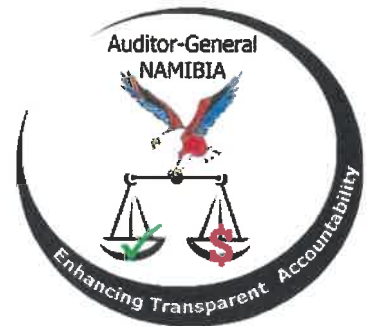




REPUBLIC OF NAMIBIA



**Katima Mulilo
Town
Council**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF KATIMA MULILO
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 Town Council of Katima Mulilo 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 2016

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE TOWN COUNCIL OF KATIMA MULILO
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015**

1. Report on the Financial Statements

1.1 INTRODUCTION

This report on the accounts of the Town Council of Katima Mulilo for the financial year ended 30 June 2015 is presented to the National Assembly in accordance with the Local Authorities Act, 1992 (Act 23 of 1992).

Figures in the report are rounded to the nearest Namibia dollar and deficits are indicated in (brackets).

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

I certify that I have audited the accompanying financial statements of the Town Council of Katima Mulilo 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
- Annexure D: Notes to the Financial Statements

The Town Council financial statements were submitted on time 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 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.

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 insufficient and inappropriate to provide a basis for the audit opinion.

4. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Town Council of Katima Mulilo during the audit is appreciated.

5. KEY AUDIT FINDINGS

5.1 Omitted inventories

No inventories are reflected in the financial statements of the Council and its accounting records did not allow verification of physical quantities through alternative means due to the inadequacy of the inventory system in place. As a result, the auditors were unable to verify the physical quantities and value of inventories at the reporting date.

5.2 Understatement of liabilities

Liabilities amounting to N\$ 6 578 085 including outstanding pay-as-you-earn (PAYE) amounting to N\$ 3 865 730 are not reflected in the financial statements. In addition, no penalties and interest for late remittance of PAYE are provided for in the financial statements.

5.3 Recognition of land sales

Deposits received on the intended sale of erven were credited to the revenue account instead of the liability account resulting in overstatement of revenue and understatement of the related liability.

5.4 Omitted equity investment

The investment in the shares of the Local Authorities Electricity Company (Pty) Limited (shareholder in NORED) is not reflected in the financial statements.

5.5 Unexplained difference on Housing Fund debtors

The Build Together loan advances balance per general ledger was N\$ 3 416 963 while the total per the related supporting list amounted to N\$ 1 166 543 resulting in an unexplained difference of N\$ 2 250 420.

5.6 Unsupported adjustments

There were no supporting documents for material adjustments amounting to N\$ 2 044 866 posted to the appropriation account, debtors control and staff loan control account. The auditors were therefore unable to verify the validity of the said adjustments.

5.7 Incorrect bank reconciliation

There was an unexplained difference of N\$ 3 726 902 between the reported bank overdraft and the cashbook balance. In addition, the following were observed on the list of outstanding cheques:

- Cheques issued in favour of the Receiver of Revenue amounting to N\$ 3 865 730 were never delivered to the payee and became stale after year end;
- A cheque for N\$ 530 000 was in excess of the statutory limit of N\$ 500 000 therefore invalid; and
- Stale cheques amounted to N\$ 1 119 173.

5.8 Overstatement of the VAT receivable balance

The reported VAT receivable is overstated by N\$ 437 583 of which N\$ 358 013 is attributable to disallowed claims while the balance could not be explained.

5.9 Overstatement of property, plant and equipment

The property, plant and equipment and the related Revenue Fund account are overstated by N\$ 747 339 as a result of capitalisation of the value of furniture ordered but delivered after the reporting date.

5.10 Going concern

The auditors draw attention to the balance sheet dated 30 June 2015 of the Town Council which indicates that as at that date, the current liabilities exceeded its current assets and the accumulated deficit amounts to N\$ 41 855 792 (2014: N\$ 37 545 396). These conditions indicate the existence of material uncertainty which may cast doubt on the Town Council's ability to continue as a going concern unless central Government provides funding for future operations.

6. FINANCIAL RESULTS

The results of the operations of, and transactions on the Revenue account for the year are as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated Surplus/(Deficit) at 01/07/2014				(37 545 396)
General accounts				
- Rates and general	56 617 747	(56 230 449)	387 298	
- Non-profitable services	1 642 326	(6 385 699)	(4 743 373)	
- Self-supporting services	9 760 600	(9 101 673)	658 927	
Trade accounts				
- Water	28 706 079	(24 358 783)	4 347 296	
Surplus for the year	96 726 752	(96 076 604)	650 148	650 148
Adjustments and utilisations (See note 9, Annexure D)				(36 895 248)
				(4 960 544)
Accumulated Surplus/(Deficit) at 30/06/2015				(41 855 792)

7. CURRENT BANK ACCOUNT

	2015	2014
	N\$	N\$
Cashbook balance at 30 June	(9 610 020)	(6 080 900)
Unexplained difference	3 726 903	1 482 874
Outstanding cheques	6 156 910	5 034 469
Outstanding deposits	-	(141 080)
Debits on the bank statement not recorded in the cashbook	-	(30 158)
Balance as per bank statement	273 793	265 205

8. INVESTMENTS

The investments as at 30 June are as follows:

Institution	2015		2014	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Commercial banks	6 693 941	621 542	15 654 814	799 323

The investments were allocated as follows:

Allocation	2015	2014
	N\$	N\$
Capital Reserve Fund	389 308	389 308
Revenue	5 881 220	14 919 763
Built Together Fund	423 413	345 743
	6 693 941	15 654 814

9. FUND ACCOUNTS

The position of the Funds, accounts and reserves at year-end is as shown in note 7 of Annexure D.

10. TRADE ACCOUNT

10.1 The results of water operations are as follows:

	Water	
	2015	2014
	N\$	N\$
Sales	19 559 103	18 507 227
Purchases	(11 326 679)	(11 680 766)
Gross surplus	8 232 424	6 826 461
Other expenses	(3 885 128)	(4 442 266)
Net surplus	4 347 296	2 384 195
Gross surplus percentage on purchases	72.7%	58.4%
Net surplus percentage on purchases	22.2%	20.4%

10.2 Water distribution results, in cubic meters

The statistics for water distribution for the year under review were not available.

11. SELF-SUPPORTING SERVICES

11.1 The results for the year under review are as follows:

Service	Income 2015	Expenses 2015	Surplus 2015	Surplus 2014
	N\$	N\$	N\$	N\$
Cleansing services	5 304 911	(3 155 261)	2 149 650	2 059 652
Sewerage	4 455 689	(5 946 412)	(1 490 723)	3 998 702
	9 760 600	(9 101 673)	658 927	6 058 354

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

Unauthorised salary payments amounted to N\$ 173 997 and there were no fruitless and avoidable expenditure.

13. SUSPENSE ACCOUNTS

Suspense accounts are cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

The audit did not reveal any irregularities and losses that took place during the year under review.

15. CAPITAL PROJECTS

The following were spent on capital projects:

Nature of projects/acquisitions	Financed by	Financed by	Total expenditure 2015	Total expenditure 2014
	Capital Res. Fund	Revenue account		
	N\$	N\$	N\$	N\$
Council General Expenses	-	13 937	13 937	-
Town Clerk	-	179 893	179 893	63 928
Town Administration	-	219 221	219 221	12 175
Town Treasurer	-	324 136	324 136	442 773
Town Planning	-	1 421 975	1 421 975	1 059 332
Health Services	-	19 246	19 246	12 222
Community Services	-	107 961	107 961	110 655
Streets and Storm Water	-	8 190 346	8 190 346	2 948 751
Buildings and Housing	-	1 801 120	1 801 120	5 216 438
Cleansing Services	-	169 042	169 042	148 439
Sewerage Services	-	3 840 883	3 840 883	8 485 433
Water	-	9 699 611	9 699 611	1 758 027
Other	-	6 969 449	6 969 449	-
	-	32 956 820	32 956 820	20 258 173

As explained on item 5.10, property, plant and equipment are qualified.

16. BURSARIES

No bursaries were granted during the year under review (2014: N\$ 40 000).

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

	2015	2014
	N\$	N\$
Contribution from Government and related agencies	25 115 000	17 499 996

18. COMPENSATION PAYMENTS

No compensation payments were paid during the year.

19. VISITS TO FOREIGN COUNTRIES

The cost of a visit to a foreign country was N\$ 149 714 (2014: N\$ NIL)

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims were made against the Council during the year under review.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

An amount of N\$ 53 800 (2014: N\$ 8 000) was paid as donations during the year under review.

22. TRANSFER OF PROPERTY

No properties were transferred to/from the Government during the year under review.

23. TRADE AND OTHER RECEIVABLES/PAYABLES

23.1 Trade and other receivables at 30 June are as follows:

	2015	2014
	N\$	N\$
Services rendered and assessment rates	51 815 843	49 334 733
Housing Fund receivables	3 416 963	3 371 787
VAT receivable	5 792 253	1 462 940
Sundry debtors	6 000	424 200
	61 031 059	54 593 660
Provision for bad debts	(44 106 115)	(37 978 522)
Total	16 924 944	16 615 138

23.2 Trade and other payables at 30 June are as follows:

	2015	2014
	N\$	N\$
Trade payables	44 989 855	53 159 956
Provision for leave pay	2 845 234	2 858 869
Consumer deposits	77 890	79 040
Total	47 912 979	56 097 865

24. ASSESSMENT RATES

	2015	2014
	N\$	N\$
The proceeds from assessment rates	19 789 990	19 053 834
Residential:		
Tariffs per N\$1 valuation per annum - Site valuation	0.025 to 0.035	0.074
Tariffs per N\$1 valuation per annum – Improvements	0.0046	0.007
Business:		
Tariffs per N\$1 valuation per annum - Site valuation	0.067	0.0078
Tariffs per N\$1 valuation per annum – Improvements	0.015	0.015

25. LOANS

25.1 External loans

The external loan amount of N\$ 716 367 (2014: N\$ 579 179) is not disclosed in the financial statements.

25.2 Internal loans

There are no internal loans.

25.3 Due to the Town Council

	2015	2014
	N\$	N\$
Build Together advances	3 416 963	3 371 787

26. SALE OF ERVEN

During the current financial year, cash proceeds amounting to N\$ 14 260 790 (2014: N\$ 4 584 824) were received in respect of sale of erven and were allocated to the revenue account. As reported on item 5.3, deposits received for purchase of erven were recognised as revenue instead of a liability or a fund account.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

The Council's policy is to sell erven on both cash and instalment basis. The Council was unable to provide the breakdown between cash and instalment sales owing to lack of reconciliation.

28. TARIFF ADJUSTMENTS

Tariff adjustments were duly approved and promulgated in the Government Gazette.

29. APPROVALS

29.1 Excess on approved budget

All budget excesses were approved.

30. INVENTORY AND MOTOR VEHICLES

30.1 Motor vehicles

The Town Council could not provide the auditors with any information in this regard.

30.2 Inventory

No inventory is included in the financial statements.

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year under review.

32. GENERAL

There is no sufficient system of accounting and internal controls at the Town Council for the year under review. Proper segregation of duties is not possible due to the small number of staff employed.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries

Formal queries are embodied in this report.

33.2 Informal queries

Informal queries were addressed to the Chief Executive Officer .

34. BASIS FOR DISCLAIMED AUDIT OPINION

I am unable to express an opinion due to the following reasons:


- Undisclosed inventories;
- Understatement of liabilities by N\$ 6 578 085;
- Incorrect recognition of land sales;
- Omitted equity investment;
- Unexplained difference on Housing Fund debtors of N\$ 2 250 420;
- Unsupported adjustments posted to the appropriation account;
- Incorrect bank reconciliation;
- Overstatement of the VAT receivable balance by N\$ 437 583;
- Overstatement of plant and equipment and the related Fund account by N\$ 747 339; and
- Going concern problem.

35. DISCLAIMED AUDIT OPINION

The accounts of the Town Council of Katima Mulilo 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, read with Section 25 (1) (b) of the State Finance Act, 1991.

Because of the significance of the matters described in the Basis for Disclaimer of Audit Opinion paragraph, I have not been able to obtain sufficient and appropriate audit evidence to provide for an audit opinion. Accordingly, I do not express an audit opinion on the financial statements.

WINDHOEK, August 2016



JUNIAS ETUNA KANDJEKE
AUDITOR- GENERAL

TOWN COUNCIL OF KATIMA MULILO

BALANCE SHEET AT 30 JUNE

	Note	2015 N\$	2014 N\$
ASSETS			
Non-current assets			
		69 775 577	52 529 819
Property, plant and equipment	2	63 081 636	36 875 005
Investments	3	6 693 941	15 654 814
Current assets			
		16 924 994	16 617 138
Trade and other receivables	4	16 924 944	16 615 138
Cash and cash equivalents	5	50	2 000
TOTAL ASSETS		86 700 571	69 146 957
FUNDS, ACCOUNTS AND LIABILITIES			
Funds and reserves			
		29 177 572	6 968 192
Capital outlay	6	63 081 636	36 875 005
Accumulated funds	7	(41 855 792)	(37 545 396)
Funds and accounts	7	7 951 728	7 638 583
Current liabilities			
		57 522 999	62 178 765
Trade and other payables	8	47 912 979	56 097 865
Bank overdraft	5	9 610 020	6 080 900
TOTAL FUNDS AND LIABILITIES		86 700 571	69 146 957

TOWN COUNCIL OF KATIMA MULILO

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2015</u>	<u>2014</u>
		N\$	N\$
INCOME		96 105 211	79 713 276
EXPENDITURE		<u>(96 076 605)</u>	<u>(84 867 575)</u>
NET OPERATING SURPLUS/(DEFICIT)		28 606	(5 154 299)
INVESTMENTS INCOME		621 542	798 879
NET SURPLUS/(DEFICIT) AFTER INTEREST		<u>650 148</u>	<u>(4 355 420)</u>

TOWN COUNCIL OF KATIMA MULILO

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2015 N\$	2014 N\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		96 105 211	79 713 276
Cash paid to suppliers		(109 531 841)	(86 348 177)
Cash utilised by operations	10	(13 426 630)	(6 634 901)
Investments income		621 542	798 879
Net cash flows from operating activities		(12 805 088)	(5 836 022)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in Funds		313 146	27 957
Increase in Capital Outlay		26 206 631	10 700 995
Net cash flows from financing activities		26 519 777	10 728 952
CASH FLOWS TO INVESTING ACTIVITIES			
Net capital expenditure		(26 206 631)	(10 700 995)
Decrease in investments		8 960 872	3 191 364
Net cash flows from investing activities		(17 245 759)	(7 509 631)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(3 531 070)	(2 616 701)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		(6 078 900)	(3 462 199)
CASH AND CASH EQUIVALENTS - END OF YEAR		(9 609 970)	(6 078 900)

TOWN COUNCIL OF KATIMA MULILO

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1. ACCOUNTING POLICIES

1.1 Introduction

The annual financial statements are compiled in accordance with the historical cost convention, except where otherwise stated.

The principal accounting policies of the Town Council, which are set out below, have been consistently applied and are in accordance with the requirements of the Namibian Local Authorities Act.

1.2 Property, plant and equipment

Property, plant and equipment are stated at cost or at valuation where assets have been acquired by grant or 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.

	2015	2014
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Consists of :		
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment, plant and other equipment.	63 081 636	36 875 005
Financed by :		
General capital	261 556	352 132
Revenue account	62 820 080	36 522 873
	63 081 636	36 875 005
3. INVESTMENTS		
Fixed deposits and money on call	6 693 941	15 654 814
Allocated as follows:		
Build Together Fund	423 413	345 742
Capital Reserve Fund	389 308	389 308
Revenue Fund	5 881 220	14 919 764
	6 693 941	15 654 814

TOWN COUNCIL OF KATIMA MULILO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE (continued)

	2015	2014
	N\$	N\$
4. TRADE AND OTHER RECEIVABLES		
Services rendered and assessment rates	51 815 843	49 334 733
VAT receivable	5 792 253	1 462 940
Sundry debtors	6 000	424 200
Build Together advances	3 416 963	3 371 787
	61 031 059	54 593 660
Provision for bad debts	(44 106 115)	(37 978 522)
	16 924 944	16 615 138
5. CASH AND BANK BALANCES		
Current account	(9 610 020)	(6 080 900)
Petty cash	50	2 000
	9 609 970	(6 078 900)
6. CAPITAL OUTLAY		
General Capital	261 556	352 132
Revenue contributor	62 820 080	36 522 873
	63 081 636	36 875 005
7. FUNDS, ACCOUNTS AND RESERVES		
Build Together Fund	7 562 420	7 249 275
Capital Development Fund	389 308	389 308
Subtotal	7 951 728	7 638 583
Net surplus/(deficit) after interest	650 148	(4 355 420)
Appropriation account	9 (4 960 544)	(14 207 037)
Net deficit after appropriations	(4 310 396)	(18 562 457)
Revenue account - Beginning of year	(37 545 396)	(18 982 939)
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(41 855 792)	(37 545 396)
	(33 904 064)	(29 906 813)
8. TRADE AND OTHER PAYABLES		
Trade payables	44 989 855	53 159 956
Provision for leave pay	2 845 234	2 858 869
Consumer deposits	77 890	79 040
	47 912 979	56 097 865

TOWN COUNCIL OF KATIMA MULILO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	2015	2014
	N\$	N\$
9. APPROPRIATIONS AND ADJUSTMENTS		
Opening balance adjustment	-	20 000
Movement in provision for bad debts	(6 100 321)	4 350 994
Movement in provision for leave pay	(13 636)	(315 355)
Bank reconciliation adjustment	-	866 577
Namwater liability written off/(recognised)	5 804 035	(17 283 252)
Prior year income adjustments	-	(1 057 622)
Stale cheques written back	-	681 101
Corrections to daily report	-	(1 469 480)
Expenditure	(4 650 622)	-
	(4 960 544)	(14 207 037)
10. CASH UTILISED BY OPERATIONS		
NET OPERATING SURPLUS/(DEFICIT)	28 606	(5 154 299)
ADJUSTMENT FOR:		
- Appropriations and adjustments	(4 960 544)	(14 207 037)
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	(4 931 938)	(19 361 336)
CHANGES IN WORKING CAPITAL		
(Decrease)/Increase in trade and other payables	(8 184 886)	21 898 674
Increase in trade and other receivables	(309 806)	(9 172 239)
	(8 494 692)	12 726 435
CASH UTILISED BY OPERATIONS	(13 426 630)	(6 634 901)