



REPUBLIC OF NAMIBIA



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

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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 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.

WINDHOEK, February 2018

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 OTJIWARONGO
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

1. Report on the Financial Statements

1.1 INTRODUCTION

The accounts of the Municipality of Otjiwarongo for the financial year ended 30 June 2017 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, MAC & 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 Namibian 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 2017. These financial statements comprise of the following:

Annexure A: Balance sheet;
Annexure B: Income statement; and
Annexure C: 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 and notes to the financial statements provided by the Accounting Officer are attached as Annexures A to C.

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, (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, whether due to fraud or error.

Recommendations

It is recommended that the Municipality should ensure that the system related problems are rectified and bank reconciliations should be done on a monthly basis and reviewed by the Finance Manager.

5.2 MISSTATEMENT OF THE APPROPRIATION ACCOUNT

An amount of N\$ 5 623 495 was incorrectly credited to the appropriation account instead of the operating bank account.

Recommendation

It is recommended that the Municipality should credit all payments from the investment accounts to the respective receiving bank accounts.

5.3 OVERSTATEMENT OF THE CURRENT ASSETS

The reported current assets are overstated by N\$ 1 202 886 due to the overstatement of VAT receivable amounting to N\$ 697 317 and a receivable from NATIS amounting to N\$ 505 569.

Recommendation

It is recommended that the Municipality should perform reconciliations regularly to ensure that the reported balances are accurate.

5.4 TARIFF RATES

Incorrect tariffs rates were used on some customer accounts for rates & taxes, sewerage, water and sanitation.

Recommendation

It is recommended that the customers' database should be reviewed to ensure that the loaded billing information for each individual customer is correct.

5.5 OVERSTATEMENT OF SURCHARGES INCOME

The surcharges income account is overstated by N\$ 658 509 due to the inclusion of a prior year's receipt that is reflected on the bank statement.

Recommendation

It is recommended that the surcharges account should be reconciled at least monthly to ensure that the reported balance is accurate.

Recommendation

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

6. BASIS FOR QUALIFIED AUDIT OPINION

- Unexplained difference of N\$ 5 802 657 between the general ledger and the bank statement;
- Misstatement of the appropriation account by N\$ 5 623 495;
- Overstatement of the current assets by N\$ 1 202 886;
- Use of incorrect tariff rates;
- Overstatement of surcharges income by N\$ 658 509;
- Lack of compliance with the Ministerial directive in respect of salary scales;
- Understatement of depreciation charge of property, plant and equipment by N\$ 1 448 325;
- Unauthorisation for the write-off of loan funded assets amounting to N\$ 1 331 574; and
- Exclusion of the statement of cash flows from these annual financial statements.

7. QUALIFIED AUDIT OPINION

The accounts of the Municipality of Otjiwarongo for the financial year ended 30 June 2017, summarised in annexure A to C, were audited by me in terms of the provisions of section 85 of the Local Authorities Act, 1992 (Act 23 of 1992).

Except for the matters referred to in the Basis for Qualified Audit Opinion, 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 2017.



WINDHOEK, February 2018

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

MUNICIPALITY OF OTJIWARONGO
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2017 N\$	2016 N\$
Income		99 194 730	91 724 742
Expenditure		(99 145 958)	(96 069 280)
Net operating surplus/(deficit)		48 772	(4 344 538)
Adjustments	11	(14 743 819)	(3 298 847)
Net deficit for the year		(14 695 047)	(7 643 385)
Accumulated (deficit)/ surplus			
- Beginning of the year		(2 408 040)	5 235 345
- End of the year		(17 103 087)	(2 408 040)

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017
(continued)

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. Proceeds of sale of developed property accumulate in this Fund, and it is used to develop properties.

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 Tarrif 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 Namibia Power Corporation (Proprietary) Limited will be partly subsidised from this account.

1.3.8 Fixed Property Fund

Proceeds on the sale of properties developed by the Municipality accumulate in 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 finance electrical reticulation network projects. Revenue is derived from interest on investments, internal loans and contributions from revenue.

1.3.11 Single Quarters Housing Scheme

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

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	2017	2016
	N\$	N\$
2 OWN FUNDS		
2.1 Funds and accounts		
Internal Funds		
Fixed Property Fund	3 910 601	3 976 296
Betterment Fund	3 989 498	1 501 546
Capital Reserve Fund	4 187 239	3 478 788
Capital Development Fund	9 486 809	9 136 809
Renewal Fund	1 312 839	1 312 838
Personnel Housing Fund	2 373 776	2 181 501
Erven Trust Fund	42 550 449	44 402 297
Municipal Study Loan Fund	593 664	423 942
Housing Fund (GRN)	1 403 324	1 557 689
Build Together Fund	12 068 528	11 831 983
BT- Informal Settlement Fund	208 546	208 546
Single Quarters Housing Scheme	4 446 885	4 274 618
Social Upliftment Fund	594 037	567 512
Disaster Fund	221 764	420 289
TIPEEG Project Fund	8 671 004	8 052 426
	96 018 963	93 327 080
Revenue kept in compliance with Section 86(1) of the Local Authority Act, 1992	(17 103 087)	(2 408 040)
	<u>78 915 876</u>	<u>90 919 040</u>
2.2 Capital Outlay	123 976 489	102 992 956
Loans redeemed	12 451 262	12 144 184
Revenue contributions	111 525 227	90 848 772
3 PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	<u>136 200 199</u>	<u>116 855 318</u>
Financed by	136 200 199	116 855 318
Loan Funds	24 054 902	26 006 546
Income Funds	112 145 297	90 848 772

MUNICIPALITY OF OTJIWARONGO
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	2017	2016
	N\$	N\$
8 Inventories		
Consumable stores	1 017 192	101 910
9 Property loans	4 541 383	4 463 233
Erven Trust Fund	1 518 515	2 251 514
Single Quarters Housing Scheme	2 254 918	2 437 529
Build Together Fund	3 998 281	4 450 193
Personnel Housing Scheme	818 973	888 110
Other	(4 049 304)	(5 564 113)
10 Cash and cash equivalents	7 954 600	870 930
Bank	7 949 200	865 530
Petty cash	5 400	5 400
11 ADJUSTMENTS	(14 743 819)	(3 298 847)
Prior adjustments - expenditure	(26 633 973)	(1 065 207)
Prior adjustments - income	11 890 154	112 091
Munsoft conversion	-	(2 345 731)