



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF OKAHANDJA
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 Municipality of Okahandja 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, June 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 MUNICIPALITY OF OKAHANDJA
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2015**

1. Report on the Financial Statements

1.1 INTRODUCTION

The accounts of the Municipality of Okahandja for the financial year ended 30 June 2015 are being reported on in accordance with the provisions set out in Section 85 of the Local Authorities Act, 1992 (Act 23 of 1992).

The firm Mostert Landgrebe of Windhoek has been appointed in terms of Section 26 (2) of the State Finance Act, 1991, to audit the accounts of the Municipality on behalf of the Auditor-General and under his supervision.

Figures in the 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 Okahandja for the financial year ended 30 June 2015. These financial statements comprise the following:

Annexure A: Balance sheet;
Annexure B: Abridged 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.

The financial statements, 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 87 (1) of the Local Authorities Act, 1992, (Act 23 of 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 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
- 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 by the staff of the Municipality of Okahandja during the audit is appreciated.

5. KEY AUDIT FINDINGS

5.1 PROVISION FOR BAD DEBTS

The Municipality's records reflect a bad debt provision of N\$ 4 000 000, which in the opinion of the auditors is inadequate. Based on an average collection period of 60 days, debtors provision is understated by N\$ 30 997 239. The provision for N\$ 4 000 000 has remained the same as in previous years.

Recommendation

It is recommended that the Municipality make accurate provisions, which reflect its true position.

5.2 SUNDRY DEBTORS

Sundry debtors to the value of N\$ 1 254 792 were included in trade receivables. No supporting documents were provided to support the validity of the balances.

Recommendation

It is recommended that the Municipality maintain records for all amounts disclosed in the financial statements.

5.3 CONSUMER DEPOSITS

Consumer deposits increased during the current financial year from N\$ 1 441 156 to N\$ 1 679 742. However, the consumer deposits are still not in line with monthly charges.

Recommendation

It is recommended that the Municipality update the consumer deposits.

5.4 Leave provision

The Municipality provided an amount of N\$ 1 800 000 for the provision of leave. The leave days accrued amounted to N\$ 5 280 273. The leave provision is thus understated by N\$ 3 480 273. The provision for N\$ 1 800 000 has remained the same as in previous years.

Recommendation

It is recommended that the Municipality make accurate provision for leave, which reflects the position of the Municipality.

5.5 UNRECORDED LIABILITIES

Trade creditors were understated by an amount of N\$ 103 112 which is a result of a creditor that was outstanding at year-end and was not accounted for.

Recommendation

It is recommended that the Municipality ensures that all the liabilities are recorded.

5.6 LOANS IN ARREARS

External Government loans are, as in previous years, not repaid but the repayments are provided for as arrear loan instalments. The total instalments in arrears amount to N\$ 5 804 032. No interest is calculated on these arrear instalments.

Recommendation

It is recommended that the Municipality make provision for interest on these arrear instalments.

5.7 SALARIES AND WAGES

The Municipality could not explain the difference of N\$ 3 000 841 between the financial statements and the salary register. The amount in the salary register is less than that in the financial report.

RECOMMENDATION

It is recommended that the Municipality perform reconciliations on a regular basis to avoid unexplained differences.

5.8 INCOME

The Municipality is still working on a 2003 valuation roll; therefore some customers are not on the valuation roll hence the auditors could not verify the charges on the invoices.

Recommendation

It is recommended that the Municipality update its valuation roll.

5.9 FUND ACCOUNTS

Due to the cash flow problems related to the Revenue account, cash amounting to N\$ 88 428 431 from investments of the Fund accounts had to be used to fund the shortfall on the Revenue account. At year-end the Revenue account had a negative balance of N\$ 79 584 061.

Recommendation

It is recommended that the Municipality implement proper financial management.

5.10 CIRCULAR D3/2015

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

Recommendation

It is recommended that the Chief Executive Officer should submit all annual report statements to the Auditor-General including those required by Circular D3/2015 of the Auditor-General.

6. BASIS FOR ADVERSE AUDIT OPINION

- Understatement of the provision for bad debts by N\$ 30 997 239;
- No supporting documentation of sundry debtors of N\$ 1 254 792;
- Leave provision understated by N\$ 3 480 273;
- Trade creditors are understated by N\$ 103 112;
- No interest is provided on arrear loan instalments of N\$ 5 804 032;
- Unexplained difference on salary amounting to N\$ 3 000 841;
- Municipality using outdated valuation roll; and
- Going concern issues.

7. ADVERSE AUDIT OPINION

The accounts of the Municipality of Okahandja 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, Act 23 of 1992 read with Section 25(1) (b) of the State Finance Act, 1991, Act 31 of 1991.

In my opinion, because of the significance of the matters discussed in the basis for adverse opinion paragraph, the financial statements do not present fairly, in all material respects, the financial position of the Municipality of Okahandja.

WINDHOEK, June 2017



JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

ANNEXURE A

**THE MUNICIPALITY OF OKAHANDJA
STATEMENT OF FINANCIAL POSITION AT 30 JUNE**

	Note	2015 N\$	2014 N\$
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	2	103 723 474	94 736 845
Investments	3	6 623 382	16 435 825
Loans	4	15 517	19 451
		55 701 070	51 882 165
CURRENT ASSETS			
Trade and other receivables	5	55 631 050	51 812 145
Inventories	6	69 860	69 860
Bank and cash	7	160	160
		166 063 443	163 074 286
FUNDS AND LIABILITIES			
FUNDS AND RESERVES			
Capital outlay	8	94 558 231	85 209 804
Funds and accounts	9	23 893 151	46 813 214
		1 969 137	3 035 504
NON-CURRENT LIABILITIES			
The Government of Namibia		1 957 676	2 214 232
National Housing Enterprises	10	11 461	-
Commercial banks	10	-	821 272
		45 642 924	28 015 764
CURRENT LIABILITIES			
Trade and other payables	11	31 944 757	23 868 867
Bank overdraft	7	13 698 167	4 146 897
		166 063 443	163 074 286

**THE MUNICIPALITY OF OKAHANDJA
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE**

	Note	2015 N\$	2014 N\$
Income		144 284 507	107 540 302
Expenditure		(188 426 631)	(136 299 982)
Net operating deficit		(44 142 124)	(28 759 680)
Investment income earned		21 027	55 014
Net surplus/(deficit) for the year		(44 121 097)	(28 704 666)
Appropriation account	12	9 197 430	5 095 596
Appropriation account after adjustment		(34 923 667)	(23 609 070)
Revenue account - Beginning of year		(44 660 394)	(21 051 324)
Revenue account - End of year		(79 584 061)	(44 660 394)

ANNEXURE C

THE MUNICIPALITY OF OKAHANDJA
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2015 N\$	2014 N\$
CASH FLOW FROM OPERATING ACTIVITIES		(9 314 651)	6 322 474
Cash receipts from customers		144 284 507	107 540 302
Cash paid to suppliers		(174 972 216)	(137 759 888)
Investment income		21 027	55 014
Increase in Fund accounts		12 003 604	22 630 098
Increase in Capital outlay		9 348 427	13 856 948
CASH FLOW FROM INVESTING ACTIVITIES		829 748	(11 891 404)
Net capital expenditure		(8 986 629)	(12 478 722)
Decrease/(increase) in investments		9 812 443	581 418
Decrease in loans receivable		3 934	5 900
CASH FLOW FROM FINANCING ACTIVITIES		(1 066 367)	(1 159 311)
(Decrease)/increase in long-term loans		(1 066 367)	(1 159 311)
Net (decrease)/increase in cash and cash equivalents		(9 551 270)	(6 728 241)
Cash and cash equivalents - beginning of year		(4 146 737)	2 581 504
Cash and cash equivalents - end of year	7	(13 698 007)	(4 146 737)

ANNEXURE D

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE

	2015	2014
	N\$	N\$
2. ACCOUNTING POLICY	103 723 474	94 736 845
PROPERTY, PLANT AND EQUIPMENT	103 723 474	94 736 845
3. INVESTMENTS	6 623 382	16 435 825
Capital Reserve Fund	-	13 317 753
Revenue	6 623 382	3 118 072
4. LOANS RECEIVABLE	15 517	19 451
Ervin and housing loans	15 517	19 451
5. TRADE AND OTHER RECEIVABLES	55 631 050	51 812 145
Services, rates and taxes	51 502 202	52 500 668
Other receivables	6 874 056	1 964 245
Build Together advances	1 254 792	1 347 232
Provision for bad debts	(4 000 000)	(4 000 000)
6. INVENTORIES	69 860	69 860
Fuel	69 860	69 860
7. CASH AND BANK BALANCES	(13 698 007)	(4 146 737)
Current account	(13 698 167)	(4 146 897)
Petty cash	160	160
8. CAPITAL OUTLAY	94 558 231	85 209 804
Loans redeemed	12 121 738	11 006 128
Revenue contributions	30 071 800	26 838 982
General Capital contributions	52 364 693	47 364 694
9. FUNDS AND ACCOUNTS	23 893 151	46 813 214
Capital Reserve Fund	97 966 593	86 041 355
Housing Fund	5 510 619	5 432 253
Revenue account	(79 584 061)	(44 660 394)

ANNEXURE D

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE

	2015	2014
	N\$	N\$
9. FUNDS AND ACCOUNTS	23 893 151	46 813 214
Capital Reserve Fund	97 966 593	86 041 355
Housing Fund	5 510 619	5 432 253
Revenue account	(79 584 061)	(44 660 394)
10. LONG-TERM LIABILITIES	1 969 137	3 035 504
The Government of Namibia	1 957 676	2 214 232
National Housing Enterprises	11 461	-
Commercial banks	-	821 272
11. TRADE AND OTHER PAYABLES	31 944 757	23 868 867
Trade payables	22 635 483	15 356 648
Loan instalments in arrear	5 804 033	5 271 062
Provisions	1 800 000	1 800 000
Consumer deposits	1 679 742	1 441 157
Difference in Internal loans	25 499	-
12. ADJUSTMENTS TO APPROPRIATION ACCOUNT	9 197 430	5 095 596
Prior year adjustments	9 197 430	5 095 596
13. CASH UTILISED BY OPERATIONS	(30 687 709)	(30 219 586)
Net operating profit before transfers	(44 121 097)	(28 704 666)
- Adjustments to appropriation account	9 197 430	5 095 596
- Investment income	(21 027)	(55 014)
Decrease/(increase) in trade and other receivables	(3 818 905)	(9 311 776)
(Increase)/decrease in inventories	-	-
(Decrease)/increase in trade and other payables	8 075 890	2 756 274