22 476 721	21 049 525
Secured loans	8	5 304 468	5 304 469
Investments	4	6 586 465	8 474 700
Current assets			
Trade and other receivables	5	1 809 453	1 938 699
Cash and cash equivalents	9	7 599 006	295 099
TOTAL ASSETS		43 776 113	37 062 492
EQUITY AND LIABILITIES			
Funds			
Funds and accounts	2	27 846 048	23 043 577
Accumulated funds		11 733 699	8 710 833
Current liabilities			
Trade and other payables	6	3 914 880	5 026 596
Non-current liabilities			
Long term loans	7	281 486	281 486
TOTAL EQUITY AND LIABILITIES		43 776 113	37 062 492

**TOWN COUNCIL OF OKAKARARA
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE**

ANNEXURE B

	Note	2015	2014
		N\$	N\$
Income		32 157 913	17 550 556
Expenditure		(23 111 587)	(12 871 376)
Net operating surplus		9 046 326	4 679 180
Investment income		169 992	-
Net surplus		9 216 318	4 679 180
Adjustments	10	(6 193 452)	265 367
Net surplus for the year		3 022 866	4 944 547
Appropriation account at beginning of the year		8 710 833	3 766 286
Appropriation account at end of year		11 733 699	8 710 833

**TOWN COUNCIL OF OKAKARARA
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE**

	2015	2014
	N\$	N\$
Cash generated by operating activities	2 040 396	6 403 136
Cash receipts from customers	32 157 913	17 550 559
Cash paid to suppliers and employees	(30 287 509)	(23 953 695)
Investment income	169 992	-
Cash flow from financing activities	4 802 472	(2 018 595)
Funds accounts	4 802 472	(18 755)
Capital outlay excluding loans redeemed	-	(1 999 840)
Cash flow from investing activities	461 039	1 494 288
Net capital expenditure	(1 427 196)	1 999 840
Increase in loans	-	(713 990)
Decrease in investments	1 888 235	208 438
Net increase in cash and cash equivalents	7 303 907	5 878 829
Cash and cash equivalents at beginning of year	295 099	(1 552 077)
**Difference unaccounted for	-	(4 031 653)
Cash and cash equivalents at end of year	7 599 006	295 099

** The unaccounted difference is made up of the accumulated surplus for the prior year of N\$ 3 766 286 plus the previous year adjustments on the appropriation account amounting to N\$ 265 367. These amounts are not included as part of accumulated surplus for the 2014 financial year in the Council's balance sheet.

TOWN COUNCIL OF OKAKARARA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE

ANNEXURE D

	2015	2014
	N\$	N\$
1 ACCOUNTING POLICIES		
The Town Council of Okakarara did not attach accounting policy to the Financial Statements for the year under review.		
2 OWN FUNDS	39 579 747	31 754 410
Revenue contributions	11 968 189	9 781 285
General capital contributions	10 227 046	10 986 754
Capital Reserve Fund	917 449	917 450
Built Together Fund	4 733 364	5 389 740
Difference on opening balance	-	(4 031 652)
Revenue account	11 733 699	8 710 833
3 FIXED ASSETS	22 476 721	21 049 525
Revenue contributions	11 968 189	9 781 285
General capital contributions	10 227 046	10 986 754
Loans	281 486	281 486
4 INVESTMENTS	6 586 465	8 474 700
Banks	422 728	4 016
Veiina Tobias	-	2 306 947
CENORED	6 163 737	6 163 737
5 TRADE AND OTHER RECEIVABLES	1 809 453	1 938 699
Services	18 194 493	16 944 807
VAT receivable	348 029	-
	13 325	-
Less: Provision for bad debts	(16 746 394)	(15 006 108)
6 TRADE AND OTHER PAYABLES	3 914 880	5 026 596
Trade creditors	14 325	1 000
Receiver of Revenue – VAT	1 455 117	3 476 491
Regional Council Fees	184 808	184 808
Receiver of Revenue - PAYE	307 231	307 231
Namwater	781 700	405 355
Sundry creditors	369 529	230 624
Consumer deposits	43 315	16 504
Provision for leave	758 855	404 583

TOWN COUNCIL OF OKAKARARA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE (continued)

	2015	2014
	N\$	N\$
7 LONG-TERM LIABILITIES	281 486	281 486
External loans	281 486	281 486
8 SECURED LOANS	5 304 468	5 304 469
Loans granted for housing	5 304 468	5 304 469
9 CASH AND CASH EQUIVALENTS	7 599 006	295 099
Current bank account	7 599 006	295 099
10 ADJUSTMENTS AND UTILISATIONS	(6 193 452)	265 367
Adjustments - relating to prior year	(6 193 452)	265 367