



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF USAKOS
FOR THE FINANCIAL YEARS ENDED 30 JUNE 2015 AND 2016**

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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 Usakos Town Council for the financial years ended 30 June 2015 and 2016, 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, May 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
USAKOS TOWN COUNCIL
FOR THE FINANCIAL YEARS ENDED 30 JUNE 2015 AND 2016**

1. Report on the financial statements

1.1 INTRODUCTION

The accounts of the Usakos Town Council for the financial years ended 30 June 2015 and 2016 are being reported on in accordance with the provisions set out in the Local Authorities Act, 1992 (Act No. 23 of 1992).

The firm Mostert Landgrebe 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 Usakos Town Council on behalf of the Auditor-General 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 Usakos Town Council for the financial years ended 30 June 2015 and 2016. These financial statements comprise the following:

Annexure A: Balance sheet;
Annexure B: Abridged income statement;
Annexure C: Cash flow statement; and
Annexure D: 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, except that they were only submitted on 11 May 2017 instead of three months (3 months) after the year end as required by the Act.

The financial statements, notes to the financial statements and general information provided by the Accounting Officer are attached as Annexures 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 1992, (Act No. 23 of 1992), 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 audit opinion.

4. ACKNOWLEDGEMENT

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

5. AUDIT OBSERVATION AND COMMENTS

5.1 Internal control and accounting records

There was no sufficient system of internal control and proper accounting records at the Town Council on which the auditors could rely upon for audit purposes.

Recommendation

It is recommended that the Council implement a proper system of internal control and keep proper accounting records.

5.2 Government loans in arrears

The instalments on external loans from Central Government were not paid since 2001/2002 to date. No provision for interest on arrear payments has been made.

Recommendation

It is recommended that the Council should provide for interest on arrear instalments and should make arrangements with government to repay the loans.

5.3 Build Together advances

No list for Build Together advances was available for audit purposes.

Recommendation

It is recommended that the Council should compile a list of these advances, and bring it up to date.

5.4 Trade and other receivables – VAT

There were no VAT reconciliations done, thus the annual financial statements do not reflect an accurate balance of the VAT account.

Recommendation

It is recommended that the Council should reconcile the VAT properly to the payments, the general ledger and the amount disclosed in the financial statements.

5.5 Expenses – Supporting documentation

The auditors could not perform proper tests on expenses with regards to the assertions of accuracy and completeness, due to improper filing; untraceable invoices and transactions processed VAT inclusive.

Recommendation

It is recommended that the Council should keep all invoices in a proper order.

5.6 Expenses – Subsistence and Travel allowances

Not all S&T allowances were properly approved.

Recommendation

It is recommended that the Council should properly approve S&T claims.

5.7 Erongo Red income

No reconciliations of income, and not all supporting documentation, were available for audit purposes.

Recommendation

It is recommended that the Council should reconcile the Erongo Red income to the invoices, the general ledger and the amount disclosed in the financial statements.

5.8 Minutes of meetings

Minutes of meetings were not available for audit purposes.

Recommendation

It is recommended that the Council should keep the minutes of meetings in the safe and be available when needed.

5.9 VAT and P.AY.E

All VAT returns were submitted late to the Directorate: Inland Revenue. No PAYE returns were submitted to the Directorate: Inland Revenue. No provision in the financial statements was made for the outstanding PAYE or VAT. The Council should address this matter to avoid interest and penalties.

Recommendation

It is recommended that the Council should give urgent attention to VAT and PAYE matters as a matter of urgency.

5.10 GENERAL

The accounting and internal controls are not satisfactory, except where indicated otherwise in this report. Proper segregation of duties is not feasible due to the small number of staff employed. While increased management involvement does reduce risks, the risk arises that management and Council override existing controls, a potentially dangerous practice which the Town Council should vigilantly guard against. The integrity of staff in appropriate positions should however be reviewed to ensure that qualified personnel are employed in respective positions.

6. BASIS FOR DISCLAIMED AUDIT OPINION

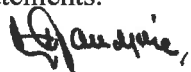
- No sufficient system of internal control and proper accounting records;
- No interest is provided on Government loans in arrears;
- No list of Build Together advances amounting to N\$ 4 857 039;
- The balance of Build Together advances did not change since 30 June 2013;
- No VAT reconciliations;
- No proper filing of expense invoices to properly test the expenses;
- Not all S&T allowances were properly approved;
- No reconciliations of Erongo Red income;
- Minutes of meetings were not available for audit purposes;
- Late filing of VAT returns and no filing of P.A.Y.E. returns; and
- No provisions for interest and penalties.

7. DISCLAIMED AUDIT OPINION

The accounts of the Usakos Town Council for the financial year ended 30 June 2015 and 2016 summarised in Annexures A to D, were audited by me in terms of Section 85 of the Local Authorities Act, 1992 (Act No. 23 of 1992).

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

WINDHOEK, May 2018


JUNIAS ETUNA KANDJEKE
AUDITOR- GENERAL

**USAKOS TOWN COUNCIL
BALANCE SHEET AT 30 JUNE**

| | Note | 2016 N\$ | 2015 N\$ | 2014 N\$ |
|------------------------------------|------|-------------------|-------------------|-------------------|
| Assets | | | | |
| Non current assets | | 53 718 601 | 53 114 870 | 45 168 147 |
| Property, plant and equipment | 2 | 45 548 423 | 34 706 386 | 25 321 751 |
| Investments | 3 | 3 313 139 | 13 551 445 | 14 989 357 |
| Loans receivable | 4 | 4 857 039 | 4 857 039 | 4 857 039 |
| Current assets | | 1 408 310 | 2 380 110 | 2 752 695 |
| Trade and other receivables | 5 | 1 397 108 | 2 377 610 | 2 751 195 |
| Cash and bank balances | | 11 202 | 2 500 | 1 500 |
| Total assets | | 55 126 911 | 55 494 980 | 47 920 842 |
| Funds and liabilities | | | | |
| Funds and reserves | | 45 647 707 | 46 825 604 | 41 897 152 |
| Capital outlay | 6 | 44 897 024 | 33 980 071 | 24 527 445 |
| Funds and accounts | 7 | 750 683 | 12 845 533 | 17 369 707 |
| Non-current liabilities | | | | |
| Long-term loans | 8 | 661 907 | 741 427 | 813 684 |
| Current liabilities | | 8 817 297 | 7 927 949 | 5 210 006 |
| Trade and other payables | 9 | 8 121 678 | 7 276 168 | 5 075 794 |
| Bank overdraft | | 695 619 | 651 781 | 134 212 |
| Total funds and liabilities | | 55 126 911 | 55 494 980 | 47 920 842 |

USAKOS TOWN COUNCIL
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

| | Note | 2016 N\$ | 2015 N\$ | 2014 N\$ |
|---|------|---------------------|---------------------|--------------------|
| Income | | 10 142 609 | 9 022 633 | 10 726 330 |
| Expenditure | | 15 433 352 | 12 854 982 | 10 773 155 |
| Net operating deficit | | (5 290 743) | (3 832 349) | (46 825) |
| Interest on investments | | 37 | 230 454 | 126 848 |
| Net operating (deficit)/surplus after interest | | (5 290 706) | (3 601 895) | 80 023 |
| Appropriation account | 10 | 439 262 | (64 983) | 314 834 |
| Net (deficit)/surplus after appropriations | | (4 851 444) | (3 666 878) | 394 857 |
| Revenue account - beginning of year | | (10 187 382) | (6 520 504) | (6 915 361) |
| Revenue account - end of year | | (15 038 826) | (10 187 382) | (6 520 504) |

**USAKOS TOWN COUNCIL
CASH FLOW STATEMENT AT 30 JUNE**

| | Note | 2016 | 2015 | 2014 |
|--|-----------|--------------------|--------------------|--------------------|
| | | N\$ | N\$ | N\$ |
| Cash flow from operating activities | 11 | (3 025 469) | (1 323 373) | (900 088) |
| Cash receipts from customers | | 10 142 609 | 9 022 633 | 10 726 330 |
| Cash paid to suppliers | | (13 168 078) | (10 346 006) | (11 626 418) |
| Cash utilised by operations | | | | |
| Net cash flow from operating activities | | 648 115 | 7 502 411 | 9 225 711 |
| Investment income | | 37 | 230 454 | 126 848 |
| (Decrease)/increase in Fund accounts | | (7 243 406) | (857 296) | 5 325 031 |
| Increase in Capital outlay | | 10 916 953 | 9 452 626 | 4 673 920 |
| Cash flow from investing activities | | (603 731) | (7 946 723) | (9 430 190) |
| Net capital expenditure | | (10 842 037) | (9 384 635) | (4 607 050) |
| Change in investments | | 10 238 306 | 1 437 912 | (4 823 140) |
| Cash flow from financing activities | | (79 520) | (72 257) | (72 088) |
| Change in long-term liabilities | | (79 520) | (72 257) | (72 088) |
| Net change in cash and cash equivalents | | (35 136) | (516 569) | (276 567) |
| Cash and cash equivalents – start of year | | (649 281) | (132 712) | 143 855 |
| Cash and cash equivalents - end of year | | (684 417) | (649 281) | (132 712) |

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

Property, plant and equipment are stated at cost or valuation where assets have been acquired by grant or by donation. No provision for depreciation is made.

1.3 Investments

Investments are reflected at face value.

1.4 Trade receivables

Accounts receivable are recorded at originated cost less an allowance for bad debts.

1.5 Cash and cash equivalents

It consists of cash on hand and the current account with banks, all of which are available for immediate use by the Council.

1.6 Trade and other payables

All financial liabilities are recorded at cost.

1.7 Internal Funds

Internal Funds were created as follows by the Town Council:

1.7.1. Fixed Property Fund

Proceeds from the sale of land that has been developed by the Usakos Town Council, accumulated in this fund. Costs incurred on the development of land are charged to this Fund.

1.7.2. Capital Reserve Fund

This Fund was created to make provision for unforeseen expenditure, as approved by the Town Council.

1.7 Internal Funds (continued)

1.7.3. Renewal Fund

The purpose of this Fund is to provide for future replacement of assets and for additional depreciation on assets, which have permanently declined in value. Income for this account is derived from general revenue contributions as well as interest on investments.

1.7.4. Housing Funds

These Funds is applied only for the purpose of providing loans to house owners in respect of purchase price, building costs and improvements made.

USAKOS TOWN COUNCIL
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE (Continued)

| | 2016 | 2015 | 2014 |
|--|-------------------|-------------------|-------------------|
| | N\$ | N\$ | N\$ |
| 2 PROPERTY, PLANT AND EQUIPMENT | 45 548 423 | 34 706 386 | 25 321 751 |
| External loans | 651 399 | 726 315 | 794 306 |
| Loans redeemed | 738 507 | 663 591 | 595 600 |
| Contributions from income | 37 311 417 | 26 415 227 | 16 976 432 |
| General capital | 6 847 100 | 6 901 253 | 6 955 413 |
| 3 INVESTMENTS | 3 313 139 | 13 551 445 | 14 989 357 |
| Revenue | 2 460 227 | 2 460 227 | 2 460 227 |
| Housing Fund | 838 106 | 811 303 | 783 565 |
| Capital Development Fund | 14 806 | 10 279 915 | 11 745 565 |
| 4 LOANS RECEIVABLE | 4 857 039 | 4 857 039 | 4 857 039 |
| Build Together loans | 4 857 039 | 4 857 039 | 4 857 039 |
| 5 TRADE AND OTHER RECEIVABLES | 1 397 108 | 2 377 610 | 2 751 195 |
| Consumers | 9 171 269 | 9 435 683 | 8 921 057 |
| Provision for bad debts | (7 774 161) | (8 431 761) | (8 124 154) |
| VAT receivable | - | 1 373 688 | 1 365 015 |
| Sundry debtors - Natis | - | - | 568 817 |
| Provision for stores | - | - | 2 605 |
| Sundry debtors | - | - | 17 855 |
| 6 CAPITAL OUTLAY | 44 897 024 | 33 980 071 | 24 527 445 |
| Loans redeemed | 738 507 | 663 590 | 595 600 |
| Revenue contributions | 37 311 417 | 26 415 227 | 16 976 432 |
| General capital contributions | 6 847 100 | 6 901 254 | 6 955 413 |
| 7 FUNDS, ACCOUNTS AND RESERVES | 750 683 | 12 845 533 | 17 369 707 |
| Capital Reserve Fund | 6 007 437 | 13 897 148 | 15 420 815 |
| Fixed Property Fund | 2 812 374 | 2 197 476 | 1 563 109 |
| Renewal Fund | 364 597 | 364 597 | 364 597 |
| Housing Fund | 6 605 101 | 6 573 694 | 6 541 690 |
| Revenue account | (15 038 826) | (10 187 382) | (6 520 504) |

USAKOS TOWN COUNCIL
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE (Continued)

| | 2016 | 2015 | 2014 |
|---|--------------------|--------------------|------------------|
| | N\$ | N\$ | N\$ |
| 8 Long-term liabilities | 661 907 | 741 427 | 813 684 |
| External loans - Government | 651 399 | 726 315 | 794 306 |
| Housing Fund loans | 10 508 | 15 112 | 19 378 |
| 9 Trade and other payables | 8 121 678 | 7 276 168 | 5 075 794 |
| Trade payables | 2 072 566 | 1 670 065 | 1 028 638 |
| Consumer and other deposits | 307 513 | 284 395 | 277 865 |
| Government loans instalments in arrear | 2 785 807 | 2 631 155 | 2 477 004 |
| Regional council | 1 795 875 | 1 727 784 | 821 202 |
| Provisions - Bonus leave | 1 159 917 | 962 769 | 471 085 |
| 10 Adjustments to appropriation account | 439 262 | (64 983) | 314 834 |
| Prior year adjustments | 439 262 | (64 983) | 314 834 |
| 11 Cash utilised by operations | (3 025 469) | (1 323 373) | (900 088) |
| Net operating deficit before interest and transfers | (5 290 743) | (3 832 349) | (46 825) |
| Adjustments to appropriation account | 439 262 | (64 983) | 314 834 |
| Change in trade and other receivables | 980 502 | 373 585 | (159 328) |
| Change in trade and other payables | 845 510 | 2 200 374 | (1 008 769) |

