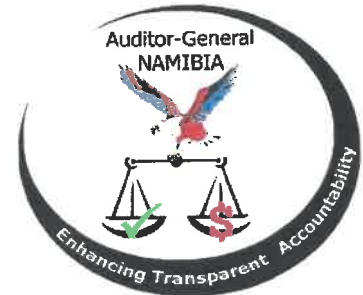




**REPUBLIC OF NAMIBIA**



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

**WINDHOEK, June 2019**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF  
THE OTJIWARONGO MUNICIPALITY  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

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**1. QUALIFIED AUDIT OPINION**

I certify that I have audited the financial statements of the Otjiwarongo Municipality for the financial year ended 30 June 2018. These financial statements comprise the Balance Sheet, Income Statement and statement of cash flow for the year then ended, and a summary of significant accounting policies.

In my opinion, except for the effects of the matters described in the Basis for Qualified audit Opinion paragraph, the financial statements present fairly the financial position of the Municipality of Otjiwarongo as at 30 June 2018 and its financial performance and cash flow for the year then ended.

**2. BASIS FOR QUALIFIED 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 sufficient and appropriate to provide a basis for my opinion. A qualified audit opinion is being expressed due to the following:

- Unexplained difference of N\$ 22 148 900 between the balance per financial statements and the cash book balance per the bank reconciliation;
- Understatement of creditors by N\$ 1 437 462;
- Inability to verify the inventory quantities at year end;
- Use of incorrect tariff rates;
- Lack of compliance with the Ministerial directive in respect of termination of long service bonus and service allowances;
- Depreciation not charge on property, plant and equipment;
- Understatement of VAT receivable and related GRN Contribution Fund balances by N\$ 1 989 826; and
- Unexplained adjustments on the cash flow statement of N\$ 837 785.

### **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. 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 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. 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 acceptable standards and legislation, and for such internal control as management determines is 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 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.

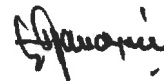
- From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my report unless law or regulation precludes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

The accounts were submitted by the Accounting Officer to the Auditor-General on 28 September 2018 in compliance with Section 87(1) of the Local Authorities Act, 1992 (Act No. 23 of 1992).

### **ACKNOWLEDGEMENT**

The co-operation and assistance by the management and staff of the Municipality of Otjiwarongo during the audit is appreciated.



**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**WINDHOEK, June 2019**



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

	Note	2018 N\$	2017 N\$
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>202 915 942</b>	<b>194 343 114</b>
Property, plant and equipment	3	140 171 749	136 200 199
Investments	4	58 923 861	53 601 532
Loans	7	3 820 332	4 541 383
<b>Current assets</b>		<b>28 845 656</b>	<b>23 961 893</b>
Trade and othe receivables	5	18 086 122	14 990 101
Inventories		1 255 474	1 017 192
Cash and cash equivalentents	8	9 504 060	7 954 600
<b>Total assets</b>		<b>231 761 598</b>	<b>218 305 007</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>		<b>212 593 418</b>	<b>202 892 365</b>
Capital outlay	2.2	129 224 451	123 976 489
Funds and accounts	2.1	83 368 967	78 915 876
<b>Non-current liabilities</b>		<b>1 729 448</b>	<b>1 884 332</b>
Long-term loans		1 729 448	1 884 332
<b>Current liabilities</b>		<b>17 438 732</b>	<b>13 528 310</b>
Trade and other payables	6	17 438 732	13 528 310
<b>Total liabilities</b>		<b>19 168 180</b>	<b>15 412 642</b>
<b>Total equity and liabilities</b>		<b>231 761 598</b>	<b>218 305 007</b>

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

		<b>2018</b>	<b>2017</b>
	Note	N\$	N\$
Income		107 028 768	99 194 730
Expenditure		(107 083 621)	(99 145 958)
Net operating (deficit)/surplus		(54 853)	48 772
Adjustments	9	(353 608)	(14 743 819)
Net Surplus/(deficit) for the year		(408 461)	(14 695 047)

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

	Note	2018 N\$	2017 N\$
<b>Cash utilised by operating activities</b>			
Cash received from customers		107 028 768	99 194 730
Cash paid to suppliers and employees		(107 083 621)	(99 145 958)
Net cash flows from operating activities		<u>(54 853)</u>	<u>48 772</u>
<b>Cash flows from investing activities</b>			
Movement in property, plant and equipment		(3 971 550)	(19 344 881)
Decrease/(increase) in property loans		1 725 775	(78 150)
(Increase)/decrease in investments		(5 322 328)	4 448 181
Net cash flows from investing activities		<u>(7 568 103)</u>	<u>(14 974 850)</u>
<b>Cash flows from financing activities</b>			
Increase in funds accounts		4 861 552	2 691 883
Increase in capital outlay		5 247 963	20 983 533
Decrease in long term loans		(154 884)	(139 487)
Increase in consumer deposits		55 570	91 350
		<u>10 010 201</u>	<u>23 627 279</u>
<b>Net increase in cash and cash equivalents</b>		2 387 245	8 701 201
<b>Net cash and cash equivalents</b>			
– at beginning of the year		7 954 600	870 930
Adjustments		*(837 785)	(1 617 531)
– at the end of the year	8	<u><u>9 504 060</u></u>	<u><u>7 954 600</u></u>

\*Note: Unexplained adjustments.

**MUNICIPALITY OF OTJIWARONGO****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018****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 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:

Buildings	20 years
Furniture and equipment	10 years
Motor vehicles	5 years
Tools and equipment	5 years
Infrastructure	15 to 20 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 the 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 investments.

**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.

**MUNICIPALITY OF OTJIWARONGO****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018  
(continued)**

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**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 consumers to build up this Fund.

**1.3.7 Tariff Stabilization 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.

**MUNICIPALITY OF OTJIWARONGO**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**  
**(continued)**

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**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.

**1.3.12 Municipal Study Loan Fund**

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

**1.3.13 Disaster Fund**

The purpose of this Fund is to build-up reserves to assist with costs of disasters, which may occur in the town.

**1.3.14 Social Upliftment Fund**

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

**1.3.15 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.

**1.3.16 Capacity Building Fund and Marketing Promotion Fund**

The purpose of this Fund is to provide funds for capacity building of staff as well as marketing and promotion of the town.

**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**

Inventories are measured at lower of cost and net realisable value. The cost of inventories comprise all costs of purchase, costs of conversion and costs incurred in bringing the inventories to their present location and condition.

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

	<b>2018</b>	<b>2017</b>
	N\$	N\$
<b>2. OWN FUNDS</b>		
<b>2.1 Funds and accounts</b>		
<b>Internal Funds</b>	<b>100 880 515</b>	<b>96 018 963</b>
Fixed Property Fund	3 982 560	3 910 601
Betterment Fund	4 247 312	3 989 498
Capital Reserve Fund	4 389 356	4 187 239
Capital Development Fund	9 295 603	9 486 809
Renewal Fund	1 341 106	1 312 839
Personnel Housing Fund	2 491 299	2 373 776
Erven Trust Fund	43 539 116	42 550 449
Municipal Study Loan Fund	937 294	593 664
Housing Fund (GRN)	1 413 259	1 403 324
Build Together Fund	12 282 045	12 068 528
BT- Informal Settlement Fund	208 546	208 546
Single Quarters Housing Scheme	4 515 129	4 446 885
Social Upliftment Fund	625 933	594 037
Disaster Fund	221 764	221 764
TIPEEG Project Fund	11 390 193	8 671 004
Revenue kept in compliance with Section 86(1) of the Local Authority Act, 1992	(17 511 548)	(17 103 087)
	<b>83 368 967</b>	<b>78 915 876</b>
<b>2.2 Capital Outlay</b>	<b>129 224 451</b>	<b>123 976 489</b>
Loans redeemed	13 727 674	12 451 262
Revenue contributions	115 496 777	111 525 227
<b>3. PROPERTY, PLANT AND EQUIPMENT</b>		
Property, plant and equipment	<b>140 171 749</b>	<b>136 200 199</b>
<b>Financed by</b>	<b>140 171 749</b>	<b>136 200 199</b>
Loan Funds	24 674 972	24 054 902
Income Funds	115 496 777	112 145 297

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

	<b>2018</b>	<b>2017</b>
	N\$	N\$
<b>4. Investments</b>	<b>58 923 861</b>	<b>53 601 532</b>
Commercial banks	15 856 891	10 534 563
CENORED (Pty) Limited	43 066 969	43 066 969
<b>Allocated to:</b>	<b>58 923 861</b>	<b>53 601 532</b>
Capital Reserve Fund	-	1 473 260
Capital Development Fund	3 647 085	-
Build Together Fund	1 606 187	1 607 427
Revenue	43 066 969	43 066 969
Erven Trust Fund	7 803 620	4 653 876
GRN projects Fund	2 800 000	2 800 000
<b>5. Trade and other receivables</b>	<b>18 086 122</b>	<b>14 990 101</b>
Trade receivables	50 898 832	50 753 599
Value Added Tax	7 820 781	4 276 356
Sundry debtors	1 454 727	2 048 364
Less provision for bad debts	(42 088 218)	(42 088 218)
<b>6. Trade and other payables</b>	<b>17 438 732</b>	<b>13 528 310</b>
Trade payables	5 830 758	3 450 396
Consumer deposits	1 900 166	1 844 596
Sundry creditors	5 073 655	4 183 401
Provision for leave pay	4 634 153	4 049 917



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

	<b>2018</b>	<b>2017</b>
	N\$	N\$
<b>7. Loans</b>	<b>3 820 332</b>	<b>4 541 383</b>
Erven Trust Fund	1 097 466	1 518 515
Single Quarters Housing Scheme	2 079 016	2 254 918
Build Together Fund	3 525 831	3 998 281
Personnel Housing Scheme	747 448	818 973
Other	(3 629 429)	(4 049 304)
<b>8. Cash and cash equivalents</b>	<b>9 504 060</b>	<b>7 954 600</b>
Bank	9 498 660	7 949 200
Petty cash	5 400	5 400
<b>9. ADJUSTMENTS</b>	<b>(353 608)</b>	<b>(14 743 819)</b>
Prior period adjustments - expenditure	(591 890)	(26 633 973)
Prior period adjustments - income	238 282	11 890 154

