



REPUBLIC OF NAMIBIA



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**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF OKAHANDJA
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

Published by authority

Price (Vat excluded) N\$ 27.00
Report no: 64/2019

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 2017, 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, June 2019

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE MUNICIPALITY OF OKAHANDJA
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

1. ADVERSE AUDIT OPINION

I have audited the financial statements of the Municipality of Okahandja for the financial year ended 30 June 2017. These financial statements comprise the statement of financial position, detailed statement of income and expenditure, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Audit Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of the Municipality of Okahandja as at 30 June 2017, and its financial performance and its cash flow 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 code of ethics for Supreme Audit Institutions together with the ethical requirements that are relevant to my audit of the financial statements in Namibia, 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.

Adverse opinion is expressed due to the following:

- Overstatement of provision for bad debts of N\$ 9 893 723;
- No supporting documentation to verify the Natis claims of N\$ 3 727 992;
- No list available to verify Build together advances of N\$ 1 204 128;
- Depreciation was not charged on property, plant and equipment;
- No bank reconciliation was done on 30 June 2017;
- The Municipality is still working on a 2008 valuation roll;
- All services were charged on the 2015/2016 financial year tariffs; and
- No trade payables reconciliations were done.

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.

No key audit matters were observed during the year under review and in such 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 the 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 the 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 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 for 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 an 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 used 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. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS
(COMPLIANCE)**

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 to the Auditor-General on the 18 December 2018 instead of three months after the financial year-end.

WINDHOEK, June 2019



**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

| | Note | 2017 N\$ | 2016 N\$ |
|------------------------------------|------|--------------------|--------------------|
| ASSETS | | | |
| Non-Current Assets | | 150 741 619 | 118 001 424 |
| Property, plant and equipment | 2 | 115 606 219 | 107 585 114 |
| Investments | 3 | 35 119 883 | 10 400 793 |
| Loans | 4 | 15 517 | 15 517 |
| Current Assets | | 16 674 671 | 64 383 547 |
| Trade and other receivables | 5 | 16 604 651 | 64 313 527 |
| Inventories | 6 | 69 860 | 69 860 |
| Bank and cash | 7 | 160 | 160 |
| TOTAL ASSETS | | 167 416 290 | 182 384 971 |
| FUNDS AND LIABILITIES | | | |
| Funds and Reserves | | 137 488 258 | 61 292 804 |
| Capital outlay | 8 | 97 803 738 | 95 791 586 |
| Funds and accounts | 9 | 39 684 520 | (34 498 782) |
| Non-Current Liabilities | | 807 290 | 1 765 223 |
| Long-term liabilities | 10 | 807 290 | 1 765 223 |
| Current Liabilities | | 29 120 742 | 119 326 944 |
| Trade and other payables | 11 | 13 742 127 | 59 609 395 |
| Bank overdraft | 7 | 15 378 615 | 59 717 549 |
| TOTAL FUNDS AND LIABILITIES | | 167 416 290 | 182 384 971 |

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

| | | 2017 | 2016 |
|--------------------------|------|--------------|---------------|
| | Note | N\$ | N\$ |
| INCOME | | 77 006 342 | 137 187 462 |
| EXPENDITURE | | (79 562 133) | (162 332 464) |
| NET OPERATING DEFICIT | | (2 555 791) | (25 145 002) |
| INVESTMENT INCOME | | 521 407 | 255 878 |
| NET DEFICIT FOR THE YEAR | | (2 034 384) | (24 889 124) |

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

| | Note | 2017 | 2016 |
|--|----------|---------------------|---------------------|
| | | N\$ | N\$ |
| Cash flow from operating activities | | | |
| Cash generated/(utilised) by operations | 13 | 61 561 951 | (33 928 501) |
| Investment income | | 521 407 | 255 878 |
| Movement in Fund accounts: | | | |
| - Change in Fund accounts | | 13 941 552 | (5 737 149) |
| - Change in Capital outlay | | 2 012 152 | 1 233 355 |
| Net cash from operating activities | | 78 037 062 | (38 176 417) |
| Cash flows from investing activities | | | |
| Net capital expenditure | | (8 021 105) | (3 861 640) |
| Change in investments | | (24 719 090) | (3 777 411) |
| | | (32 740 195) | (7 639 051) |
| Cash flows from financing activities | | | |
| Change in long-term loans | | (957 933) | (203 914) |
| | | (957 933) | (203 914) |
| Net change in cash and cash equivalents | | 44 338 934 | (46 019 382) |
| Cash and cash equivalents – Beginning of year | | (59 717 389) | (13 698 007) |
| Cash and cash equivalents – End of year | 7 | (15 378 455) | (59 717 389) |

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

1. ACCOUNTING POLICIES

1.1 Introduction

The annual financial statements set out in Annexures A to D were prepared on the historical cost basis and incorporate the following principal accounting policies, which are consistent in all material aspects with those applied in the previous year.

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, less depreciation written off over the expected useful lives as determined by the Council from time to time. 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 Internal Funds

The following Funds were created by the Town Council:

1.3.1 Housing Fund

The purpose of this Fund is to provide for housing loans. Income to this Fund is transferred from the general income account, external loans from Government and interest on investments and loans.

1.3.2 Capital Reserve Fund

This Fund was created to make provision for unforeseen expenditures as approved by the Council.

2. PROPERTY, PLANT AND EQUIPMENT

| | <u>2017</u> | <u>2016</u> |
|--------------|---------------------------|---------------------------|
| | N\$ | N\$ |
| Total | <u><u>115 606 219</u></u> | <u><u>107 585 114</u></u> |

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

| | 2017 | 2016 |
|--|---------------------|---------------------|
| | N\$ | N\$ |
| 3. INVESTMENTS - Commercial Banks | 35 119 883 | 10 400 793 |
| Capital Reserve Fund | 10 095 768 | 1 556 151 |
| Capital | 894 748 | 8 844 642 |
| Revenue - Censored equity | 24 129 367 | - |
| 4. LOANS RECEIVABLE | 15 517 | 15 517 |
| HOUSING FUND - Ervin and housing loans | 15 517 | 15 517 |
| 5. TRADE AND OTHER RECEIVABLES | 16 604 651 | 64 313 527 |
| Services, rates and taxes | 82 753 252 | 71 566 289 |
| Other receivables | 3 968 541 | 13 780 789 |
| Build Together advances | 1 204 128 | 1 230 025 |
| VAT | 9 652 064 | 12 576 915 |
| Provision for bad debts | (80 973 334) | (34 840 491) |
| 6. INVENTORIES | 69 860 | 69 860 |
| Fuel | 69 860 | 69 860 |
| 7. CASH AND BANK BALANCES | (15 378 455) | (59 717 389) |
| Current account | (15 378 615) | (59 717 549) |
| Petty cash | 160 | 160 |
| 8. CAPITAL OUTLAY | 97 803 738 | 95 791 586 |
| Loans redeemed | 15 165 939 | 13 318 919 |
| Revenue contributions | 30 273 106 | 30 107 974 |
| General Capital contributions | 52 364 693 | 52 364 693 |

ANNEXURE D

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

| | 2017 | 2016 |
|---|-------------------|---------------------|
| | N\$ | N\$ |
| 9. FUNDS AND ACCOUNTS | 39 684 520 | (34 498 782) |
| Capital Reserve Fund | 106 038 042 | 92 169 108 |
| Housing Fund | 5 643 573 | 5 570 955 |
| Revenue account kept in compliance with Section 86(1) of the Local Authority Act, 1992. | (71 997 095) | (132 238 845) |
| 10. LONG-TERM LIABILITIES | 807 290 | 1 765 223 |
| The Government of Namibia | 803 991 | 1 758 467 |
| National Housing Enterprises | 3 299 | 6 756 |
| 11. TRADE AND OTHER PAYABLES | 13 742 127 | 59 609 395 |
| Trade payables | 3 834 569 | 50 326 212 |
| Loan instalments in arrear | 1 797 771 | 1 586 268 |
| Provisions | 6 100 985 | 5 826 979 |
| Consumer deposits | 1 997 638 | 1 841 763 |
| Difference in Internal loans | 11 164 | 28 173 |
| 12. ADJUSTMENTS TO APPROPRIATION ACCOUNT | 62 276 134 | (27 765 660) |
| Prior year adjustments | - | 3 354 426 |
| Adjustment to VAT | (3 471 512) | - |
| Leave pay and bad debts provision | (46 406 850) | (31 120 086) |
| Nampower debt transferred to Cenored | 48 928 860 | - |
| Cenored equity | 24 129 367 | - |
| Nampower payments not transferred in 2015/2016 | 30 257 104 | - |
| Namfin corrections | (5 611 565) | - |
| Creditors adjustments | (844 077) | - |
| Cenored control account | 14 014 931 | - |
| Provision for interest and redemption on external loans | 81 267 | - |
| External loans outstanding | 426 391 | - |
| Unclaimed deposits | 564 585 | - |
| Receipts and other adjustments | 207 633 | - |

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

| | 2017 | 2016 |
|--|-------------------|---------------------|
| | N\$ | N\$ |
| 13. CASH GENERATED/(UTILISED) BY OPERATIONS | | |
| Net operating deficit before transfers | (2 034 384) | (24 889 124) |
| Adjustments for: | | |
| - Adjustments to appropriation account | 62 276 134 | (27 765 660) |
| - Investment income | (521 407) | (255 878) |
| OPERATING SURPLUS/(DEFICIT) BEFORE CHANGES IN WORKING CAPITAL | 59 720 343 | (52 910 662) |
| CHANGES IN WORKING CAPITAL | | |
| Change in trade and other receivables | 47 708 876 | (8 682 477) |
| Change in trade and other payables | (45 867 268) | 27 664 638 |
| | 1 841 608 | 18 982 161 |
| CASH GENERATED/(UTILISED) BY OPERATIONS | 61 561 951 | (33 928 501) |

