



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF OSHAKATI

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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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 2018, 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, May 2020

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE OSHAKATI TOWN COUNCIL
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

1. ADVERSE AUDIT OPINION

I certify that I have audited the financial statements of the Oshakati Town Council for the financial year ended 30 June 2018. These financial statements comprise the Balance Sheet, Income Statement and Notes to the financial statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

In my opinion, because of the significance of the matters described in the Basis for Adverse audit opinion section of my report, the accompanying financial statements do not give a true and fair view of the financial position of the Oshakati Town Council as at 30 June 2018, and financial performance and cash flows for the year then ended.

2. BASIS FOR ADVERSE 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, 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 sufficient and appropriate to provide a basis for my opinion. An adverse audit opinion is being expressed due to the following:

- The Council did not use a recognized accounting framework when compiling its financial statements and treatment of some accounting transactions does not comply with the Generally Accepted Accounting Practice (GAAP), for example depreciation is not reflected on the income statement, loan assets are not depreciated, loan capital repayments are reflected in the income statement, assets acquired during the year are reflected in the income statement; no accounting policies are presented in the financial statements;
- No statement of cash flows was presented in the financial statements;
- Infrastructure development expenditure incurred during the year amounting to N\$ 36 458 721 not included in the fixed assets register and financial statements of the Town Council;
- Based on the sample tested, the outstanding cheques amounting to N\$ 10 775 620 were recorded in the cash book earlier than the date of releasing the EFT payment (date of payment). The said payments were released after year end. Creditors are therefore understated by the said amount while bank overdraft is overstated.

- Royalties recorded are understated by N\$ 2 883 135. The Council is reflecting N\$ 2 883 135 as compared to N\$ 5 766 270 in the financial statement of Oshakati Premier Electric (Proprietary) Limited (OPE) due to misinterpretation of the Council Resolution. In terms of the Council resolution of 20 October 2016, Oshakati Premier Electric should retain 50% of royalties and use the funds to fund electrification of informal settlements. Effectively, it is the Council that is funding electrification of informal settlements while Oshakati Premier Electric facilitates the process;
- Interest on loan to Oshakati Premier Electric recorded is understated by N\$ 787 500. The Council is reflecting N\$ 787 500 as compared to N\$ 1 575 000 in the financial statement of Oshakati Premier Electric due to misinterpretation of the Council Resolution. In terms of the Council resolution of 20 October 2016, Oshakati Premier Electric should retain 50% of interest and use the funds to fund electrification of informal settlements. Effectively, it is the Council that is funding electrification of informal settlements while Oshakati Premier Electric facilitates the process;
- The amount receivable from Oshakati Premier Electric is overstated by N\$ 855 363 - Council is reflecting N\$ 1 999 605 as compared to N\$ 1 144 242 in the financial statement of Oshakati Premier Electric and no explanation was provided for the difference;
- Sundry income amounting to N\$ 572 740 was presented as a liability;
- The Development Bank of Namibia (DBN) liability of N\$ 2 942 248 is reflected in the financial statements despite the fact that the liability was fully settled during the year. The repayment made was incorrectly posted to the income statement. Interest on arrears amounting to N\$ 3 853 192 was recognized though not provided for in the Government Gazette;
- The financial statements of Oshakati Premier Electric, a 100% owned subsidiary, were not consolidated with those of the Town Council resulting in the understatement of the net assets by N\$ 108 193 900 and trading results by N\$ 8 459 616. The investment is recorded at nominal value of N\$ 100 which does not reflect the fair value or the net assets and as well as the trading results of the subsidiary;
- The Council is exposed to a high risk of default and loss on the Mass Housing loans given that there are no bonds registered over the properties, no life cover over the life of the beneficiaries and lack of insurance cover over the properties;
- For plot and house rental income, the contracts for 22 of the 25 selected sample were not made available for audit purposes therefore, no audit work could be done. No contract was made available to support the revenue and a receivable from the Road Fund Administration of N\$ 2 055 515 reflected in the financial statements;
- Incorrect tariff rates for open market fees were used on 18 of 25 accounts that we sampled and tested; and
- Incorrect tariff rates for refuse fees were used on 12 of 25 accounts that we sampled and tested.

3. KEY AUDIT MATTERS

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. I have nothing to report in this regard.

4. OTHER INFORMATION

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information; I am required to report that fact. I have nothing to report in this regard.

5. 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 acceptable standards and 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. 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.

6. 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 are free from material misstatement, whether due to fraud or error, and to issue a auditor's 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, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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 uses 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.

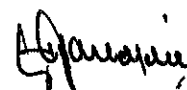
I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

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.

7. ACKNOWLEDGEMENT

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

WINDHOEK, May 2020



**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

	Note	2018 N\$	2017 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	603 230 817	614 096 460
Investments	3	96 785 856	23 291 719
Long term loan receivable		7 000 000	7 000 000
Current assets			
Trade and other receivables	4	43 448 437	75 474 959
Inventories		967 335	792 177
Cash and Cash equivalent	5	1 562	1 230
TOTAL ASSETS		751 434 007	720 656 545
EQUITY AND LIABILITIES			
Funds and Reserve			
Financing of capital	6.1	601 688 881	612 554 524
Accumulated deficit		(120 336 393)	(93 052 890)
Funds and accounts	6.2	145 548 311	113 325 889
Non-current liabilities			
Loan contributions		2 942 248	2 942 248
Current liabilities			
Trade and other payables	7	110 752 318	53 676 121
Bank overdraft	5	10 838 642	31 210 653
TOTAL EQUITY AND LIABILITIES		751 434 007	720 656 545

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

		2018	2017
	Note	N\$	N\$
Income		93 904 498	129 742 690
Expenditure		<u>(116 770 933)</u>	<u>(172 045 834)</u>
Operating deficit for the year		(22 866 435)	(42 303 144)
Investment income		<u>3 109 162</u>	<u>1 825 114</u>
Net deficit for the year		(19 757 273)	(40 478 030)
Add: Appropriation and adjustments	8	<u>(7 526 230)</u>	<u>17 684 760</u>
Deficit for the year		<u>(27 283 503)</u>	<u>(22 793 270)</u>

**TOWN COUNCIL OF OSHAKATI
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE 2018**

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

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.

TOWN COUNCIL OF OSHAKATI
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE 2018 (continued)

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

TOWN COUNCIL OF OSHAKATI
NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED
30 JUNE (continued)

	2018	2017
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	603 230 817	614 096 460
Financed by:		
Revenue contributions	553 802 239	564 667 883
General capital	828 889	828 889
Loan	48 599 689	48 599 688
	603 230 817	614 096 460
3. INVESTMENTS	96 785 956	23 291 719
Commercial banks and building societies	96 785 856	23 291 619
Shares - Oshakati Premier Electric (Pty) Ltd	100	100
The investments were allocated as follows:		
Build Together Fund	13 927 036	9 790 879
Capital Development Fund	42 905 775	12 100 528
Revenue Fund	32 782 404	-
Mass Housing Fund	5 770 329	-
Loan Capital Fund	1 400 312	1 400 312
	96 785 856	23 291 719
4. TRADE AND OTHER RECEIVABLES		
4.1 TRADE RECEIVABLE	5 438 028	18 095 071
Consumers	29 345 182	36 967 447
Provision for doubtful debts	(23 907 154)	(18 872 376)
4.2 OTHER RECEIVABLE	38 010 409	57 379 888
Oshakati Premier Electric (Pty) Ltd	2 721 223	2 552 784
Value Added Tax	14 525 970	35 379 188
Suspense Accounts: Other	289 068	-
Sundry debtors	2 055 915	57 322
Build Together Advances	1 372 450	1 610 329
Mass Housing Advances	17 045 783	17 780 265
TOTAL TRADE AND OTHER RECEIVABLE	43 448 437	75 474 959

**TOWN COUNCIL OF OSHAKATI
NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED
30 JUNE (continued)**

	2018	2017
	N\$	N\$
5. CASH AND CASH EQUIVALENTS	(10 837 080)	(31 209 423)
Cash on hand	1 562	1 230
Overdraft - current account	(10 838 642)	(31 210 653)
6. FUNDS AND ACCOUNTS		
6.1 Financing of Capital	601 688 881	612 554 524
General Capital Contributions	828 889	828 889
Revenue contributions	553 802 240	564 667 883
Loan redeemed	47 057 752	47 057 752
6.2 Funds	145 548 311	113 325 889
Capital Development Fund	107 432 712	76 627 465
Build Together Fund	15 299 486	14 748 143
Mass Housing Fund	22 816 113	21 950 281
Total funds and accounts	747 237 192	725 880 413
7. TRADE AND OTHER PAYABLES	110 752 318	53 676 121
Trade creditors	8 947 831	5 591 401
Provision for leave pay	4 935 445	3 161 533
Consumer deposits	3 192 940	3 087 997
Suspense Accounts: Government Contributions	93 676 102	41 835 190
8. ADJUSTMENTS AND APPROPRIATIONS	(7 526 229)	17 684 760
Corrections of previous year	(717 540)	-
Movement in provision for personnel benefits	(1 773 912)	-
Revenue	-	62 748
Income adjustments	-	1 866 856
Expense adjustment	(5 034 777)	15 755 156