REPUBLIC OF NAMIBIA

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF OTAVI

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

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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 Otavi for the financial year ended 30 June 2019 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 OTAVI FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

1. ADVERSE OF AUDIT OPINION

I have audited the financial statements of the Town Council of Otavi for the financial year ended 30 June 2019. These financial statements comprise the balance sheet, income statement, cash flow statement and notes to the annual financial statements for the year then ended, and a summary of significant accounting policies.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Audit Opinion paragraph, the financial statements do not present fairly, in all material respects, the financial position of Otavi Town Council as at 30 June 2019 and its financial performance and cash flows for the year then ended.

2. BASIS FOR ADVERSE OF 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. An adverse audit opinion is being expressed due to the following:

2.1 NON-COMPLIANCE TO ADOPTED REPORTING FRAMEWORK

The auditors have observed that the Town Council did not present a complete set of financial statements, all other financial statements were presented with the exception of the statement of net assets. Non-submission of a full set contravenes the requirements of International Public Sector Accounting Standards (IPSAS).

2.2 DEPRECIATION

The auditors have observed that the Council charged full depreciation on assets under construction (work in progress) and did not consider the pro rata calculation of those acquired during (middle) of the year. Depreciation is an allocation of the depreciable amount of an asset over its estimated useful life and is not charged on work in progress (e.g. a house under construction). The Council provided an incomplete asset register. The asset register has a differences amounting to N$ 6 169 932 between additions in the fixed asset register and the ledger transactions for income assets amounting to N$ 17 418 906 and N$ 11 248 974 respectively;

2.4 NON SUBMISSION OF DOCUMENTS

The following documents were not submitted for audit purposes:

- Employers PAYE returns;

- Suppliers details ledger with a total amounting to N$ 20 732 980;
- Payment vouchers for assets additions amounting to N$ 2 060 510;
- Payment vouchers for bulk water purchases amounting to N$ 1 953 439; and
- Supporting schedules or documents for loans receivables amounting to N$ 5 392 936 as disclosed in the balance sheet were not provided for audit verification purposes.

2.5 CASH FLOW STATEMENTS

Cash flow from operating activities in the cash flow statements totaling N$ 122 086 652 was not the same as on note 13 of the financial statements which is N$ 113 553 857, the difference amounted to N$ 8 532 795 which the Council did not provided an explanation.

2.6 ACCOUNTS RECEIVABLE

Total receivables and payables were understated by N$ 4 974 031 caused by the inclusion of receivables with credit balances.

2.7 DEBTOR ALLOWANCE

The Council over provided for irrecoverable debtor allowance with N$ 22 832 443. According to the Conceptual Framework an asset is a resource controlled by the Council from which future economic benefits are expected to flow. If the customer can't pay, then no economic benefits are expected to flow from the trade receivable. So, the trade receivable no longer meets the definition of an asset and it must be removed from the statement of financial position and is charged as an expense in the statement of profit or loss. The N$ 22 832 443 is not yet bad it can still be collected.

2.8 ADJUSTMENTS

Unexplained adjustments amounting to N$ 119 462 292 were made to the appropriation account. Some account receivable made payments to the Council but their accounts were not reconciled, as a result these amounts were disclosed as direct/unknown deposits amounting to N$ 2 297 840 at year end.

2.9 SUBSIDY

It was noted that revenue from Road fund administration and government subsidy were overstated with an amount of N$ 27 504 and N$ 2 839 607 respectively.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN
3.

The auditors draw attention to the financial statements, which indicates that the Town Council incurred a net loss of N$ 2 973 574 on the income statement, the Town Council's current liabilities exceeded current assets by N$ 18 812 976, which indicates that a material uncertainty exists that may cause significant doubt on the Town Council's ability to continue as a going concern. The Audit Opinion is not modified in respect of this matter.

4. KEY AUDIT MATTERS (KAM)

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.

5. OTHER INFORMATION

Management is responsible for the other information. My opinion on the financial statements does not cover the other information and, accordingly, 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. I have nothing to report in this regard.

6. 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 General Accepted Accounting Principles and 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.

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.

7. 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 free from material misstatement, whether due to fraud or error and to issue a 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 (ISSAIs), 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, I also;

- 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 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. AUDIT OF PERFORMANCE INFORMATION

The (KPI) key performance indicators audit could not be carried out due to the non-submission of updated strategic, annual plan, quarterly reviews and annual review reports.

8. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS (COMPLIANCE)

The financial statements were submitted on time by the Accounting Officer to the Auditor-General on 01 October 2019 in terms of Section 87 (1) of the Local Authority Act, 1992.

9. ACKNOWLEDGEMENT

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

WINDHOEK, July 2020

JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

ANNEXURE A

THE TOWN COUNCIL OF OTAVI
BALANCE SHEET AT 30 JUNE

ASSETS

	Note	2019 N$	2018 N$
ASSETS			
Non-current assets		**139 097 113**	**136 208 054**
Property, plant and equipment	2	120 980 679	113 513 719
Loan receivables	3	5 392 936	5 392 936
CENORED equity	6	5 313 439	5 313 439
Investments	4	7 410 059	11 987 959
Current assets		**5 799 453**	**5 652 227**
Trade receivables	7	5 307 655	5 652 227
Cash and cash equivalent	8	491 798	-
TOTAL ASSETS		**144 896 566**	**141 860 281**
EQUITY AND LIABILITY			
Fund		**119 637 486**	**121 435 105**
Capital outlay	9	413 174	112 988 934
Fund accounts	10	119 224 312	8 446 170
Non-current liabilities		**646 650**	**559 609**
Long term liabilities	11	646 650	559 609
Current liabilities		**24 612 430**	**19 865 567**
Accounts payables	12	24 612 430	19 359 036
Bank overdraft		-	506 531
TOTAL EQUITY AND LIABILITIES		**144 896 566**	**141 860 281**

ANNEXURE B

THE TOWN COUNCIL OF OTAVI
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2019	2018
		N$	N$
Income	16	41 191 682	55 579 533
Expenditure	15	(44 165 257)	(54 155 697)
Net (Deficit) / Surplus		**(2 973 575)**	**1 423 837**
Adjustment to appropriation account	13	119 462 292	(1 945 299)
		116 488 717	(521 462)
Revenue account at the beginning of the year		(8 078 383)	(7 556 921)
Revenue account at the end of the year		**108 410 334**	**(8 078 383)**

ANNEXURE C

THE TOWN COUNCIL OF OTAVI
CASHFLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	2019	2018
	N$	N$
Cash flow from operating activities		
Cash receipts from customers	40 859 765	55 579 533
Cash paid to suppliers	(81 226 887)	(54 664 773)
	122 086 652	914 760
Cash flow from operating activities		
Increase in capital outlay	(112 575 760)	23 273 561
Decrease/(increase) in funds	(5 710 576)	(4 842 821)
	3 800 317	19 345 500
Cash flow from investing activities		
Addition to plant and equipment	(7 466 959)	(23 208 911)
Decrease (increase) in investments	4 577 901	4 008 016
Decrease (increase) in loans receivable	-	(1 999)
	(2 889 059)	(19 202 894)
(Decrease) increase in long term liabilities	87 041	(64 649)
Net decrease/increase in cash and cash equivalents	998 299	77 956
Cash and cash equivalent at the beginning of the year	(506 531)	(584 487)
Cash and cash equivalent - end of the year	**491 768**	**(506 531)**

1. ACCOUNTING POLICIES

1.1 Basis of presentation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment, marketable securities and investment properties where appropriate.

1.2 Property, plant and equipment and depreciation

All plant and equipment are initially recorded at cost. Cost includes all costs directly attributable to bringing the assets to working condition for their intended use. All other plant and equipment are stated at historical cost or valuation where applicable.

Depreciation is calculated on property, plant and equipment except where the assets are financed by loans.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimation recoverable amount, the assets or cash generating units are written down to their recoverable amount.

Subsequent expenditure

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential over the total life of the asset more than the most recently assessed standard of performance of the existing asset will flow to the Council. All other repairs and maintenance are charged to surplus or deficit for the year in which they are incurred.

1.3 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in current liabilities.

1.4 New Development Fund

The purpose of this fund is to make provision for future capital development projects of the Council. Income is obtained from the Revenue Account as well as donation from the Government.

Internal reserve fund

The Council established internal reserves in line with Section 80 of the Local Authorities Act 23 of 1992.

Fixed property reserve

Established by the Council as a revolving fund to fund infrastructure development including development of new municipal areas. Contributions to the fund are by way of sales of land and qualifying government contributions.

Sales of land are recognised in the statement of surplus or deficit and subsequently transferred to the fund through the Statement of Changes in Net Assets to the reserve. Time to time the Council receives government contributions for infrastructure development. Government contribution is recognised as revenue to the extent that the Council has complied with any of the criteria, conditions, or obligations embodied in the funding agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Unconditional grants and receipts are recognised in the surplus or deficit upon receipt. Subsequently the funds recognised as revenue is transferred to fixed property reserve through the Statement of Changes in Net Assets.

Other reserves

Council established other reserves for example sanitation reserves, to fund other council projects. Contributions to and from the reserve are transferred via the Statement of Changes in Net Assets to the reserve in line with the amount provided for in the operating budget.

All reserves are supported by investments held with financial institutions and to a certain extent with accounts receivable. Interest earned on the investments backing up this fund must be recorded as part of interest earned in surplus or deficit for the year and can be transferred via the Statement of Changes in Net Assets to the Fund.

1.5 Revenue

Revenue is recognised to the extent that the Council has transferred the significant risks and rewards of ownership of goods to the buyer or has rendered services under an agreement provided the amount of revenue can be measured reliably and it is probable that economic benefits associated with the transactions will flow to the Council. Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes and discounts. Interest is recognised in surplus or deficit, using the effective interest rate method.

THE TOWN COUNCIL OF OTAVI
NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

	2019	2018
	N$	N$
2. Property, Plant and equipment		
Income assets	120 980 679	113 513 719
3. Loans receivable		
Build together advance to buyers	5 392 936	5 392 936
4. Investments	**7 410 059**	**11 357 959**
Commercial banks		
Build together revolving account	23 243	23 268
Build together Disbursement account	348 993	1 296 968
Build together Receipt account	1 415 193	1 222 433
Otavi Capital Projects FNB account	3 512 425	4 156 972
32 Days Investments FNB account	770 833	1 063 446
Otavi Single Quart transformation FNB account	1 299 411	3 555 149
Otavi Single Quart Projects FNB account	39 961	39 724
5. Interest earned	**395 931**	**-**
Build together revolving account	255	-
Build together Disbursement account	22 325	-
Build together Receipt account	41 434	-
Otavi Capital Projects FNB account	174 404	-
32 Days Investments FNB account	57 388	-
Otavi Single Quart transformation FNB account	99 688	-
Otavi Single Quart Projects FNB account	437	-
6. Investment in equity shares	**5 313 439**	**5 313 439**
Cash	89 000	89 000
Shares	5224439	5224439
7. Trade and Other receivables	**5 307 655**	**5 652 227**
Consumer debtors	34 084 212	26 963 703
Sundry debtors	-	112 017
VAT debtors	2 189 650	1 009 888
Less provision for bad debts	(30 966 206)	(22 433 381)

THE TOWN COUNCIL OF OTAVI
NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

	2019	2018
	N$	N$
8. Cash and cash equivalent		
Current account (overdraft)	491 798	(506 531)
9. Capital Outlay	**413 174**	**112 988 934**
Revenue contribution	-	110 848 035
General Capital contribution	-	1 475 077
Loan Redeemed	413 174	665 823
10. Fund account and Reserves	**10 813 978**	**16 524 554**
Build together fund	9 224 691	9 009 931
Housing fund	-	-
Capital Reserve Fund	-	5 074 781
Fixed property fund	1 589 287	1 589 287
Renewal fund	-	817 715
Endowment fund	-	32 840
Revenue account kept in compliance with Section 86 (1) of Local Authority Act 1992	108 410 334	(8 078 383)
11. Long term liabilities	**646 650**	**559 609**
External loan	611 826	524 785
Housing fund	34 824	34 824
12. Trade and other payables	**24 612 430**	**19 359 036**
Trade payables	983 038	7 097 924
Provision for leave	1 332 364	1 221 867
Regional Council	1 397 994	1 052 224
NAMWATER current and ring-fenced	15 620 652	4 246 741
GRN loans outstanding	2 731 297	2 611 431
Sundry payables	2 316 052	2 934 766
Deposits	231 033	194 083
13. Adjustment to Appropriation account	**119 462 292**	**-1 945 299**
Expenditure - old deposit adjustments	(281 806)	-
Provision for bad debts	-	(3 115 549)
Prior year adjustments	112 323 112	-
Capital transfer to revenue	7 420 986	1 170 251

	2019	2018
	N$	N$
14. Cash utilized by operations		
Operating (deficit) surplus before interest and transfers to investment account	(2 973 575)	1 423 837
Adjustment to appropriation account	119 462 292	(1 945 299)
Net operating (deficit) surplus before changes in working capital	116 488 6717	(521 462)
Changes in working capital		
Decrease (increase) in trade and other receivable	(8 188 253)	(3 703 368)
Increase (decrease) in trade and other payables	5 253 394	5 139 590
	(2 934 859)	1 436 222
Cash utilized by operations	**113 553 857**	**914 760**
15. Expenditure	**44 165 257**	**54 155 697**
Salaries and wages	5 271 428	-
Overtime	284 721	-
Councillor allowance	477 710	-
Housing allowances	1 653 770	-
Service bonus	362 638	-
pension fund contribution	1 016 473	-
Social security	64 837	-
Medical aid	1 273 277	-
Cell/Airtime	58 000	-
Transport / expenditure	523 865	54 155 697
Vehicle allowance	102 701	-
Advertising	36 600	-
Otavi investment expo	11 000	-
Bulk purchases : water	7 058 894	-
Temporally workers	103 780	-
Consultancy workers	10 967	-
Courier fees	28 466	-
Electricity departmental	1 023 681	-
Entertainment official	59 659	-
Interest on arrears	906 007	-
Fuel and oil	436 402	-
Incidental expenses	44 232	-

15. Expenditure (continued)

	2019	2018
	N$	N$
Insurance	269 585	-
Legal costs	5 282	-
Vehicle licence fees	83 349	-
Material and stores	187 747	-
Membership fees	74 200	-
Postage and telephone	154 749	-
Printing and stationery	310 400	-
Regional Council fees	345 769	-
Security services	893 505	-
Tools and equipment	70 600	-
Staff training	52 509	-
Travelling and accommodation	304 627	-
Temporally workers	143 086	-
Donation	17 898	-
VIP payroll licence fees	20 365	-
FINSTEL licence fees	159 689	-
Sewerage treatment chemical	29 800	-
Internship program	35 283	-
Bank charges	177 744	-
Buildings	11 413	-
Houses	74 815	-
Machine and equipment	322 034	-
Tools and equipment	22 197	-
Treatment plant sewerage	243 802	-
Computer equipment	53 840	-
Vehicles	38 859	-
Water meters/ pre-paid	46 565	-
Interest and redemption	119 865	-
Upgrade of sport facility	688	-
Town planning and surveying	260 770	-
HP instalments	182 789	-
Depreciation	9 951 947	-
Leave provision	157 554	-
Provision for doubtful debts	8 532 825	-

	2019	2018
	N$	N$
16. Income	**41 191 683**	**55 579 533**
Penalty charges	1 305	-
Permission to occupy	7 454	-
Site rental	211 356	-
Assessment rate	4 837 184	-
Townland levy	2 078 206	-
Burial fees	18 837	-
Connection/ Disconnection	99 217	-
Distribution : CENORED	648 688	-
Fire brigade fees	115 175	-
Subsidy: MRLGH	15 332 518	55 579 533
Garden soil and gravel	5 952	-
Fitness certificate	50 862	-
NATIS refund	264 766	-
Road fund refund (RFA)	590 739	-
TIPEEG	2 325 859	-
Refuse removal - Private	1 814 916	-
Rental - bungalows	20 700	-
Building plan fees	24 715	-
Rental : Townlands - camps	146 195	-
Sale of Council building	227 400	-
Rental of community hall	5 573	-
Rental housing	220 538	-
Rental machinery	171 768	-
Sewerage private	1 674 797	-
Sundry income	116 763	-
Water private	6 978 393	-
Pre- paid water sales	328 534	-
Interest on investments	331 917	-
Sale of erven	276 584	-
Basic charges on water	1 369 416	-
Basic charges on water - Business	190 374	-
Interest on outstanding account	629 499	-
Clearance certificate	6 719	-
Sundry income	68 764	-