



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF OSHAKATI

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 Town Council of Oshakati 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, November 2017

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE TOWN COUNCIL OF OSHAKATI
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

1. Report on the financial statements

1.1 Introduction

This report on the accounts of the Town Council of Oshakati for the year ended 30 June 2016 is presented to the National Assembly in accordance with Section 85 of the Local Authorities Act, 1992 (Act 23 of 1992).

The firm Taziwa consulting of Windhoek has been appointed in term of section 26(2) of the State finance Act, 1992, (Act 31 of 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 to the nearest Namibian dollar and deficits are indicated in (brackets).

I certify that I have audited the accompanying financial statements of the Town Council of Oshakati for the year ended 30 June 2016. These financial statements comprise the following:

- Annexure A: Balance sheet
- Annexure B: Income statement
- Annexure C: Cash flow statement
- Annexure D: Notes to the financial statements

The Town Council's financial statements were submitted to the Auditor-General by the Accounting Officer in compliance with Section 87 (1) of the Local Authorities Act 1992.

The financial statements 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 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 misstatements.

Power and duties

Section 25 (1) (c) of the State Finance Act, 1991, (Act 31 of 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 receipts custody and issue of and accounting for 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 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 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 audit opinion.

4. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Town Council of Oshakati during the audit is appreciated.

5. KEY AUDIT FINDINGS

5.1 APPROPRIATION ACCOUNT

The Council made an adjustment amounting to N\$ 16 761 077 to the appropriation account, N\$ 15 230 718 of this amount was written off on the VAT balance. Council could not provide the rationale of such a write-off. The remaining balance of N\$ 1 530 359 Council could not provide supporting documents and as a result the auditors could not verify the validity of the adjustment.

5.2 VALUE ADDED TAX

A Difference of N\$ 9 895 752 was noted between the VAT receivable balance per the annual financial statements and the VAT reconciliation. The difference is partly caused by VAT that was written off of N\$ 15 230 718 to the appropriation account and inability for management to explain why the write offs were made.

5.3 DEVELOPMENT BANK OF NAMIBIA LTD

A difference of N\$ 23 017 026 was noted between the amount disclosed in the annual financial statements and the year ended closing balance confirmation. Interest expense amounting to N\$ 4 528 775 charged on the Development Bank loan was not expensed.

5.4 FIXED ASSETS DEPRECIATION

Depreciation is overstated by N\$ 1 595 624 due to incorrect asset useful life used in the asset register.

5.5 UNDERSTATEMENT OF EXPENDITURE

Bulk water expenditure is understated by N\$ 1 859 620.

5.6 GRANTS AND SUBSIDIES

Supporting documents for suspense accounts of government grants and current year grants and subsidies received from the Ministry of Urban and Rural Development and Road Fund Administration amounting to N\$ 41 389 09 and N\$ 73 578 571 respectively, could not be provided for verification.

5.7 CIRCULAR D3/2015

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

6. BASIS FOR QUALIFIED AUDIT OPINION

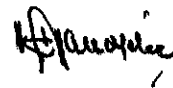
- Loan from Development Bank of Namibia is overstated by N\$ 23 017 026;
- Depreciation is overstated by N\$ 1 595 624;
- Bulk water expenditure is understated by N\$ 1 859 620;
- Interest expense understated by N\$ 4 528 775;
- No supporting documents amounting to N\$ 73 578 571 on grants and subsidies;
- Supporting documents amounting to N\$ 41 389 096 were not provided;
- No support documentation for adjustment of N\$ 1 530 359 to the appropriation account;
- VAT did not reconcile by N\$ 9 895 752; and
- No documents supporting VAT written off amounting to N\$ 15 224 323.

7. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Oshakati 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.

In my opinion except for the possible effects of the matter described in the Basis for Qualified Audit Opinion paragraph the financial statements fairly present in all material respects the financial position of the Town Council of Oshakati as at 30 June 2016 and their financial performance and cash flows for the year then ended.

WINDHOEK, November 2017



JUNIAS ETUNA KANDJEKE
AUDITOR- GENERAL

ANNEXURE A

**TOWN COUNCIL OF OSHAKATI
BALANCE SHEET AS AT 30 JUNE**

ASSETS	Note	2016	2015
		N\$	N\$
Non-current assets		626 135 870	581 533 622
Property, plant and equipment	2	578 880 156	469 462 379
Investments	3	40 255 714	105 071 243
Long term loan receivable	4	7 000 000	7 000 000
Current assets		34 669 270	56 332 884
Trade and other receivables	5	33 984 415	55 637 965
Inventory	6	682 220	693 391
Cash and cash equivalents	7	2 635	1 528
TOTAL ASSETS		660 805 140	637 866 506
FUNDS AND LIABILITIES			
Funds and Accounts		557 442 229	532 894 624
Financing of capital	8.1	530 280 468	420 862 691
Accumulated funds	8.2	(70 259 620)	33 025 951
Funds and accounts	8.3	97 421 381	79 005 982
Long term liabilities			
External loan	9	50 000 000	50 000 000
Current liabilities		53 362 911	54 971 881
Trade and other payables	10	48 400 336	27 418 346
Bank overdraft	7	4 962 575	27 553 535
TOTAL EQUITY AND LIABILITIES		660 805 140	637 866 506

ANNEXURE B

TOWN COUNCIL OF OSHAKATI
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2016	2015
		N\$	N\$
INCOME		183 014 733	166 082 354
EXPENDITURE		<u>(275 315 712)</u>	<u>(267 178 230)</u>
OPERATING (LOSS)/PROFIT FOR THE YEAR		(92 300 979)	(101 095 876)
Investment income		<u>5 240 363</u>	<u>6 514 327</u>
NET (DEFECIT)/SURPLUS FOR THE YEAR		(87 060 615)	(94 581 550)
Add : Appropriation and adjustments	11	<u>(16 224 956)</u>	<u>(13 967 599)</u>
RETAINED (DEFECIT)/SURPLUS FOR THE YEAR		(103 285 571)	(108 549 149)
Accumulated funds at the beginning of year		<u>33 025 951</u>	<u>141 575 100</u>
ACCUMULATED FUNDS AT THE END OF THE YEAR		<u>(70 259 620)</u>	<u>33 025 951</u>

TOWN COUNCIL OF OSHAKATI

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2016 N\$	2015 N\$
Cash flow from operating activities			
Cash receipts from customers		183 014 733	166 082 354
Cash paid to suppliers		(215 286 260)	(277 397 821)
Cash generated from operations	12	(32 271 527)	(111 315 467)
Investment income		5 240 363	6 514 327
Net cash flow from operating activities		(27 031 164)	(104 801 140)
Cash flow from investing activities			
Increase in property plant and equipment		(143 322 666)	(199 284 279)
Decrease/(increase) in investment		64 815 529	86 074 016
Net cash flow from investing activities		(78 507 137)	(113 210 263)
Cash flow from financing activities			
Loan (repaid) / raised		(6 109 865)	35 000 000
Increase in capital outlay		109 692 629	138 175 021
Movement in funds		24 547 604	27 494 663
Net cash flow from financing activities		128 130 368	200 669 684
Net increase in cash and cash equivalents		22 592 067	(17 341 719)
Cash and cash equivalents at the beginning of the year		(27 552 007)	(10 210 288)
Cash and cash equivalents at the end of the year	7	(4 959 940)	(27 552 007)

TOWN COUNCIL OF OSHAKATI**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

1 ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements are compiled in accordance with the historical cost convention modified by the restatement of financial assets to fair value except where otherwise stated.

The principal accounting policies of the Town Council which are set out below have been consistently applied. The financial statements have been prepared in accordance with the requirements of the Namibian Local Authorities Act 1992 (Act 23 of 1992) as amended.

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. Property plant and equipment are depreciated over their estimated useful lives as determined by the Council. 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 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at fair value. For the purpose of the cash flow statement cash and cash equivalents comprises of cash in hand and deposits held at commercial banks.

1.4 Funds

The Council in terms of Sections 58(1) and 80(4) of the Local Authorities Act (Act 23 of 1992) maintained the following Funds.

1.4.1 Build Together Fund

The purpose of this Fund is to provide for housing loans. Income for the Fund is derived from interest earned on investments and outstanding Build Together loans as well as government subsidies.

1.4.2 Capital Development Fund

The purpose of this Fund is to finance capital projects.

1.4.3 Mass Housing Fund

The fund was adopted from the Government with a purpose of providing affordable housing for low income earners in Namibia. The Council will assist in managing the fund on behalf of the Government.

1.5 Inventory

Inventory is measure at the lower of cost and net realizable value. The cost of inventories comprises all cost of purchases cost of conversion and other costs incurred in bringing the inventory to their present location and condition.

TOWN COUNCIL OF OSHAKATI

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

	2016	2015
	N\$	N\$
2. PROPERTY PLANT AND EQUIPMENT		
Consists of:		
Property development, vehicles, plant and equipment	578 880 156	469 462 379
Financed by:		
Revenue contributions	529 176 727	419 484 098
General capital	1 103 741	1 378 593
Loan assets	48 599 688	48 599 688
	578 880 156	469 462 379
3. INVESTMENTS		
Commercial banks and building societies	40 255 614	105 071 143
Shares - Oshakati Premier Electric (Pty) Ltd	100	100
	40 255 714	105 071 243
The investments were allocated as follows:		
Build Together Fund	8 786 239	8 255 279
Capital Development Fund	30 069 163	42 265 977
Revenue Contributions	-	53 149 675
Loan Capital Fund	1 400 312	1 400 312
Total	40 255 714	105 071 243

TOWN COUNCIL OF OSHAKATI

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

	2016	2015
	N\$	N\$
4. LONG-TERM LOANS RECEIVABLE		
Oshakati Premier Electric (Pty) Ltd	7 000 000	7 000 000
<p>This loan is unsecured bears interest at 22.5% per annum. Interest is due and payable quarterly. The loan has no fixed terms of repayment. The Town Council will not call upon the repayment of the loan within 12 months.</p>		
	7 000 000	7 000 000
5. TRADE AND OTHER RECEIVABLES		
Consumers	25 958 946	22 045 620
Provision for doubtful debts	(17 171 876)	(15 129 502)
	8 787 070	6 916 118
Other receivables		
Oshakati Premier Electric (Pty) Ltd	2 341 710	2 123 508
Value Added Tax	1 954 704	11 850 456
Road Fund Administration	-	-
Suspense Accounts: Development Bank of Namibia	-	13 035 383
Suspense Accounts: Other	204 242	88 324
Sundry debtors	61 080	66 711
Build Together Advances	1 858 670	2 092 377
Mass Housing Advances	18 776 939	19 465 087
	25 197 345	48 721 846
	33 984 415	55 637 965

ANNEXURE D

TOWN COUNCIL OF OSHAKATI

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

	2016	2015
	N\$	N\$
6. INVENTORY		
Stationery and other Consumable Stores	682 220	693 391
	682 220	693 391
7. CASH AND CASH EQUIVALENTS		
Cash on Hand	2 635	1 528
Overdraft-current account	(4 962 575)	(27 553 535)
	(4 959 940)	(27 552 007)
8. FUNDS AND ACCOUNTS		
8.1 Financing of Capital		
General Capital Contributions	1 103 741	1 378 593
Revenue contributions	529 176 727	419 484 098
	530 280 468	420 862 691
8.2 Accumulated Funds	(70 259 620)	33 025 951
8.3 Funds		
Capital Development Fund	62 765 727	42 265 977
Build Together Fund	13 614 600	16 653 239
Mass Housing Fund	21 041 054	20 086 766
	97 421 381	79 005 982
	557 442 229	532 894 624
9. LONG TERM LIABILITIES		
External loan: Development Bank of Namibia	50 000 000	50 000 000

TOWN COUNCIL OF OSHAKATI

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

	2016	2015
	N\$	N\$
10. TRADE AND OTHER PAYABLES		
Trade creditors	7 060 787	4 592 004
Provision for leave pay	3 161 533	3 862 108
Consumer deposits	2 842 149	2 643 213
Suspense Accounts: Government Contributions	35 335 867	16 321 022
	48 400 336	27 418 346
11. ADJUSTMENTS AND APPROPRIATIONS		
Corrections of previous year	(204 321)	(13 570 055)
Movement in provision for personnel benefits	700 575	(859 644)
Expense adjustment	(16 761 077)	-
Income adjustments	39 867	462 100
	(16 224 956)	(13 967 599)
12. CASH (UTILISED)/GENERATED BY OPERATIONS		
Net operating (deficit) surplus	(87 060 615)	(94 581 550)
Adjustments (appropriations)	(16 224 956)	(13 967 599)
Depreciation	33 630 038	26 616 953
Investment income	(5 240 363)	(6 514 327)
	(74 895 896)	(88 446 523)
Changes in working capital		
Increase/(decrease) in trade and other payables	21 653 550	1 334 379
Increase in inventories	(11 171)	(243 312)
Increase in trade and other receivables	20 981 990	(23 996 409)
	42 624 369	(22 905 342)
Operating (deficit)/income before changes in working capital	42 624 369	(22 905 342)
	(32 271 527)	(111 315 467)

