



**REPUBLIC OF NAMIBIA**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE  
TOWN COUNCIL OF OTAVI  
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 Otavi 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, July 2020**



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

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**1. DISCLAIMER OF AUDIT OPINION**

I have audited the financial statements of the Town Council of Otavi for the financial year ended 30 June 2018. These financial statements comprise the balance sheet, income statement, cash flow statement and notes to the annual financial statements for the year then ended, and a summary of significant accounting policies.

In my opinion, because of the significance of the matters discussed in the Basis for Disclaimer 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.

**2. BASIS FOR DISCLAIMER OF 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 not sufficient and appropriate to provide a basis for my opinion. A disclaimer audit opinion is being expressed due to the following:

- Council was unable to provide supporting documents for sundry payables amounting to N\$ 2 934 766 and for government loan interests balance amounting to N\$ 2 611 431;
- Statements for Namwater amounting to N\$ 4 246 741 and the creditors listing amounting to N\$ 7 097 924 were not available for audit verification;
- Consumer deposits recomputed balance based on one month's water usage amounting to N\$ 435 646 was more than the financial statement balance amounting to N\$ 194 083 resulting in a difference of N\$ 241 563. It was further noted that Consumer deposits for the year are not enough to cover one month's water bill.  
Supporting documents for surcharges income amounting to N\$ 614 515 were not available for audit verification;
- External loans recorded in the financial statements did not include a hire purchase loan amounting to N\$ 497 580.  
The Council obtained a loan from the bank amounting to N\$ 589 363 to finance a vehicle and currently the outstanding balance amounts to N\$ 497 580. The loan was not recorded in Council's book as a liability (short and long term payables);
- Documents for loans receivables amounting to N\$ 5 392 936 were not available for audit verification;

- Supporting documents and schedules for expenditure adjustments, correction to revenue amounting to N\$ 3 115 549 and N\$ 1 170 251 respectively were not available for audit;
- The Town Council does not have a reporting framework that they use in the prepare of financial statements which aligns to a recognized standards;
- A difference of N\$ 788 997 on cash and cash equivalent was noted between the financial statements (N\$ 506 531) and the bank reconciliation (N\$ 1 295 528). In addition, supporting documents for outstanding cheques amounting to N\$ 155 020 were not provided for audit verification;
- Direct deposit accounts were not cleared at year end to the amount of N\$ 1 732 119, this resulted in individual account balances being misstated;
- Supporting documents for expenses amounting to N\$ 505 888 were not available for audit verification.
- A difference of N\$ 439 126 was noted between recalculated total water purchased based on the invoices from Namwater and total water expenses recorded in income statements.

### **3. MATERIAL UNCERTAINTY REGARDING GOING CONCERN**

The auditors draw attention to the financial statements, which indicates that the Town Council incurred a net loss of N\$ 8 078 38 and, as of that date, the Town Council's current liabilities exceed current assets by N\$ 14 231 340 (N\$ 19 865 567; N\$ 5 652 227), indicates that a material uncertainty exists that may cast significant doubt on the Village Council's ability to continue as a going concern. The Audit Opinion is not modified in respect of this matter.

### **4. OTHER INFORMATION**

Management is responsible for the other information. My opinion on the financial statements does not cover the other information and, accordingly, 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.

### **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 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.

## **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 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 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, I also;

- 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.

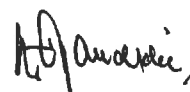
From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my report unless law or regulation precludes public 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.

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.

## **7. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

The financial statements were submitted later than required by the Accounting Officer to the Auditor-General on 01 October 2018 in terms of Section 87 (1) of the Local Authority Act, 1992.

**WINDHOEK, July 2020**



**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**



**THE TOWN COUNCIL OF OTAVI  
BALANCE SHEET AT 30 JUNE**

	Note	2018 N\$	2017 N\$
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>136 208 054</b>	<b>117 005 160</b>
Property, plant and equipment	2	113 513 719	90 304 808
Investments	3	17 301 398	21 309 415
Loan receivables	4	5 392 937	5 390 937
<b>Current assets</b>		<b>5 652 227</b>	<b>1 948 859</b>
Accounts receivables	5	5 652 227	1 948 859
<b>TOTAL ASSETS</b>		<b>141 860 281</b>	<b>118 954 019</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Funds</b>		<b>121 435 105</b>	<b>103 525 828</b>
Capital outlay	6	112 988 934	89 715 374
Fund accounts	7	8 446 171	13 810 454
<b>Non-current liabilities</b>			
Long-term liabilities	8	559 609	624 258
<b>Current liabilities</b>		<b>19 865 567</b>	<b>14 803 933</b>
Accounts payables	9	19 359 036	14 219 446
Bank overdraft		506 531	584 487
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>141 860 281</b>	<b>118 954 019</b>

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

	Note	2018 N\$	2017 N\$
Income		55 579 533	41 523 188
Expenditure		(54 155 697)	(38 876 495)
<b>Net surplus</b>		<b>1 423 836</b>	<b>2 646 693</b>
Adjustments	10	(1 945 298)	(14 144 168)
<b>Net (deficit) for the year</b>		<b>(521 462)</b>	<b>(11 497 475)</b>
Appropriation account at the beginning of the year		(7 556 921)	3 940 554
<b>Appropriation account at the end of the year</b>		<b>(8 078 383)</b>	<b>(7 556 921)</b>

**THE COUNCIL OF HENTIES BAY**  
**CASHFLOW STATEMENT FOR THE YEAR ENDED 30 JUNE**

	2018	2017
Note	N\$	N\$
<b>Cash flow from operating activities</b>		
Cash receipts from customers	55 579 533	41 523 188
Cash paid to suppliers and employees	(54 664 773)	(47 064 820)
Cash (utilised) by operations	11 <b>914 760</b>	<b>(5 541 632)</b>
<b>Movements in funds</b>		
Changes in capital outlay	23 273 560	11 418 615
Changes in fund accounts	(4 842 841)	1 037 277
<b>Cash flow from investing activities</b>		
Movement in property plant and equipment	(19 202 894)	(8 543 578)
Movement in loan receivables	(23 208 911)	(11 360 531)
Movement in investments	(2 000)	14 973 984
	4 008 017	(12 157 031)
<b>Cash flows from financing activities</b>		
Change in long term loans	(64 649)	41 916
<b>Net increase in cash and cash equivalents</b>		
Cash and cash equivalents at the beginning of the year	77 956	(1 587 402)
	(584 487)	1 002 915
<b>Cash and cash equivalents at the end of the year</b>	<b>(506 531)</b>	<b>(584 487)</b>

**THE TOWN COUNCIL OF OTAVI  
NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE**

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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 Council. 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 Council. Income is obtained from the Revenue Account as well as donation from the Government.

## **Internal reserve fund**

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

### **Fixed property reserve**

Established by the Council 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 Council receives government contributions for infrastructure development. Government contribution is recognised as revenue to the extent that the Council 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**

Council established other reserves for example sanitation reserves, to fund other council 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.

## **1.5 Revenue**

Revenue is recognised to the extent that the Council 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 Council. 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 TOWN COUNCIL OF OTAVI**  
**NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE**

	<b>2018</b>	<b>2017</b>
	N\$	N\$
<b>2. Property, plant and equipment</b>		
Consists of:		
Income assets	110 848 035	86 629 423
Loan assets	1 475 077	1 190 607
General capital assets	1 190 607	2 484 776
	<b>113 513 719</b>	<b>90 304 806</b>

The carrying amounts of property, plant and equipment can be reconciled as follows:

	<b>Carrying Value beginning of year</b>	<b>Additions</b>	<b>Depreciation</b>	<b>Carrying Value end of year</b>
<b>2018</b>	N\$	N\$	N\$	N\$
Income assets	86 629 423	32 210 836	7 992 224	110 848 035
Loan assets	1 190 607	-	-	1 190 607
Fund and grants	2 484 776	-	1 009 699	1 475 077
	<b>90 304 806</b>	<b>32 210 836</b>	<b>9 001 923</b>	<b>113 513 719</b>

**3. INVESTMENTS**

Commercial banks	11 987 959	15 995 976
Cenored equity	5 313 439	5 313 439
	<b>17 301 398</b>	<b>21 309 415</b>

**Comprising of:**

Capital reserve fund	5 074 781	10 339 587
Build together fund	3 298 817	2 878 832
32 days investments	1 139 695	1 589 287
Renewal fund	817 715	817 715
Revenue	-	302 891
Endowment fund	32 840	32 840
Housing fund	34 824	34 824
Cenored equity	5 313 439	5 313 439
Fixed property fund	1 589 287	-
	<b>17 301 398</b>	<b>21 309 415</b>

**4. LOANS RECEIVABLES**

Loans receivables	<b>5 392 937</b>	<b>5 390 937</b>
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**THE TOWN COUNCIL OF OTAVI  
NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE**

**ANNEXURE D**

	<b>2018</b>	<b>2017</b>
	N\$	N\$
<b>5. ACCOUNTS RECEIVABLES</b>		
Consumer debtors	26 963 703	21 029 669
VAT receivables	1 009 888	1 040 936
Sundry payables	112 017	164 489
	<u>28 085 608</u>	<u>22 235 094</u>
Provision for bad debts	(22 433 381)	(20 286 235)
	<b><u>5 652 227</u></b>	<b><u>1 948 859</u></b>
<b>6. CAPITAL OUTLAY</b>		
Revenue contributions	110 848 035	86 629 423
General capital contributions	1 475 077	2 484 778
Loans redeemed	665 822	601 173
	<b><u>112 988 934</u></b>	<b><u>89 715 374</u></b>
<b>7. FUND AND ACCOUNTS</b>		
Fixed property fund	1 589 287	1 589 287
Capital reserve fund	5 074 781	10 339 587
Renewal fund	817 715	817 714
Endowment fund	32 840	32 840
Build together fund	9 009 931	8 587 947
Revenue account	(8 078 383)	(7 556 921)
	<b><u>8 446 171</u></b>	<b><u>13 810 454</u></b>
<b>8. LONG TERM LIABILITIES</b>		
External loans – Government	524 785	589 434
Housing fund	34 824	34 824
	<b><u>559 609</u></b>	<b><u>624 258</u></b>
<b>9. TRADE OTHER PAYABLES</b>		
Trade payables	7 097 924	3 864 380
Provision for leave pay	1 221 867	1 159 762
Namwater	4 246 741	3 862 325
Regional Council levies	1 052 224	686 513
Government grant	2 611 431	2 483 675
Consumer deposits	194 083	148 433
Sundry payables	2 934 766	2 014 358
	<b><u>19 359 036</u></b>	<b><u>14 219 446</u></b>

## ANNEXURE D

**THE TOWN COUNCIL OF OTAVI**  
**NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE**

	<u>2018</u>	<u>2017</u>
	N\$	N\$
<b>10. ADJUSTMENTS TO APPROPRIATION ACCOUNT</b>		
Correction revenue adjustment	1 170 251	(12 685 592)
Expenditure adjustment	(3 115 549)	(1 458 576)
	<u>(1 945 298)</u>	<u>(14 144 168)</u>
<b>11. CASH GENERATED BY OPERATIONS</b>		
Net operating surplus before interest and transfers	1 423 836	2 646 693
Adjustments for:		
Appropriation account	(1 945 298)	(14 144 168)
Adjustments prior year deficit	-	(99 699)
Operating deficit before changes in working capital	(521 462)	(11 597 174)
<b>CHANGES IN WORKING CAPITAL</b>	1 436 222	6 055 542
(Increase)/ decrease in trade receivables	(3 703 368)	2 255 617
Increase in trade receivables	5 139 590	3 799 925
<b>CASH UTILISED BY OPERATIONS</b>	<u>914 760</u>	<u>(5 541 632)</u>