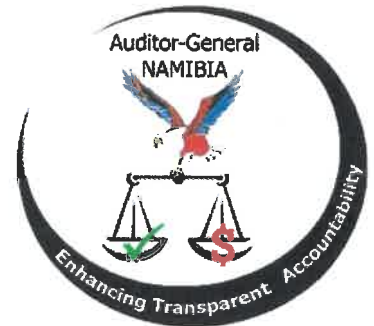




REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF OTJIWARONGO
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 Otjiwarongo 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.

A handwritten signature in black ink, appearing to read 'Junias Etuna Kandjeke'.

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

WINDHOEK, August 2017

**REPORT OF THE AUDITOR-GENERAL ON THE
ACCOUNTS OF THE MUNICIPALITY OF OTJIWARONGO
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015**

1. INTRODUCTION

This report on the accounts of the Municipality of Otjiwarongo for the financial year ended 30 June 2015 is presented to the National Assembly in accordance with the provisions set out in the Local Authorities Act, 1992 (Act 23 of 1992).

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

Figures in the report are rounded off to the nearest Namibia Dollar. Deficits are indicated in (brackets).

I certify that I have audited the accompanying financial statements of the Municipality of Otjiwarongo for the financial year ended 30 June 2015. These financial statements comprise the following statements submitted for the year then ended:

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

The Municipality's 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 and notes to the financial statements provided by the Accounting Officer are attached as Annexure 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 86 of the Local Authorities Act, (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 movable goods; 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 sufficient and appropriate to provide a basis for the qualified audit opinion

4. ACKNOWLEDGEMENT

The assistance by the staff of the Otjiwarongo Municipality during the audit is appreciated.

5. KEY AUDIT FINDING

5.1 BAD AND DOUBTFUL DEBTS

The average collection period of trade receivables, before taking the provision for bad debts into account is 218 days (2014: 227 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 77 days (2014: 68 days). Based on an average collection period of 60 days, the auditors are of the opinion that the debtors provision is understated by at least N\$ 8 794 086 (2014: N\$ 4 891 116).

5.2 INVENTORIES

The auditors did not observe the counting of inventories on 30 June 2015. There were no alternative practical audit procedures that the auditors could perform to confirm the existence and value of inventories on hand at year-end.

5.3 PROVISION FOR LEAVE DAYS

Auditors noted that numerous employees leave days are exceeding the threshold of 60 days. This is non-compliance with the Gazetted personnel rules of the municipality that states that vacation days with remuneration in excess of 60 days will be forfeited after a leave cycle.

5.4 FIXED ASSETS

An incomplete fixed assets register was provided for audit purposes for the year ended 30 June 2015.

5.5 CONSUMER DEPOSITS

Consumer deposits are inadequate to cover one month charges.

5.6 VALUE ADDED TAX

The annual financial statements of the Municipality show a VAT receivable from the Inland Revenue. A material difference of N\$ 1 521 803 was found between the annual financial statements and the Ministry of Finance statement.

5.7 UNKNOWN DEPOSITS

Unknown direct bank deposits amounting to N\$ 3 202 248 were not allocated to their respective consumer accounts for the year under review.

5.8 PAYROLL

A material difference of N\$ 245 128 was found between the general ledger amount and annual financial statements amount which resulted in the understatement of salaries for the year under review. Employees' files were found to be incomplete during the audit.

5.9 FUNDS

A material difference amounting to N\$ 1 525 286 was found on the loan debtors of the annual financial statements and the system printed transactions for the year under review. A material difference of N\$ 3 105 917 was found in the long-terms loans for the year under review.

5.10 LOANS WRITTEN OFF

Internal loans of N\$ 825 655 for 2015 (2014: N\$ 2 333 936) were written off, but no signed copy of the approval was provided by the Municipality for the year under review.

5.11 SUPPORTING DOCUMENTS

Numerous supporting documents of expenditure amounting to N\$ 987 340 could not be provided at the time of the audit.

5.12 CIRCULAR D3/2015

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

6. BASIS FOR QUALIFIED AUDIT OPINION

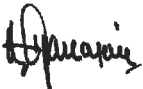
- A material under provision for doubtful debts amounting to N\$ 8 794 086;
- auditors could not confirm the existence and value of inventory on hand at year-end;
- Fixed assets register was incomplete;
- A material understatement on payroll of N\$ 245 128;
- Employees' files were incomplete;
- A material difference of N\$ 1 521 803 was found on VAT; and
- No supporting documents for internal loans written off amounting to N\$ 825 655.
- No supporting documents for expenditure amounting to N\$ 987 340.

7. QUALIFIED AUDIT OPINION

The accounts of the Municipality of Otjiwarongo for the financial year ended 30 June 2015, summarized in Annexure A to D, were audited by me in terms of provisions of Section 85 of the Local Authorities Act, 1992 read with Section 25(1) of the State Finance Act, 1991.

Except for the matters referred to in the Basis for Qualified Audit opinion paragraph, the annual financial statements, in my opinion present fairly, in all material respects the financial position of the Municipality of Otjiwarongo as at 30 June 2015 and of its financial performance and its cash flows for the year then ended.

WINDHOEK, August 2017


JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

ANNEXURE A

**MUNICIPALITY OF OTJIWARONGO
BALANCE SHEET AS AT 30 JUNE**

	Note	2015 N\$	2014 N\$
ASSETS			
Non-Current Assets			
		171 862 455	152 686 299
Property, Plant and Equipment	3	86 498 634	75 819 695
Investments	4	72 799 744	62 910 353
Loans receivables	9	12 564 077	13 956 251
Current Assets			
		22 099 195	16 385 586
Trade and other receivables	5	21 726 616	16 257 030
Inventories	8	367 179	123 156
Cash and cash equivalents	10	5 400	5 400
TOTAL ASSETS		193 961 650	169 071 885
EQUITY AND LIABILITIES			
Funds			
		179 465 891	158 190 561
Capital outlay	2	71 475 598	59 259 657
Fund and accounts	2	107 990 293	98 930 904
NON-CURRENT LIABILITIES			
		3 759 635	3 730 084
Long-term loans	7	2 149 465	2 262 667
Consumer deposits		1 610 170	1 467 417
Current Liabilities			
		10 736 124	7 151 240
Trade and other payables	6	9 857 931	7 033 095
Bank overdraft	10	878 193	118 145
TOTAL EQUITY AND LIABILITIES		193 961 650	169 071 885

MUNICIPALITY OF OTJIWARONGO
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2015	2014
		N\$	N\$
Income		86 021 289	73 773 141
Expenditure		(85 837 467)	(73 203 820)
Net operating profit		183 822	569 321
Adjustments	11	(216 959)	(2 173 242)
NET LOSS FOR THE YEAR		(33 137)	(1 603 921)
Appropriation account at beginning of the year		5 268 485	6 872 406
Appropriation account at end of year		5 235 345	5 268 485

ANNEXURE C

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

	2015	2014
Note	N\$	N\$
Net cash inflow in operating activities	18 386 557	20 232 808
Cash receipts from customers	86 021 289	73 773 141
Cash paid to suppliers	(88 943 199)	(75 223 080)
Increase in funds accounts	9 092 526	829 470
Increase in capital outlay	12 215 941	20 853 278
Cash flow from investing activities	(19 176 156)	(16 874 481)
Net increase in capital value	(10 678 939)	(17 453 945)
Increase in investments	(9 889 391)	(525 305)
Decrease in loans receivables	1 392 174	1 104 769
Cash flow from financing activities	29 551	(58 104)
Decrease in long-term loans	(113 202)	(102 010)
Decrease in consumer deposits	142 753	43 906
Net (decrease) / increase in cash and cash equivalents	(760 048)	3 300 226
Cash and cash equivalents at beginning of year	(112 745)	(3 412 971)
Cash and cash equivalents at end of year	(872 793)	(112 745)

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2015

1. ACCOUNTING POLICIES

1.1 Introduction

The annual financial statements set out in Annexures A to C 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 and depreciation

Property, plant and equipment acquired with loan funds are stated at cost and no depreciation is provided thereon until the loan is fully redeemed. All other items of property, plant and equipment are stated at cost or valuation, and except for fixed property, the cost or valuation of these items of property, plant and equipment is depreciated on the straight line basis over their expected useful lives as follows:

Land and buildings	20 Years
Furniture and equipment	10 Years
Motor vehicles	5 Years
Tools and equipment	5 Years

1.3 Internal Funds

The following Funds were maintained by the Municipality in terms of section 58 (1) and 80(4) of the Local Authorities Act, Act 23 of 1992.

1.3.1 Capital Development Fund

The purpose of the Fund is to make provision for future capital development projects of the Council. Income is derived from the Revenue Account and donations from Government.

1.3.2 Renewal fund

Its purpose is to provide for replacement of assets and for additional depreciation on assets which abnormally decreased in value. Income for this account is derived from general revenue contributions as well as interest earned on investment.

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2015 (continued)

1.3.3 Revenue account

All monies received by and accrued to and expenses paid, except for allocations to other Funds, are reflected in this account, and are kept in compliance with Section 86 (1)(b) of the Act.

1.3.4 Capital Reserve Fund

The purpose of the Fund is to build up a general capital reserve to ensure that the Municipality's financial position is stable. Income to this Fund is transferred from the general income account.

1.3.5 Erven Trust Fund

Proceeds on sale of property developed by the Municipality accumulate in this Fund. Costs incurred in the development of new townships are charged to this account.

1.3.6 Housing Levy Fund

The purpose of this Fund is to build up a reserve to undertake improvements of the Municipality's infrastructure. The Municipality levies charges to consumers to build up this Fund.

1.3.7 Tariff Stabilisation fund

The purpose of this Fund is to build up a reserve to prevent unnecessary fluctuation in tariffs for electricity and water during a financial year. Unforeseen increases in electricity and water tariffs and surcharges levied on the electricity accounts of NAMPOWER will be partly subsidised from this fund.

1.3.8 Fixed Property Fund

Proceeds on the sale of property developed by the Municipality accumulates to this Fund. Costs incurred in the purchases of land are charged to this account.

1.3.9 Betterment Fund

The purpose of this Fund is to provide for future improvements of municipal assets. Income to this Fund is transferred from the general income account and a certain part of the proceeds of the sale of land.

1.3.10 Housing Scheme Fund

The purpose of this Fund is to provide housing loans to staff. Proceeds of staff houses sold to staff members accumulate in this Fund.

1.3.11 Housing Fund (Government)

The purpose of this Fund used is to provide housing loans to inhabitants as an agent of the Government. Funds are obtained by way of loans granted and interest on investments.

1.3.12 Single Quarter Housing Scheme

The purpose of this Fund is to administer money received from the Government of the Republic of Namibia to finance the building of houses to replace the single quarters.

1.3.13 Municipal Study Loan Fund

The purpose of this Fund is to provide capacity building and training of staff.

1.3.14 Disaster Fund

The purpose of this Fund is to Build up reserves to assist with costs of disasters which may occur at the town.

1.3.15 Social Upliftment Fund

The purpose of this Fund is to build up enough reserves for social activities which will involve the town's community.

1.3.16 Build Together Fund

The purpose of this Fund is to provide housing loans to the low income group. Income to this Fund is derived from Government contributions, repayments, interest on investments and loans.

1.3.17 Capacity Building Fund and Marketing Promotion Fund

No purpose and sources of revenue for these Funds were submitted during the audit.

ANNEXURE D

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE (continued)

1.4 Capital redemption on loans

Capital redemptions on external and internal loans are charged against income. A similar amount is credited to the Loan Redemption Fund for the duration of the loan. As and when the loan is fully redeemed the Loan Redemption Fund is transferred to the Revenue Contribution.

1.5 Inventories

Fuel inventory is valued at cost on the first-in-first-out basis.

2. OWN FUNDS

	2015	2014
	N\$	N\$
2.1 Financing of capital:	107 990 293	98 930 904
Fixed Property Fund	4 222 473	5 466 626
Betterment Fund	1 287 375	1 110 782
Capital Reserve Fund	3 733 677	3 342 739
Capital Development Fund	11 224 718	15 545 784
Renewal Fund	1 306 791	1 267 126
Personnel Housing Fund	2 116 632	2 008 999
Erven Trust Fund	44 227 000	42 158 706
Municipal Study Loan Fund	389 875	261 641
Housing Fund (GRN)	1 554 441	1 550 551
Built Together Fund	11 622 862	11 243 310
BT - Informal Settlement Fund	208 546	208 546
Single Quarters Housing Scheme	4 273 198	4 271 751
Social Upliftment Fund	534 778	469 184
Disaster Fund	221 764	221 764
TIPEEG Project Fund	15 830 818	4 534 912
Revenue account	5 235 345	5 268 482
2.2 Capital Outlay	71 475 598	59 259 657
Loans redeemed	10 983 511	10 272 164
Revenue contributions	60 492 087	48 987 493
3. FIXED ASSETS	86 498 634	75 819 695
Loan assets	26 007 406	26 832 202
Income assets	60 491 228	48 987 493

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE (continued)

	2015	2014
	N\$	N\$
4 INVESTMENTS	72 799 774	62 910 353
Fixed Property Fund	1 486 640	992 169
Capital Reserve Fund	799 339	1 587 471
Betterment Fund	950 718	992 169
Capital Development Fund	1 605 995	1 071 543
Build Together Fund	1 607 657	1 706 531
Revenue CENORED (Pty) Ltd	43 066 969	43 066 969
Erven Trust Fund	16 592 575	9 028 740
TIPEEG Project Fund	6 689 881	4 464 761
5 ACCOUNTS RECEIVABLE	21 726 616	16 257 030
Trade debtors	38 606 789	33 971 651
Value Added Tax	2 443 899	1 742 213
Sundry debtors	1 964 931	1 832 169
Less: Provision for bad debts	(21 289 003)	(21 289 003)
6 ACCOUNTS PAYABLES	9 857 931	7 033 095
Trade payables	2 382 837	1 730 711
Provisions for staff leave	3 766 661	3 227 043
Other payables	3 708 433	2 075 341
7 LONG-TERM LIABILITIES	2 149 465	2 364 677
Capital section	2 149 465	2 364 677
8 INVENTORIES	367 179	123 156
Stores	367 179	123 156
9 SECURED LOANS	12 564 077	13 956 251
Erven Trust Fund	3 018 012	3 729 215
Single Quarters Housing Scheme	2 611 305	2 820 597
Build Together	4 941 528	5 418 202
Personnel Housing Scheme	1 044 505	1 192 185
Other	948 727	796 052

ANNEXURE D

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE (continued)

	2015	2014
	N\$	N\$
10 CASH AND BANK BALANCES	(872 793)	(112 745)
Current bank account	(878 193)	(118 145)
Petty cash	5 400	5 400
11 ADJUSTMENTS AND UTILIZATIONS	(216 959)	(2 173 242)
Prior year adjustments - Expenditure	(580 950)	(2 593 000)
Prior year adjustments - Revenue	363 991	227 697
Interloans not accounted for in prior	-	192 060
12 Cash utilised by operations	(2 921 910)	(1 449 940)
Adjustment on appropriation account	(216 959)	(2 173 242)
Increase in trade and other receivable	(5 469 586)	(1 632 381)
Increase in inventories	(244 023)	(44 990)
Increase in trade and other payable	2 824 836	1 831 353