REPUBLIC OF NAMIBIA

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF ARANDIS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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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 Arandis 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.

JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

WINDHOEK, July 2020

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE TOWN COUNCIL OF ARANDIS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

1. ADVERSE AUDIT OPINION

I have audited the financial statements of the Town Council of Arandis for the financial year ended 30 June 2018. These financial statement comprise the statement of financial position, statement of profit or loss and other comprehensive income, statement of cash flows for the year then ended, and a summary of significant accounting policies.

In my opinion, because of the significance of matters discussed in the Basis for Adverse audit Opinion paragraph, the financial statements do not present fairly the financial position of the Town Council of Arandis for the financial year ended 30 June 2018 and its financial performance and their cash flows for the year then ended.

2. BASIS FOR ADVERSE 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.

The adverse audit opinion is expressed due to the following:

- The fixed assets balance as disclosed in the financial statements amounting to N$ 55 881 762 does not agree to the fixed assets balance as per the fixed asset register amounting to N$ 53 896 692 resulting in a difference of N$ 1 985 070;
- The Council charged depreciation for the year amounting to N$ 7 330 371 against the asset and capital reserve fund instead of the income statement;
- A difference of N$ 769 345 was noted between the bank balance disclosed in the financial statements and the bank reconciliation;
- The Council did not disclose inventory for the year in the financial statements;
- A difference of N$ 2 494 276 was noted between the debtors in the annual financial statement and the debtors in the age analysis;
- The Council could not explain how an amount of N$ 39 446 082 relating to provision for bad debts was derived as the policy does not stipulate how the Council should provide for bad debts;
- The auditors found an unexplained difference of N$ 324 051 between Namwater statement amount of N$ 6 089 871 and the General Ledger amount of N$ 5 765 820;
- Auditors could not verify additions to Property, Plant and Equipmemt amounting to N$ 2 964 944 due to non-submission of invoices and payment vouchers for the following amounts:

- Construction of fire station N$ 1 000 000;
- Construction of Gravel roads N$ 982 609;
- Servicing of Erven Ext 5 N$ 755 029; and
- Other Property, Plant and Equipment N$ 227 306.

- A difference of N$ 174 147 was noted between the equity value as per Erongo Red confirmation of N$ 4 529 997 and investment amount as disclosed in the financial statements of N$ 4 355 850;
- Non-submission of supporting documents to substantiate an amount of N$ 167 161 relating to receivables;
- The auditors were unable to confirm the existence of other payables amounting to N$ 1 549 678 due to non-submission of supplier's statements to substantiate the following amounts:
  - Regional Council contribution of N$ 806 780;
  - Erongo Red N$ 579 349; and
  - Other payables of N$ 163 549.
- The auditors could not verify the provision for leave pay amounting to N$ 517 911 as no computation was provided to support how the amount is derived at as disclosed in the financial statements;
- A difference of N$ 346 199 relating to surcharges was noted between amount disclosed in the financial statements of N$ 1 131 942 and the correspondence from Erongo Red of N$ 785 743;
- The auditors were unable to verify expenditures amounting to N$ 1 515 147 due to non-submission of supporting documents:
  - Electricity consumption of N$ 938 724;
  - Penalties and fines amounting to N$ 300 339;
  - Insurance of N$ 257 250 and
  - Other general expenditures of N$319 173.

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 determined that there are no key audit matters identified in respective of the financial Statement for Town Council of Arandis.

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 the 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 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 legislation, and for such internal control as management deems it 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 for 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 and 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 uses 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 auditor's 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. ACKNOWLEDGEMENT

I wish to express my gratitude to management and staff of the Town Council of Arandis for cooperating and assisting with the audit.

WINDHOEK, July 2020

JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

ANNEXURE A

TOWN COUNCIL OF ARANDIS
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE

	Note	2018 N$	2017 N$
ASSETS			
Non-current assets		**61 534 280**	**61 585 048**
Property, plant and equipment	2	55 881 763	53 893 455
Investments	3	5 652 517	7 691 593
Current assets		**15 672 443**	**11 307 326**
Trade and other receivables	4	15 672 443	11 307 326
TOTAL ASSETS		**77 206 723**	**72 892 374**
EQUITY AND LIABILITIES			
Funds		**66 708 925**	**59 932 488**
Capital outlay	5	55 881 763	53 893 455
Funds and accounts	6	10 827 162	6 039 033
Current liabilities		**10 497 799**	**12 959 886**
Trade and other payables	7	9 120 046	9 108 299
Bank Overdraft		1 377 753	3 851 587
TOTAL EQUITY AND LIABILITIES		**77 206 723**	**72 892 374**

ANNEXURE B

TOWN COUNCIL OF ARANDIS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPRHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE

	Note	2018	2017
		N$	N$
Income		35 524 290	36 753 902
Expenditure		(28 514 891)	(33 295 144)
Net operating surplus		**7 009 399**	**3 458 758**

ANNEXURE C

TOWN COUNCIL OF ARANDIS
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2018 N$	2017 N$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		35 524 290	36 753 902
Cash paid to suppliers		(35 444 219)	(41 921 297)
Cash flows from operating activities	**8**	**80 071**	**(5 167 395)**
CASH FLOW FROM FINANCING ACTIVITIES		**2 342 994**	**5 052 523**
Increase in capital outlay		1 988 307	4 635 296
Increase in fund accounts		354 687	417 227
Net cash flow from operating activities		**2 423 065**	**(114 871)**
CASH FLOW FROM INVESTING ACTIVITIES		**50 769**	**(3 009 828)**
Net increase in capital value		(1 988 307)	(4 635 296)
Decrease in investments		2 039 076	1 625 468
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		2 473 834	1 651 154
Cash and cash equivalents at beginning of year		(3 851 587)	(726 888)
Cash and cash equivalents at end of year		**(1 377 753)**	**(3 851 587)**

TOWN COUNCIL OF ARANDIS
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

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 principle 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 with loan funds are stated at cost and no depreciation is provided thereon until is fully redeemed. All other items of property, plant and equipment are stated at cost or valuation, and except fixed property, the cost or valuation of these items of property, plant and equipment is depreciated on the reducing-balance basis over their expected useful lives.

1.3 Fixed assets and depreciation:

Fixed assets are stated at cost or a valuation where assets have been acquired by grant or donation, less depreciation written off over expected useful lives as determined by Council from time to time. Fixed assets acquired with loan funds are not depreciated until the loan is repaid, unless the expected lifetime of the asset is less than the repayment of the loan in which case depreciation is calculated on the shortfall.

1.4 Fund accounts

The following fund was maintained;

1.5 Capital Development fund

The purpose of this Fund is to make provision for future capital development of the Council. Income is derived from interest on investments, and sale of erven.

1.6 Housing fund

The purpose of this fund is ro provide for housing loans. Income for the Fund is derived from interest earned or secured housing loans and invetsments as well as from profits made on the resale of Housing Scheme houses. Interest paid on the external housing loans is charged to this Fund.

1.7 Build Together

The purpose of the Fund is to provide for housing loans. Income for the Fund is derived from interest earned on secure housing loans and investments.

	2018	2017
	N$	N$
2. PROPERTY PLANT AND EQUIPMENT	**55 881 763**	**53 893 455**
Income assets	36 605 229	36 792 592
General capital assets	19 276 534	17 100 863
3. INVESTMENTS	**5 652 517**	**7 691 593**
Commercial banks	1 296 667	3 335 743
Equity Investments (Erongo Red)	4 355 850	4 355 850
Comprising of:	**5 652 517**	**7 691 593**
Housing Fund	1 277 047	3 215 528
Build together fund	19 620	120 215
Equity Investment- Erongo	4 355 850	4 355 850
4. TRADE AND OTHER RECEIVABLES	**15 672 443**	**11 307 326**
Consumer debtors	40 393 860	31 813 197
Namwater Debtors	9 199 034	6 417 648
VAT receivable	1 402 718	1 400 403
Sundry debtors	167 161	420 228
Housing Debtors	3 955 752	4 562 270
Provision for bad debts	(39 446 082)	(33 306 420)
5. CAPITAL OUTLAY	**55 881 763**	**53 893 455**
Revenue contributions	36 605 229	34 807 522
General capital contributions	19 276 534	19 085 933

	2018	2017
	N$	N$
6. FUND AND ACCOUNTS	**10 827 162**	**6 039 034**
Housing fund	15 150 064	14 977 093
Build together	4 690 787	4 509 104
Capital reserve fund	13 077 944	13 077 911
Revenue account	(22 091 633)	(26 525 074)
7. TRADE AND OTHER PAYABLES	**9 120 046**	**9 108 300**
Trade creditors	7 315 498	8 027 950
Consumer Deposits	1 090 086	106 400
Leave pay provisions	517 911	791 845
Sundry Payables	196 551	182 105
8. CASH UTILISED BY OPERATIONS		
Net operation surplus	7 009 398	3 458 759
Appropriation account adjustments	(2 575 957)	(1 163 051)
OPERATING SURPLUS BEFORE CHANGES IN WORKING CAPITAL	**4 433 441**	**2 295 708**
GENERATION OF WORKING CAPITAL		
Movement in trade and other receivables	(4 365 117)	(7 922 344)
Movement in trade and other payables	11 747	459 241
	(4 353 370)	**(7 463 103)**
Cash utilised by operations	**80 071**	**(5 167 395)**