



**REPORT OF THE NATIONAL COUNCIL
STANDING COMMITTEE ON PUBLIC
ACCOUNTS AND ECONOMY**

**ON THE REVIEW OF THE REPORTS OF
THE AUDITOR-GENERAL OF
REGIONAL COUNCILS AND LOCAL
AUTHORITIES**

**FOR VARIOUS FINANCIAL YEARS
ENDING 31 MARCH 2018 FOR REGIONAL
COUNCILS AND 30 JUNE 2016; 2017; 2018 FOR
LOCAL AUTHORITIES.**

November 2022

TABLE OF CONTENTS

PAGE

COMMITTEE COMPOSITION.....	ii
LIST OF ABBREVIATIONS	iii
1. EXECUTIVE SUMMARY.....	1
2. REVIEW FINDINGS	2
3. REVIEW AND CONDUCT OF PUBLIC HEARINGS WITH REGIONAL COUNCILS AND LOCAL AUTHORITIES	3
4. KEETMANSHOOP MUNICIPALITY – AUDIT REPORT FOR THE FINANCIAL YEARS ENDED 30 JUNE 2017.....	4
5. KHARAS REGIONAL COUNCIL – AUDIT REPORT FOR THE FINANCIAL YEARS ENDED 31 MARCH 2018	11
6. GOCHAS VILLAGE COUNCIL – AUDIT REPORT FOR THE FINANCIAL YEARS ENDED 30 JUNE 2016 AND 2017.....	18
7. ARANOS VILLAGE COUNCIL – AUDIT REPORT FOR THE FINANCIAL YEARS ENDED 30 JUNE 2017 AND 2018.....	28
8. DISCONTINUATION OF PUBLIC HEARINGS WITH CERTAIN ENTITIES.....	40
9. OMUTHIYA TOWN COUNCIL – AUDIT REPORT FOR THE FINANCIAL YEARS ENDED 30 JUNE 2018	41
10. CONCLUSION	47
11. GENERAL RECOMMENDATIONS	48

COMMITTEE COMPOSITION

Members of the Committee

1. Hon. Peter K Kazongominja – Chairperson
2. Hon. Leonard Shikulo – Vice Chairperson
3. Hon. Lonia Kaishungu-Shinana – Member
4. Hon. Sebastiaan I. Gobs – Member
5. Hon. Harald J. Kambrude – Member
6. Hon. Abner Shikongo – Member
7. Hon. George Garab – Member

Secretariat

1. Mr. Himuvi Mbingeneeko, Chief Parliamentary Clerk
2. Mr. August Mathupi, Legal Officer
3. Mr. Immanuel Kooper, Chief Information Officer

Office of the Auditor-General

1. Mr. Junias Kandjeke, Auditor-General
2. Mr. Goms Menette, Deputy Auditor-General
3. Mr. Blessing Nyandoro, Director
4. Mr. Ellis Tuaire, Deputy Director

LIST OF ABBREVIATIONS

CEO	Chief Executive Officer
CRO	Chief Regional Officer
GAAP	Generally Acceptable Accounting Practices
GL	General Ledger
IPSAS	International Public-Sector Accounting Standards
ML	Management Letter
NHE	National Housing Enterprise
OAG	Office of the Auditor General
PAC	Public Accounts Committee
PPE	Property, Plant and Equipment
REDs	Regional Electricity Distributors
VAT	Value Added Tax
WIP	Work-In-Progress
FINSTEL	Financial System
FNB	First National Bank
NATIS	Namibia Traffic Information System

1. EXECUTIVE SUMMARY

In terms of Article 74(1)(b) of the Constitution (Act 1 of 1990), the National Council has the power to investigate and report to the National Assembly on any subordinate legislation, reports and documents which under law must be tabled in the National Assembly and which are referred to it by the National Assembly.

In order to exercise the above mentioned powers and functions, the National Council established Standing Committees, among others the Standing Committee on Public Accounts and Economy, herein referred to it as “the Committee” in terms of Article 74(2) of the Constitution.

One of the duties of the Standing Committee on Public Accounts and Economy is to examine all reports of the Auditor-General on Offices/Ministries/Agencies as and when referred to the National Council by the National Assembly for advice.

The Committee reviewed the reports of the Auditor-General for one Regional Council for the Financial Year ending 31 March 2018 and for Local Authorities for various Financial Years ending 30 June 2016; 2017, 2018 respectively.

Therefore, the Committee considered each report with disclaimer and adverse audit opinion in-depth and based on the nature of the concerns raised by the Auditor-General drafted questions addressed to Accounting Officers (i.e. Chief Regional Officers and Chief Executive Officers). Public hearings were conducted by the Committee with Accounting Officers where the Committee deemed necessary.

The Committee, thus, conducted public hearings with the invited Accounting Officers of various Regional, Municipal, Town and Village Councils to collect evidence as it considered necessary for the exercise of the National Council’s powers of review, investigation and advice.

In the end, the Committee evaluated the responses of the Accounting Officers and made recommendations thereto.

It should be highlighted that this Committee Report is the first to be produced by the Standing Committee on Public Accounts and Economy of the 6th National Council.

2. REVIEW FINDINGS

During the review, major findings that were observed by the Committee are:

1. Failure to keep accounting records as are necessary to reflect transactions by Regional Councils, as required by section 39(1) of the Regional Councils Act, 1992 (Act 22 of 1992) as amended.
2. Failure to keep accounting records as are necessary to reflect transactions by Municipalities, Town and Village Councils as required by section 86(1) of the Local Authority Act, 1992 (Act 22 of 1992) as amended.
3. Uncertainties on what Municipalities, Town and Village Councils should do to write-off pre-independence debt.
4. Failure to comply with applicable legislation, accounting standards and other mandatory reporting requirements approved by the Auditor-General.
5. Failure and/or inability to submit, in a timely manner, financial statements to the Auditor-General as required by section 87(1) of the Local Authorities Act, 1992 (Act 23 of 1992) and section 40(3) of the Regional Councils Act, 1992 (Act 22 of 1992).
6. Failure by Local Authorities to:
 - (a) Charge for the benefit of the funds of Regional Councils an amount equal to five percent of their rates in terms of Section 77 of the Local Authorities Act, 1992 (Act 23 of 1992) and/or;
 - (b) Inability and/or neglecting and/or failure by Local Authorities to pay over levied sum equal to five percent of their rates to regional councils; and/or;
 - (c) Failure by Regional Councils to request for the benefit of their fund, the sum equal to five percent from local authority councils within their regions.
7. Failure by Regional Councils, Municipalities, Towns and Village Councils to table and consider at their ordinary meetings the report of the Auditor-General and decide on rectifying steps on irregularities revealed by the audit report as required section 40(3) of the Regional Councils Act, 1992 (Act 22 of 1992), as amended.
8. Lack of capacity on the part of Accounting Officers to compile financial statements as per requirement of the Act.
9. Failure by Regional Councils, Municipalities, Towns and Village Councils to submit complete financial documents as requested by the Auditor-General.
10. Failure by Regional Councils, Municipalities, Towns and Village Councils to implement recommendations of the Office of the Auditor-General as communicated in respective Management Letters.

3. REVIEW AND CONDUCT OF PUBLIC HEARINGS WITH REGIONAL COUNCILS AND LOCAL AUTHORITIES

The Committee reviewed all the reports referred to the Committee on 04 November 2019 in terms of rule 155(1) of the Standing Rules and Orders. After review of Auditor-General's reports of Local and Regional Councils, the Committee deem it not necessary to engage entities with unqualified and qualified audit opinion, as the findings expressed by the OAG were of immaterial significance. However, the Committee deemed it necessary to invite Accounting Officers to appear before the Committee at public hearings for those entities whose audit opinions were Disclaimers and Adverse. The public hearings were conducted from the 25 October – 04 November 2021 in the regions.

The audit opinions are classified as follows:

- An unqualified opinion certifies that financial statements are fairly and appropriately presented, without any identified exceptions, and in compliance with generally accepted accounting principles;
- A qualified opinion means that the financials are fairly presented, with the exception of a specified area;
- An adverse opinion means financial statements are misrepresented, misstated, and do not accurately reflect its financial performance and health; and
- A disclaimer of opinion is a statement made by an auditor that no opinion is being given regarding the financial statements of a client.

4. KEETMANSHOOP MUNICIPALITY – AUDIT REPORT FOR THE FINANCIAL YEARS ENDED 30 JUNE 2017

4.1 Main Concern

QUESTION 1: AUDIT OPINION

The Committee observed that Keetmanshoop Municipality received an A adverse audit opinion for the year 2017. The Committee, therefore, asked Council to explain its understanding of an adverse opinion and the impact it has on the performance of the Council.

The Committee further wanted to know what remedies Council has put in place to improve the audit opinion. It further inquired whether Council has a fully-fledged finance department and who is preparing the financial statements for the Council. The Council was further asked to provide proof of the training which was provided for the finance staff utilising the exemption provided by the OAG office.

Response of the Accounting Officer

According to the Accounting Officer, adverse audit opinion basically means that there are so many issues raised by the Auditor General, that could impact Council's financial statements, to the extent that it is on the verge to collapse in terms of financial statements.

With regard to what remedy Council has put in place to rescue the situation, the Accounting Officer indicated that a lot of things have happened since the audit was conducted. Council has changed from FINSTEL financial system to MunSoft, which is much more updated in terms of technology. Moreover, Council employed staff members that are clued up with accounting. Only the senior executive and two senior accountants were trained in IPSAS out of the 21 staff in the Finance Department. Furthermore, Council made progress in terms of availability of documents.

The Finance Department is not fully staffed. It is a challenge to attract qualified people to smaller municipalities like Keetmanshoop, because of the low pay grades that are at play. However, Council has approved the new organogram, that will hopefully attract qualified staff members. The proposed staff organogram has been submitted to the line Ministry for approval and Council is awaiting the ministerial approval.

From 2017, Council's financial statements are prepared in-house.

Evaluation

The Committee took note of the Accounting Officer's response. However, the training on IPSAS was not adequate as few staff were trained, and the proposed new structure was still not approved. Furthermore, the new acquired accounting system (MunSoft) is not user-friendly as it is not optimally used, because staff were not trained on all the modules.

Recommendation

The Committee recommends that Council should expedite the approval of the organogram so that it employs competent staff in the Finance Department.

Furthermore, Council should provide training to staff members in the Finance Department on IPSAS and accounting system used by the Council.

4.2 Main Concern

QUESTION 2: REPORTING FRAMEWORK

The Committee asked why the Municipality does not have an acceptable reporting framework in place.

It further asked whether Council has adopted an acceptable reporting framework as per the circular of the line Ministry, dated 13 September 2019.

Response of the Accounting Officer

According to the Accounting Officer, Council has to acquire a financial system that can allow it to adopt the IPSAS. The financial system in place, MunSoft, is based on the South African accounting laws and its consultants failed to adapt the system as per Council's requirements after the system was implemented.

However, one of the biggest aims is to transform the Municipality of Keetmanshoop to adopt the International Public Sector Accounting Standards (IPSAS).

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee is displeased with the Council intention to acquire yet another financial system as that will be wasteful expenditure.

Recommendation

The Committee recommends that Council consult the line ministry or OAG on what system to use before acquiring another financial system.

4.3 Main Concern

QUESTION 3: CASH FLOW STATEMENT

The Committee noted that Council did not prepare a cash flow statement and hence requested that the municipality provide the cash flow statement to the Committee for the year under review.

Response of the Accounting Officer

According to the Accounting Officer, the cash flow statement for 2017 has been submitted with the 2018 financial statements and a copy can be submitted to the Committee.

Evaluation

The Committee took note of the Accounting Officer's response and accept the cash flow statement submitted after the hearing.

Recommendation

The Committee recommends that Council should always prepare and submit complete set of annual financial statements as per IPSAS 1 presentation of financial statements.

4.4 Main Concern

QUESTION 4: BUILD TOGETHER

The Committee observed that the Build Together Loan was overstated by N\$ 614 821.00 and no supporting documents were provided for any of the loans on Build Together listing. The Committee asked Council to explain how it manages the Build Together project.

Response of the Accounting Officer

According to the Accounting Officer, Council has done significant amount of work on the Build Together Programme. Council collected whatever information on the programme that was available within Council and that was available at the Ministry and consolidated the information.

However, when the Municipality switched from the FINSTEL system to the Munsoft system, there was no mapping of data, thus resulting in some accounts on FINSTEL being double counted. This is what happened with the build-together loan listing and the amounts that was audited by the auditors.

However, these figures look very much different after the 2018, 2019 and even the 2020 financial year, because whatever information Council could obtain, the loans were now manually capitalised and then these amounts have been rectified on the system. There is, thus, a completely different picture now.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council ensures that supporting documents for the Built Together Programme are safeguarded and provided for audit purposes.

4.5 Main Concern

QUESTION 5: LEAVE PROVISION

The Committee noted that leave pay provision was understated by N\$ 1 229 239 and therefore asked Council to provide the Committee with updated leave gratuities of all staff members of the Council for the year under review (2016/2017, 2017/2018, 2018/2019 and 2019/2020).

Response of the Accounting Officer

According to the Accounting Officer, Council calculated the leave pay based on 25 days, instead of the required maximum of 40 days. Hence, the difference between the two resulted in the understatement. Furthermore, the error could not be corrected beforehand, because the financial statements were already submitted to the Auditor-General.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee noted that Council disregarded its own internal personnel rules.

Recommendation

The Committee recommends that Council must always adhere to the provisions of rule 28(2) of the Town of Keetmanshoop: Personnel Rules read with section 27(1)(c) of the Local Authorities Act, 1992.

4.6 Main Concern

QUESTION 6: NAMWATER

The Committee noted that the water purchases from Namwater was overstated by N\$ 579 583.00, and thus asked Council to provide to the Committee the reconciliation of the Namwater account for the year under review.

Response of the Accounting Officer

According to the Accounting Officer, the overstatement was due to system error, whereby amounts of invoices that were captured on the system included VAT.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee is gravely concerned that Council is not performing reconciliation on key accounts.

Recommendation

The Committee recommends that Council must perform reconciliation on key accounts on monthly basis and not wait until the end of the financial year.

4.7 Main Concern

QUESTION 7: SALE OF ERVEN

The Committee noted that incorrect accounting treatment on revenue from erven sold resulted in the understatement of revenue by N\$ 3 517 730.00, hence Council was asked to explain the processes followed on the sale of erven and the accounting treatment in the Council's books. The Council was further asked to provide the list of the erven sold for the year under review.

Response of the Accounting Officer

The Accounting Officer explained that unlike normal companies that sell merchandise and disclose them as revenue or income, Council, on the other hand, sell land and disclose it in a Land Fund account. Hence, sales of land do not go through an income statement but goes straight to a balance sheet as a fund account where it is reserve for future capital development. The auditors did not understand that, and, thus reported that there was an incorrect accounting treatment.

Evaluation

The Committee took note of the Accounting Officer's response. However, the response from the Accounting Officer is not addressing the finding or observation on wrong accounting treatment of sale of erven.

Recommendation

The Committee recommends that Council should put measures in place to ensure that all transactions are correctly classified and accounted for in all financial records.

4.8 Main Concern

QUESTION 8: RATES AND TAXES UNDERSTATED

The Committee observed that 5% rates and taxes expenditure was understated by N\$ 616 450.00. The Committee, therefore, asked Council why it contravenes section 77 of the Local Authorities Act, 1992 (Act No. 23 of 1992 as amended) which require Council to pay 5% levy of all rateable properties over to the Regional Council.

Response of the Accounting Officer

According to the Accounting Officer, due to tight cash flow situation, Council arranged a Stop Order with the bank to pay on monthly basis N\$50 000.00 over to the regional council.

However, when the auditors came at the end of the financial year, they indicated that the N\$50 000.00 paid monthly totalled to N\$600.000.00 instead of N\$1 200 000.00, hence the understatement.

Evaluation

The Committee took note of the Accounting Officer's response. However, it is clear the N\$ 50 000.00 Stop Order paid (monthly arrangement) to the regional council is not adequate to cover the total 5% levy on rates and taxes for the year under review. Furthermore, a failure to pay the full 5% levy is in contravention of section 77 of the Local Authorities Act, 1992 (Act No. 23 of 1992 as amended).

Recommendation

The Committee recommends that Council should comply with paying the full 5% levy in compliance with the Local Authorities Act, 1992 (Act No. 23 of 1992 as amended).

4.9 Main Concern

QUESTION 9: SOUTHERN ELECTRICITY

An amount of N\$ 11 423 434.00 relating to a Southern Electricity Company was not accounted for in the books of the Municipality. The Committee, thus, asked why Council failed to disclose revenue amounting to N\$ 11 423 434.00. The Committee further asked Council to explain and provide the agreement with the power utility.

Response of the Accounting Officer

According to the Accounting Officer, Council entered into an agreement with SELCO in 2006. SELCO agreed to pay N\$32 000.00 to Keetmanshoop Municipality as a loan. The amount was conditionally paid to Keetmanshoop for a few months, and it amounted to N\$1.6 million.

Throughout the years there was no argument or no discussion on the loan amount. However, when Council discontinued the agreement in 2018, SELCO added interest to the loan amount

of N\$1.6 million and it got to the amount of N\$11 million. Council objected and argued that throughout all the years, SELCO never invoiced them and never discussed repayment of the N\$1.6 million, hence it was unfair to suddenly claim that they are owed N\$11.4 million.

Council consulted its lawyers who agreed with them that in terms of addendum rule, one cannot charge anybody double the amount owed. SELCO insisted being paid N\$11.4 million or else they will act against Council. This dispute with SELCO was mentioned to the auditors, stating that Council was not going to pay the N\$11.4 million, because Council have not agreed on the interest charged.

Evaluation

The Committee took note of the Accounting Officer's response.

4.10 Main Concern

QUESTION 10: INVENTORY UNDERSTATED

The Committee asked Council to explain why the inventory was understated by N\$ 116 475.00 and whether the Office of the Auditor-General was invited to attend stocktaking.

Response of the Accounting Officer

According to the Accounting Officer, during the 2016/2017 financial year, Council migrated to a new financial system, i.e. from FINSTEL to MunSoft. The system was automatically increasing the stock count, thus making quantity more than it was supposed to be. For example, the stock sheet will show 20 quantities on the shelves, while the GL only shows 10, because of the double transaction part of the inventory. The bulk of the differences that resulted from the duplication went on to the following year and reconciliation on the inventory was not done due to staff shortages at stores.

On the issue of inviting the OAG for stocktaking, Council has never invited the Auditor-General to be present with the stock takes, because Council has very little stock.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee is not in agreement that the amount of N\$ 116 475.00 could be regarded as little stock.

Recommendation

The Committee recommends that Council must provide training to staff to capture inventory on MunSoft. Furthermore, the Committee recommends that Council must invite the OAG to attend stock take at year end.

Main Concern

2.10 DEPRECIATION

The Committee noted that the depreciation expense amounting to N\$ 4 142 156.00 and additions to assets amounting to N\$ 7 419 178.00 were wrongly disclosed. The Committee, therefore, asked whether Council has a depreciation policy in place. It further asked why the

depreciation and additions to fixed assets amounting to N\$ 7 419 178.00 was wrongly disclosed.

Response of the Accounting Officer

According to the Accounting Officer, over the years Council had never had an audit opinion that told them that fixed assets should not be accounted for in the Income Statement, which is usually done in public accounting. The auditors wanted it in the Balance Sheet directly, which is done in private companies/firms. So, the only time that this was raised was in the 2017 audit report, and again this could be attributed to the reporting framework.

On the issue of depreciation policy, there is no policy in place as of yet, however Council has listed a number of policies in relation to getting them for implementation of IPSAS.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council must develop and adopt a depreciation policy.

Main Concern

2.11 ADJUSTMENTS

The Committee asked Council to provide a breakdown of adjustments amounting to N\$ 20 461 730.00 reflected on Note 10.

Response of the Accounting Officer

According to the Accounting Officer, Council will provide the requested information.

Evaluation

The Committee took note of the Accounting Officer's response. However, the supporting documents provided to the Committee only relates to SELCO (N\$ 11 423 434.00) and Leave Gratuities of N\$ 161 761.00, which leaves N\$ 8 657 182.00 for bad debts without supporting documents.

Recommendation

The Committee recommends that Council ensures that supporting documents for adjustments made are safeguarded and provided for audit purposes.

5. KHARAS REGIONAL COUNCIL – AUDIT REPORT FOR THE FINANCIAL YEARS ENDED 31 MARCH 2018

5.1 Main Concern

QUESTION 1: AUDIT OPINION

The Committee observed that //Kharas Regional Council received an adverse audit opinion for the year 2018 and asked Council to explain what it is meant by an adverse audit opinion and its impact on the performance of the Council. It further asked what remedies Council have put in place to improve the audit opinion.

Response of the Accounting Officer

According to the Accounting Officer, the adverse audit opinion means the Auditor-General could not express an opinion, because of information that was not provided. The impact thereof is that it might lead to finances for projects not being approved and subsidies from line ministry being reduced, which can negatively affect service delivery to the inhabitants of the region.

On the question of what remedies Council had put in place to improve the audit opinion, the CEO informed the Committee that Council provided the Auditor-General's office with most of the information that was required. The opinion and other issues that were raised during the process of auditing was discussed with the regional councillors in a Council meeting. Furthermore, Council was given two years by the line ministry to move from the Namibian GAAP Framework to IPSAS, hence Council is currently in the second year of adopting IPSAS, as an accounting framework for the regional council. Managers from all divisions sat down to discuss the record keeping of source documents. In the past Council used consultants to draw up the financial statements, however from 2015/16 financial year financial statements are being done in-house by Council staff.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee could not find documentary proof that Council is using the correct reporting framework as per the directive of the line ministry. Furthermore, the Council failed to provide an action plan stipulating measures to improve the audit opinion as requested by the Committee.

Recommendation

The Committee recommends that Council indicate when it will implement an appropriate reporting framework.

Furthermore, Council is required to provide an action plan on remedial measures taken to improve the audit opinion.

5.2 Main Concern

QUESTION 2: ASSETS NOT RECORDED IN THE ASSET REGISTER

The Committee noted that additions for the year 2018 amounting to N\$ 38 763 509.44 were not recorded in the fixed Asset Register and depreciated. The Committee, therefore, asked

Council to provide an updated asset register as well as a list of unrecorded additions amounting to N\$38 763 509.00. It further wanted to know why additions were not recorded in the asset register.

Response of the Accounting Officer

According to the Accounting Officer, at the time of audit, the Asset Register was not updated. Council was using the Pastel system, which unfortunately was not updated. However, a consultant was appointed to assist with the compilation of an updated asset register.

Previously the Asset Register was around five (5) to 10 pages, but later it expanded to more than 60 pages. Hence, the updated Register will address the issue of the 38 million dollars, which was due to all assets not captured. The Committee will be provided with an updated Asset Register after the hearing.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that the OAG confirm whether Council is having an updated fixed Asset Register during subsequent audits.

5.3 Main Concern

QUESTION 3: NON-VERIFICATION OF CAPITALISED ASSETS

The Committee observed that auditors could not verify the accuracy, completeness and valuation of capital projects completed during the year amounting to N\$ 30 609 377.47 due to the non-availability of completion certificates. The Committee, therefore, requested the Council to explain to the Committee whether these projects were finalised and to provide completion certificates completed for the year under review.

Response of the Accounting Officer

According to the Accounting Officer, Council submitted the completion certificates after the exit meeting to the office of the Auditor-General on the issue raised, and the same could also be provided to the Committee after the hearing.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee observed that the certificates of completion submitted as supporting documents are only signed by the contractor and not the project beneficiaries and are therefore incomplete.

Recommendation

The Committee recommends that Council should in future ensure that supporting documentation such as completion certificate should be properly certified and verified by all parties as complete and availed to the auditors at the time of audit.

5.4 Main Concern

QUESTION 4: INCOMPLETE CAPITALISED PROJECTS

The Committee noted that the auditors observed that incomplete projects amounting to N\$ 11 276 705.80 were capitalized. The Committee, therefore, asked why Council capitalise incomplete projects. It further asked what measures were put in place to ensure that no repetition of such mistakes took place.

Response of the Accounting Officer

According to the Accounting Officer, after engaging the Auditor-General on the long list of WIP queried by the auditors in the 2017 report, Council noted that there were some projects that were incorrectly capitalized. These projects were construction services done at Noordoewer and Berseba Town Council. Council listed all these projects and the amount capitalized was verified to be around N\$11.5 million dollars. Hence, it was just an error slip-up from the Council's side that those projects were capitalized before completion. Nevertheless, all those projects have in the meantime been completed.

Regarding what measures Council has put in place to make sure that such mistake is not repeated, the CRO indicated that since it was an issue of miscommunication between the finance and planning divisions; the matter has been addressed by management to ensure that only projects completed are capitalised.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee stresses the importance of continuous monitoring and evaluation of WIP.

Recommendation

The Committee recommends that Council put measures in place to ensure that projects are completed before payments are advanced to the contractor by the finance department.

5.5 Main Concern

QUESTION 5: DIFFERENCE ON CASH FLOW STATEMENT

The Committee noted that in note 4, additions amounted to N\$ 50 040 213.00 while the cash flow at page 8 under financing activities, additions amount to N\$ 23 688 079.00. The Committee, thus, asked Council to explain the difference in the additions.

Response of the Accounting Officer

According to the Accounting Officer, the wrong method of recording occurred due to their inexperience in the compilation of financial statements coupled with lack of double-checking of work by supervisors.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee observe that Council lacks the necessary capacity in the Finance Department that must be urgently addressed.

Recommendation

The Committee recommends that Council should ensure that staff are subjected to continuous professional development.

5.6 Main Concern

QUESTION 6: CREDIT BALANCE ON DEBTORS ACCOUNT

The Committee noted that debtors age analysis reflected credit balances amounting to N\$5 358 272.65. Since there was no indication of a Credit Note issued, the Committee requested Council to provide a list of all duplicated accounts created during the set-up and to provide proof that those accounts have been rectified.

Response of the Accounting Officer

According to the Accounting Officer, during the set-up of customers on the Pastel system, all the customers were put on the system without separating them as per the settlements. Thus, when Council used the interns to capture some of the information; the interns captured the information incorrectly on certain customers' names and that created the N\$5.3 million dollars' credit balance.

To correct the situation on the Pastel system, Council went out in the settlements and used the yellow card system to separate the customers as per the settlement on the system. They identified the customers who were having credit balances. Most of the customers were having outstanding balances with one account, whilst the credit was reflected on another account. Therefore, the two accounts were compared and reconciled such that in the end the amount the person was owing was reduced by the credit. A copy of the financial year age analyses was made and could be distributed to the committee members.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council should put measures in place to ensure data integrity during migration from one financial system to another.

5.7 Main Concern

QUESTION 7: NON-SUBMISSION OF BUILD TOGETHER SUPPORTING DOCUMENTS

The Committee noted that Council did not provide, for auditing purposes, the debtors listing that could verify the Built Together debtors amounting to N\$ 4 389 998.00. Hence, the Committee asked to be updated on the status of the Build Together Programme, particularly in terms of how Council manages it. Further, it asked to be provided with the list of the beneficiaries amounting to N\$ 4 389 998.00.

Response of the Accounting Officer

According to the Accounting Officer, Council is receiving payments from the beneficiaries that are paying for the loan. The list of beneficiaries is not complete, because when the Build Together Programme was handed over to the Regional Council by the Ministry some of the documents were never received from the Ministry. Hence, Council is still struggling to obtain some missing documents of beneficiaries from the Ministry.

What Council has done in the meantime is to create a spreadsheet on an Excel Programme with updated information of beneficiaries and their payments. Unfortunately, those figures are not 100% correct, because it is not taking interest into account, because the system does not automatically calculate interest on the outstanding loan amounts. Moreover, getting payment from the beneficiaries remains a challenge due to unemployment and the Covid pandemic.

Furthermore, Council do not at this stage have a building programme for the Build Together clients. With the introduction of the Mass Housing Programme, the Build Together Programme was stopped. Council only looked at the houses that were almost complete, and then assisted the beneficiaries to complete these houses.

Evaluation

The Committee took note of the Accounting Officer's response. The Committee noted at time of compiling this report that the list provided by Council after the hearing was dated 24/01/2020, and thus did not include the period for the year under review.

Recommendation

The Committee recommends that Council provide the relevant list of the beneficiaries amounting to N\$ 4 389 998.00 to the auditors during next audit.

5.8 Main Concern

QUESTION 8: NON-DISCLOSURE OF BANK ACCOUNTS

According to the auditors, Council did not disclose the First National Bank (FNB) Non-Standard Call Account, No. 62081995056 with a balance of N\$ 2 517 088.00 in the financial statements, although this account was confirmed by the bank as belonging to the Council. Hence, the Committee asked Council to prove that the account does not belong to the Council.

Response of the Accounting Officer

According to the Accounting Officer, the bank account did not belong to the Regional Council. It was opened when the Hardap and //Kharas regional councils and local authorities in their jurisdictions were in the process of establishing a Regional Electricity Distribution (RED) company. After the establishment of the RED did not materialise some of the monies were paid back to the various institutions. The regional council got paid N\$700 000.00.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee is of the opinion that Council must provide proof of deposit of the N\$700 000, when it was deposited and in which account. Council further need to provide proof that the account has been closed and if not closed provide the current balance and signatories to the account.

Recommendation

The Committee recommends that Council provide the bank statement and signatories for the account to the auditors during the next audit.

5.9 Main Concern

QUESTION 9: DIFFERENCE BETWEEN DEBTORS ACCOUNTS

The Committee noted that a difference of N\$ 880 809.00 was observed between the debtor's amount disclosed in the financial statements of N\$ 14 921 603.00 and the amount reflected in debtors age analysis of N\$ 14 040 794.00. Council was then asked to explain why reconciliation is not performed regularly. The Committee further asked the Council to provide prove showing that Council was performing monthly reconciliation of key accounts.

Response of the Accounting Officer

According to the Accounting Officer, the difference emanated from the money that an investor was owing the Regional Council for leasing of Farm Vergenoeg. The issue is that the expenses of Farm Vergenoeg is included in the General Ledger, as a Sundry Account and that is why it was not included in the age analyses of the debtors. Hence, it was only recorded under Sundry Debtors in the financial statements, under accounts receivable.

Regarding the performance of bank reconciliations, Council was not performing monthly bank reconciliations on certain accounts, based on the fact that the Pastel system is only linked at the head office and not linked at the settlement offices. However, Council do perform reconciliations on a monthly basis on the manual system, while on the Pastel system it is done on yearly basis.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council discloses all debtors to reflect a true and fair view of the financial statements.

5.10 Main Concern

QUESTION 10: DIFFERENCE IN VAT

A difference of N\$ 714 589.66 found between the VAT disclosed and the VAT recalculated by the auditor, the Committee wanted to know whether Council do benefit as a VAT vendor/registration and to explain to the Committee why VAT reconciliation was not done.

Response of the Accounting Officer

According to the Accounting Officer, Council do benefit from the VAT vendor registration. For example, with the refund, it addressed various issues in the region, such as, the construction of toilets, unfinished built together houses, open market, etc.

With regard to the difference, Council could not get the difference mentioned by the auditors and therefore needed the auditor's assistance to explain how they arrived at that figure.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council provides the auditors with a VAT assessment report from the Ministry of Finance, to avoid variances.

5.11 Main Concern

QUESTION 11: UNDERSTATEMENT OF WORK IN PROGRESS

The Committee noted that a difference of N\$ 620 267.01 was observed between the amount disclosed in the financial statements (N\$ 91 334 058) and amount recorded in the GL (N\$ 90 713 790.98). The Committee, therefore, asked Council to explain why Work in Progress amounting to N\$ 620 267.00 was not disclosed in the financial statements. It further requested Council to provide the outstanding certificate to the Committee.

Response of the Accounting Officer

According to the Accounting Officer, Council will need to look at the General Ledger and then also look at the financial statements to see whether the mentioned figure was excluded or not.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council discloses all Work-In-Progress in the Financial Statements.

6. GOCHAS VILLAGE COUNCIL – AUDIT REPORT FOR THE FINANCIAL YEARS ENDED 30 JUNE 2016 AND 2017

6.1 Main Concern

QUESTION 1: AUDIT OPINION

The Committee observed that Gochas Village Council received a disclaimer audit opinion for the years 2016, 2017. The Committee asked Council to explain how it understands a Disclaimer audit opinion and its impact on the performance of the Council. It further wanted to know what remedies Council has put in place to improve the audit opinion.

Furthermore, the Committee asked whether Council has a fully-fledged finance department and who is preparing the financial statements for the Council.

The Council was then requested to provide proof of the training which was provided for the finance staff utilising the exemption provided by the AG's office.

Response of the Accounting Officer

According to the Accounting Officer, a disclaimer audit opinion is the opinion in which sufficient evidence and information were not provided during the audit. A disclaimer opinion tarnishes the image and credit worthiness of the Council.

Council has put the following remedies in place to improve the audit opinion:

Council has sent the Accountant for IPSAS training and trained the staff on the FINSTEL system.

Furthermore, Council appointed a qualified Accountant and under her supervision there are is creditors and debtor's Clerks. A consultant has also been appointed for three (3) to five (5) years, and will among others, train the staff and develop policies that must be in place. Council has compiled a proper Asset Register. The financial statements are compiled by the Accountant assisted by the consultant.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee could not ascertain if indeed the training was provided to the staff, in the absence of evidence that was not provided to the Committee during and after the hearing. Furthermore, the Accounting Officer did not provide remedies put in place to address the findings that led to the disclaimer audit opinion.

Recommendation

The Committee recommends that Council should, as a matter of urgency, develop and maintain a proper filing system to safeguard all supporting documents and avail them to auditors upon request.

6.2 Main Concern

QUESTION 2: NONE ADHERENCE TO ACCOUNTING FRAMEWORK

The Committee asked why Council did not adopt an acceptable reporting framework as per the circular of the line Ministry (dated 13/09/2019).

Response of the Accounting Officer

The Accounting Officer promised the Committee that all the statements that Council will be preparing henceforth shall be based on the IPSAS framework.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council adopts an acceptable reporting framework.

6.3 Main Concern

QUESTION 3: UNSUPPORTED INVESTMENT INCOME

The Committee requested Council to provide the list of investments made and further wanted to know why interest on investments were not disclosed.

Response of the Accounting Officer

According to the Accounting Officer, Council do not have an investment account. The figures provided in the financial statement is wrong. It was a typing error by auditors. The figure that was printed in their management report was N\$15,495.00, which was interest earned on money in their current operational account.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee noted that the error alluded to was made by Council and not by the auditors. The annual financial statements provided by Council for auditing reported the figure as investment income / interest received amounting to N\$ 152 459.00, instead of N\$ 15 495.00.

Recommendation

The Committee recommends that Council should always ensure that all figures are accurately and correctly reported in the annual financial statements.

6.4 Main Concern

QUESTION 4: UNSUPPORTED INVENTORY BALANCE AND UNVERIFIED INVENTORY

The Committee asked Council to explain why the inventory was understated by N\$ 2 041 719.00 and whether the Office of the Auditor-General was invited to attend stocktaking.

Response of the Accounting Officer

According to the Accounting Officer, Council had a problem understanding what should go to the inventory and what should go to livestock investment. As a result, the two assets were jointly put together as one, hence the figure of N\$2 million dollars.

Council invited the Office of the Auditor-General, but they did not come.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee noted with concern that the purported herd statement submitted as proof of evidence does not disclose the value of the livestock inventory. Furthermore, the Committee observed that the inventory list provided as proof was for the year 2020 and not for the year under review (2017) and as such the understatement of the inventory amounting to N\$ 2 041 719.00 remain unexplained.

Recommendation

The Committee recommends that Council ensure that the inventory records are properly kept and regularly updated.

6.5 Main Concern

QUESTION 5: UNDERSTATEMENT OF DEPRECIATION

The Committee asked whether Council has an updated depreciation policy in place and depreciation was understated by N\$ 1 147 347.00.

Response of the Accounting Officer

According to the Accounting Officer, there is a policy on depreciation in place, but it is not up to date. Hence, it was one of the policies that Council wants the consultant to work on.

Depreciation was understated because when the Accountant was requested to submit the policy, she indicated that Council does not have a policy.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee is concerned that despite having assets worth N\$ 27 130 330.00, Council is not subjecting these assets to depreciation.

Recommendation

The Committee recommends that Council must develop a depreciation policy as a matter of urgency.

6.6 Main Concern

QUESTION 6: UNDERSTATEMENT OF LAND AND BUILDINGS

The Committee asked Council to provide the list of all the houses and the costs for the year under review and further, requested Council to explain how these houses are regulated, as well as to provide the Committee with the evaluation report.

Response of the Accounting Officer

According to the Accounting Officer, the understatement was because of the townlands that were not included in the Valuation Roll. The valuers were only concentrating on the houses and the improvement value Council was having in town. Therefore, when the auditors came townlands were not included, and that caused the understatement.

On the issue of how Council regulates the houses, the Accounting Officer indicated that some of the houses belong to the owners, while some of them belong to Council. Houses from the pre-independence era were bought by the owners through the Ministry under the Alienation Scheme. Council makes use of an Artisan to inspect the houses to fix whatever is broken.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council consult and seek advice from the line ministry on how to value the townlands.

6.7 Main Concern

QUESTION 7: OVERSTATEMENT OF CAPITAL ADDITIONS

Council was asked to explain to the Committee the overstatement of capital additions amounting to N\$ 4 490 600.00.

Response of the Accounting Officer

According to the Accounting Officer, there is no immediate response to the question posed, but will need to understand the nature of the finding and prepare a thorough response to it within seven days.

Evaluation

The Committee took note of the Accounting Officer's response.

6.8 Main Concern

QUESTION 8: FAILURE TO PROVIDE FOR SEVERANCE PAY

Council was asked to explain to the Committee why the severance pay amounting to N\$ 278 661.00 was not provided for.

Response of the Accounting Officer

According to the Accounting Officer, Council only made provision for those leaving on retirement and not for all the staff members, hence the understatement.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee is concerned that Council is not providing for severance pay which exposes the Council to risk of financial constraint in the event a staff member resigns, as this is not provided for.

Recommendation

The Committee recommends that Council must provide for severance pay.

6.9 Main Concern

QUESTION 9: UNDERSTATEMENT OF VALUE ADDED TAX

The Committee asked Council to explain why VAT audits were not carried out by the Ministry of Finance. The Committee further asked Council to explain the understatement to the Committee.

Response of the Accounting Officer

According to the Accounting Officer, they disagree with the figure of N\$1.9 million dollars calculated by the auditors, which differs from theirs, which is N\$1.1 million dollars, therefore, they need to go back to the books and re-check the figures.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council provides auditors with a VAT assessment report from NAMRA during the next audit.

6.10 Main Concern

QUESTION 10: CAPITAL EXPENDITURE TREATED AS REVENUE EXPENDITURE

The Committee wanted to know why Council captured expenditure of a capital nature as expenditure instead of fixed assets. It further wanted to know what measures has been put in place to ensure the error does not re-occur.

Response of the Accounting Officer

According to the Accounting Officer, it was an issue of the reporting framework used. There was a very thin line between the capital and the revenue expenditure. For example, some people will treat the replacement of an old sewerage pump with a new as maintenance, while others will treat it as an asset. The reason being that replacement, is different from getting a new asset. The staff only got to learn about this difference when they moved over to IPSAS. Hence, it is

treated as an asset, if it is a pump that is being replaced. This has now been cleared under the reporting framework that Council is using.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee noted with concern that the knowledge and understanding of accounting principles of the Council's finance staff in the preparation of the financial statements for the years under review, was very poor, because assets were expensed rather than capitalized in both financial years under review.

Recommendation

The Committee recommends that Council should ensure it employs staff within the Finance Department with appropriate qualifications.

Furthermore, Council should embark upon a rigorous professional development programme for its staff in the finance department.

6.11 Main Concern

QUESTION 11: ELECTRICITY AND WATER OVERSTATED

The Committee asked Council to explain the overstatement in bulk water and electricity amounting to N\$ 284 290.00 and N\$ 91 252.00, respectively.

Response of the Accounting Officer

According to the Accounting Officer, it was an error that emanated from the FINSTEL report given to the auditors to audit and the FINSTEL report that was taken to the consultant in Tsumeb, but the figures given by consultant and those of the council financial statements did not correlate and could not be explained. Thus according to the Accounting Officer "they were not talking the same language". The matter was, however, discussed with the auditors by then and Council hoped that they would reverse the findings but they decided not to do so, even after given the correct report.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council check their books of account before submitting them to the auditors.

6.12 Main Concern

QUESTION 12: GOVERNMENT LOAN OBLIGATIONS NOT HONOURED

The Committee asked Council to explain why government loans are not honoured and to provide the Committee with reconciliations of these loans and supporting documents from the Ministry of Finance (2016 and 2017).

Response of the Accounting Officer

According to the Accounting Officer, Council is struggling until now to get any kind of a contract of these loans which was signed between the Councils and the Ministry. No one at the Ministry of Finance could provide any support documents regarding these loans. Council is also unable to pay off these loans. Therefore, these loans will continue to “haunt” the Council, unless the Ministry of Finance do something so that it gets cleared from the Council’s books.

Evaluation

The Committee took note of the Accounting Officer’s response.

Recommendation

The Committee recommends that the PAC, OAG, MOF, MURD should find an amicable solution on the pre-independence loans of local authorities, because it negatively affects the financial status of the local authorities, as a matter of urgency.

6.13 Main Concern

QUESTION 13: UNDERSTATEMENT OF INTEREST ON ACCOUNTS RECEIVABLE

The Council was asked to provide to the Committee the debtors policy and to explain why Council is not charging interest on overdue accounts.

Response of the Accounting Officer

According to the Accounting Officer, Council has a debtor’s policy in place. However, Council is not charging interest on overdue accounts because residents cannot afford to pay their bills due to the high unemployment and poverty experienced in Gochas. Council services to clients with overdue accounts are not suspended because councillors are against it.

Evaluation

The Committee took note of the Accounting Officer’s response. However, the Committee noted with concern that Council is not make use of the debtors’ policy despite having such a policy in place.

Recommendation

The Committee recommends that Accounting Officer s must discuss the analysis of their debt situation with the Council, so that Council can take a resolution on the matter.

6.14 Main Concern

QUESTION 14: THE APPROPRIATION ACCOUNT MOVEMENT IS OVERSTATED

The Committee asked Council to provide evidence of the movement of appropriation account amounting to N\$ 2 926 420.00.

Response of the Accounting Officer

The Accounting Officer will work on a response to the question and forward it to the Committee.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee noted that documents submitted are not relevant to the question posed.

Recommendation

The Committee recommends that Council should provide the relevant documents.

6.15 Main Concern

QUESTION 15: HOUSING LOAN DEBTORS

The Committee asked Council to explain to the Committee how it manages the Housing Fund and to further provide the debtors listing for the year under review (2016), amounting to N\$ 5 025 802.00.

Response of the Accounting Officer

According to the Accounting Officer, the people are paying the amount in full, but the FINSTEL system cannot allocate the paid amount to the various services the customer is having with Council. Some people have consolidated statements or invoices, some have single services altogether.

FINSTEL does not split between what a customer received for a specific month or year, it is an accumulating amount. It doesn't have that split. For this reason, it is difficult to differentiate what is received for debtor payment and Build Together because it accumulates.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee observed that either the staff are not competent enough to operate the FINSTEL system to its full potential or that the customer's account setup on the FINSTEL system was wrongly programmed. Furthermore, the Committee noted that the debtors Trial Balance (listing) provided to the Committee only reflects an amount of N\$ 2 025 427.07 and not the queried amount of N\$ 5 025 802.00.

Recommendation

The Committee recommends that Council should expose the staff in the finance department to the FINSTEL system.

Further, the Committee recommends that Council rectify the wrong programming of the system to allow the splitting of payments to correct accounts.

Furthermore, the Committee recommends that Council regularly update the Built Together debtors list.

6.16 Main Concern

QUESTION 16: ADJUSTMENTS

The Committee asked Council to provide to the Committee a breakdown of adjustments amounting to N\$ 1 507 139.00.

Response of the Accounting Officer

The Accounting Officer will work on a response to the question and forward it to the Committee.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that all adjustments passed in the accounting system be authorised by the Accounting Officer and that all relevant supporting documents be submitted.

6.17 Main Concern

QUESTION 17: FRUITLESS EXPENDITURE

The Committee enquired if Council can provide the total cost of the abandoned sewerage project as well as both the initial and closing feasibility study reports?

Response of the Accounting Officer

According to the Accounting Officer, Council did not abandon the project. The project was only stopped temporarily due to a dispute between the contractors. And due to an accident involving a woman who was killed there.

However, the sewerage project has commenced, and Council received N\$3 million from the line Ministry, and the project should be completed by end of November 2021.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee observed the progress of the project, however the contractual obligations between Council and the contractor could not be established and verified independently, as evidence requested were not provided by the Council.

Recommendation

The Committee recommends that Council should provide the Committee with a detailed report of the project, indicating the completion, initial budget estimate and final costs.

6.18 Main Concern

QUESTION 18: TRADE PAYABLES

The Committee asked Council to explain why trade payables were understated and to provide the breakdown amounting to N\$ 283 189.00.

Response of the Accounting Officer

According to the Accounting Officer, they will work on a response to the question and forward it to the Committee.

Evaluation

The Committee took note of the Accounting Officer's response.

7. ARANOS VILLAGE COUNCIL – AUDIT REPORT FOR THE FINANCIAL YEARS ENDED 30 JUNE 2017 AND 2018

7.1 Main Concern

QUESTION 1: AUDIT OPINION

The Committee observed that Aranos Town Council received an adverse audit opinion for three years consecutively (i.e. 2016, 2017, 2018).

The Committee, therefore, asked Council to explain how it understood an adverse audit opinion and its impact on the performance of the Council.

Furthermore, the Committee asked what remedies Council has put in place to improve the audit opinion.

Response of the Accounting Officer

According to the Accounting Officer, adverse opinion result from exclusion of certain issues that were supposed to be part of the financial statements submitted to the Office of the Auditor General or it could also be because of issues that were not correctly disclosed in terms of the General Accepted Accounting Principles and so on.

In terms of the remedies, Council did not come up with a specific action plan, however it tried to address the issues raised in the management letter, such as the opening balances errors, policies not in places (e.g. credit policy, fleet policy, personnel rules, bad debt policy and property policy), and Council Meetings' Minutes. Furthermore, Council embarked upon a five-year strategic plan. Council also looked at acquainting itself with the FINSTEL system and the IPSAS reporting framework.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council avail to the auditors a progress report on implementation of IPSAS and accounting system.

7.2 Main Concern

QUESTION 2: UNEXPLAINED OPENING BALANCES IN INCOME STATEMENT

The Committee noted that the auditors observed that there was several income and expenditure accounts which had opening balances in the General Ledger. Since income statement accounts ought not to have opening balances in the ledger, the Committee wanted to know who prepared the financial statements and whether the errors were rectified.

Response of the Accounting Officer

According to the Accounting Officer, the financial statements are prepared by a consultant in collaboration with the town Council's financial staff.

It was a human error that occurred during the preparation of the financial statements. Council could not get a time slot with the consultant to do the 2017 statements, which is why it was late with a year, and then they had to do the 2017/18 statements. Errors occurred during the time when Council was preparing statements of two different financial years. Thus the error occurred while passing the balances during the changing in the dates, and was corrected for the 2019 opening balance.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee noted with concern that the knowledge and understanding of accounting principles of the Council's finance staff and the consultant used in the preparation of the financial statements for the years under review, was very poor, because income statements items do not have opening balances (e.g., salaries are spent once and done).

Recommendation

The Committee recommends that Council should ensure it employs staff within the Finance Department with appropriate qualifications. Furthermore, Council should embark upon a rigorous professional development programme for its staff in the finance department.

7.3 Main Concern

QUESTION 3: FINANCIAL REPORTING FRAMEWORK

The auditors observed that the Council did not indicate which accounting framework was used to compile the annual financial statements. Hence, the Committee wanted to know whether the person who prepared the Council financials understood the financial reporting framework.

Furthermore, the Committee asked whether the Council was aware of a circular (dated 13 September 2019) from the Ministry of Urban and Rural Development instructing local authorities to use IPSAS as the preferred financial reporting framework. The Committee also wanted to know when Council was planning to implement this circular going forward.

Response of the Accounting Officer

According to the Accounting Officer, Council was using a combination of GAMAB and GAAP fund accounting, which the Auditor-General Office had an issue with, because they could not understand the parameter used under the two reporting frameworks.

For the financial years in question Council made use of a consultant whom they relied on for expert advice and direction.

The Council committed that by year 2023 they would be integrated and implemented the IPSAS to submit their statements as in the format that is requested.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee observed that for the financial years under review the Accounting Officer and staff in the Finance Department did not have the basic knowledge and understanding of accounting

principles and relied on the consultant who failed to provide the necessary expertise to the Council.

Recommendation

The Committee recommends that Council adopt an acceptable reporting framework (IPSAS) as per the circular of the line Ministry, dated 13 September 2019.

Furthermore, the Committee recommends that Council should seek advice from the Office of the Auditor-General and Ministry of Urban and Rural Development, whenever Council wants to employ a consultant.

7.4 Main Concern

QUESTION 4: VAT RECEIVABLE

The Committee observed that there were some disagreements on how to account for the VAT, therefore the Committee asked Council to provide proof of rejected invoices amounting to N\$520 490 (2017) and N\$ 1 804 874 (2018).

Response of the Accounting Officer

According to the Accounting Officer, when the audit is performed the auditors use 30 June as the end of the financial year, but the VAT period is end of July, which means a whole lot of expenses of July are not included by 30 June, so that already leads to a difference that will be in the statements.

Another difference occurs when during audit at the Ministry of Finance, invoices of certain capital projects will be excluded from VAT claim, while some will be included. Since the audit at the Ministry takes much longer to be concluded, it affects the OAG audit, because by the time the latter conducts its audit, the invoices has not been formally rejected or accepted because the audit has not taken place. Nevertheless, Council have rectified the issue in terms of the IPSAS.

Council will be able to provide the rejected invoices that led to this balance, however it will need time to produce them because it is from 2018, 2017 financial years and some of them are even before that.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee is disappointed that Council could not provide the invoices as requested during the hearing and by the time of compiling the Committee report, the requested invoices were not provided.

Recommendation

The Committee recommends that Council should provide the outstanding documents to the Committee as a matter of urgency, to avoid being subpoenaed.

7.5 Main Concern

QUESTION 5: CREDITS REFLECTING ON DEBTOR AGE ANALYSIS

It was observed that credit balances amounting to N\$ 604 617.77 (2017) and N\$ 851 396.88 (2018) were reflected on the debtors age analysis. In the Councils' reply, the credit balances were due to unknown deposits. The Committee, therefore, asked Council to explain how the unexplained credit balances were rectified and to provide proof of such rectification, if any.

Response of the Accounting Officer

According to the Accounting Officer, contracts signed by the farmers were not legal, because it was signed by one person on behalf of a group, while the group was not registered as a group or a legal entity. Hence, because of that Council did not have any indication of the actual number of farmers or animals that are on the townlands. Some of the farmers took it upon themselves to make payments hence the accumulation of these payments that cause this credit. Therefore, the only thing that could reduce this credit is, when Council debits the account with whatever number of animals there is for the purpose for which they pay; which was the grazing.

The smaller amount is due to payments made with no proper reference. In some instances, Council traces the beneficiary and sometimes it does not.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee noted that the credit balances on the age analysis are due to poor management and lack of proper control of Council's townlands.

Recommendation

The Committee recommends that Council should develop proper and stringent measures for the management of the townlands. Furthermore, Council should perform regular reconciliations of the debtors account to ensure that credit balances are identified and allocated to correct debtors.

7.6 Main Concern

QUESTION 6: NON SUBMISSION OF BUILD TOGETHER DEBTORS LEDGER

The Committee noted that Council could not provide Build Together debtor account statements or reconciliations for the sample of 30 (thirty) debtor accounts, hence audit tests could not be performed to verify the account balances. Upon enquiry it was observed that debtor accounts were not updated monthly, hence there were no debtor account statements prepared or issued. Council was, therefore, asked to explain to the Committee how it manages the Build Together project.

Response of the Accounting Officer

According to the Accounting Officer, in the past the Build Together Programme implementation was very successful in Aranos, however, because of staff turnover they started to experience problems with the documents.

The programme was stopped in 2012/13 and resumed in 2017/18 with those beneficiaries whose houses were incomplete. However, the increase in the cost of material turns out to be a challenge because it exceeded the initially approved loan amounts. Council, therefore, had to increase the loan amounts but then it still had a challenge of finding the beneficiaries to

complete the houses so that it moves to another programme. Hence, Council remained stuck with the 2012/14 programme.

Another concern was the appointment of staff members. However, so far Council appointed a Property Clerk and made use of interns. Council also advertised the position of a Housing and Properties Officer, and the recruitment process was ongoing.

The Property Clerk managed to capture and locate some of the Build Together files and those beneficiaries that were in arrears were contacted. The debtors' account was being updated on monthly basis, albeit on excel and not on pastel.

On the contracts that could not be provided during the audit period, Council did forward them to the auditors afterwards.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee is not satisfied with the management of the Build Together Programme by Council, because of poor record keeping and no dedicated staff appointed to manage the programme.

Recommendation

The Committee recommends that Council should ensure that Build Together Programme is managed properly.

Furthermore, Council should expedite the appointment of the Housing and Properties Officer.

The Committee, further, recommends that Council ensures that supporting documents for Built Together Programme are safeguarded and provided for audit purposes.

7.7 Main Concern

QUESTION 7: NAMIBIA TRAFFIC INFORMATION SYSTEM (NATIS)

During audit it was observed that NATIS invoices were not processed on FINSTEL accounting system. It was further observed that outstanding balances of N\$ 71 351.18 (2017) and N\$126 612.39 (2018) were not disclosed under trade receivables as at year end.

The Committee asked the Council to provide proof of the rectification. It further asked Council to explain the details of the contract between Council and NATIS. It further wanted to know whether Council is capturing the NATIS invoices on the FINSTEL system.

Response of the Accounting Officer

According to the Accounting Officer, in previous years NATIS was not run as debtor on Pastel, it was rather issued with an Excel invoice every year and then at the end of the financial year a reconciliation was performed, whereby the balance of the outstanding whether it was due to them or due to Council was then loaded as a sundry debtor / sundry creditor.

Hence, there was an issue on that financial year where it was not placed on or something went wrong there, which is why the auditors picked it up. There was a balance that was supposed to come over from 2017 and that balance added with the new debtor should have been a new

balance so that balance was posted in a different place where it was not supposed to be. The error was rectified; it is now run as a debtor. So now they can provide a NATIS account under the normal FINSTEL debtor's account.

On the relationship and agreement between NATIS and the Town Council; Council has an operation agreement with NATIS currently also working up to the staff structure on who is working on the NATIS systems. That is why that agreement is still running in the context of what we had they expect from us and what we expect from them, that is why it was clearly stated by the finance manager that NATIS had become a debtor and not sundry anymore.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee noted that the outstanding balances of N\$ 71 351.18 (2017) and N\$126 612.39 (2018), were not clearly stated in the provided Summary of Claims emailed after the hearing to the Committee.

Recommendation

The Committee recommends that Council provides an explanation on the outstanding balances to the auditors during the next audit.

7.8 Main Concern

QUESTION 8: SELCO

It was observed that invoices for royalties due from SELCO were not processed on the FINSTEL accounting system. It was further observed that the outstanding balance due for royalties from SELCO amounting to N\$171 299.92 (2017) was not reflected under accounts receivable at year end. Hence, the Committee asked Council to explain to the Committee the details of the contract between Council and SELCO and to provide the contract to the Committee.

Response of the Accounting Officer

According to the Accounting Officer, the same as NATIS; SELCO was treated as a sundry debtor, but it is no more a sundry debtor and the contract with SELCO ended in November 2016.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council must provide to the auditors the agreement with SELCO and that the contract service level agreement be terminated if the contract has expired.

7.9 Main Concern

QUESTION 9: CASH AND CASH EQUIVALENTS

Unexplained adjustments amounting to N\$425 551.84 (2016), N\$467 076.43 (2017) and N\$155 125.53 (2018) were observed when the Cashbook balances were compared to the bank reconciliations at year end.

It was also observed that the bank reconciliation files of both financial years under review contained only 1 (one) bank reconciliation for the 12-month period. It was further observed that bank reconciliations are not signed by the person preparing it, neither is it signed by the person verifying it.

The Committee, therefore, asked Council to elaborate to the Committee on its response to the ML on this issue.

Furthermore, the Committee requested the Council to provide proof of bank reconciliations for 2019 as well as the listing of adjustments made N\$425 551.84 (2016), N\$467 076.43 (2017) and N\$155 125.53 (2018).

Response of the Accounting Officer

According to the Accounting Officer, in the ML it was said that the first adjustment in 2017 on 30 June was N\$467 000.00, some corrections were made it was realised that when the Council changed to new operational account the old operational account was linked to the capital account.

Council still had to transfer from the capital account; the old operational account to the new operational account, somewhere there was double increment. Council tried to go back to verify what should not be there.

With assistance from the consultant they went through the adjustment and corrected some of the errors and the balance was reduced to N\$ 155 000.00 by 2018 financial year.

The reconciliations are not actually signed, because the printed document shows only the user numbers of the person who prepared it.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee concluded that Council finance staff lack the necessary skills to operate the FINSTEL system.

Recommendation

The Committee recommends that Council should embark upon a rigorous professional development programme and skills transfer for its staff in the finance department.

7.10 Main Concern

QUESTION 10: UNDERSTATEMENT OF INCOME RECEIVED FROM NATIS

The Committee asked the Council to provide invoices amounting to N\$ 290 807.71 for NATIS which were disclosed by Council as opening balances.

Furthermore, Council was asked to explain how it accounts for the NATIS income (accrual or cash) and to provide proof thereof.

Response of the Accounting Officer

According to the Accounting Officer, it was similar to question 3.4 it was an issue of sundry debtors, where the amount was missing because it was placed somewhere where it should not have been placed. However, the correction was done as it could be seen on the FINSTEL starting balance.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council must keep proper books of accounts.

7.11 Main Concern

QUESTION 11: OBSOLETE AND SOLD ASSETS

The Committee noted that assets that were sold years back or broken ones are still appearing on the Asset Register. The Committee, therefore, wanted to know why Council failed to maintain an updated Asset Register in 2017/2018. The Committee further requested Council to provide a list of items that were obsolete and sold for the year under review and to provide an up-to-date asset register.

Response of the Accounting Officer

According to the Accounting Officer, the failure of having an Asset Register was attributed to the incorrect compilation of such register, for example the previous asset register was compiled with VAT amount included, which was not supposed to be case.

On the issue of why obsolete assets are still appearing on the Asset Register, Council was under the impression that all assets must appear on the register with the value of a dollar so that it did not have a material effect on the totals.

Although in the past it was not an issue for the Auditor-General, it became an issue for this specific financial year where they had this specific problem that those assets with the one-dollar value should not be included in the register anymore.

However, since 2019/2020, Council started to compile the register in terms of the IPSAS format. The IPSAS format prescribed a presentation of the asset register format different from what the Council was used to.

The process is very difficult because some of these assets in use are from when the town was established in 1950 and there are no proper records of such assets. Therefore, compiling an up-to-date asset register remain work in progress.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee observe that Council is still struggling to have an updated asset register and are still having

obsolete items on its asset register dating back to the 1950s. Having an updated Asset Register has become a necessity that needs to be complied with as a matter of urgency.

Recommendation

The Committee recommends that Council compile an asset register that is up-to-date and obsolete items should be disposed off and removed from the Asset Register.

7.12 Main Concern

QUESTION 12: ASSET VERIFICATION

Asset verification could not be carried out due to the difference in coding between the fixed Asset Register and the physical assets. Furthermore, it was also observed that erf numbers of the Council houses at Extension 6 differ from the ones that are in the fixed asset register.

The Committee, therefore, wanted to know whether Council addressed or rectified the coding of fixed assets as observed by the auditors.

Response of the Accounting Officer

According to the Accounting Officer, the current asset will be verified to include the correct erf numbers and location. However, what happened is that when extension 6 was established, preliminary numbers were allocated to the erven during the planning phase. The plots were submitted with the preliminary numbers to the Township Board for approval. While after the board approval some preliminary numbers might have change, they were put as is on the asset register. Council was therefore busy verifying and rectifying with town planning so that correct information is captured.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee is concerned with the slow pace of verifying and rectifying the numbers of erven in extension 6 so that correct information is captured in the fixed asset register.

Recommendation

The Committee recommends that Council expedite the verification and rectification of erf numbers so that correct numbers are captured in the fixed asset register.

7.13 Main Concern

QUESTION 13: COUNCIL MINUTES

It was observed that Minutes of meetings could not be provided for the 2016/2017 financial year-end. The Committee wanted to know whether Council has found the minutes for 2016/2017, after having been given ample time to locate them.

Response of the Accounting Officer

According to the Accounting Officer, Council could not locate the 2016 and 2017 Minutes.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee noted with concern that Council could not provide the Minutes of the period under review during the audit, public hearing and after the prescribed 7 days after the hearing.

Recommendation

The Committee recommends that Council compile and keep Minutes of Council meetings as provided for in section 15 of the Local Authorities Act, 1992 (Act No. 23 of 1992).

7.14 Main Concern

QUESTION 14: INCORRECT CLASSIFICATION

It was observed that assets amounting to N\$ 51 817 (2017) and N\$ 1 734 497 (2018) were expensed rather than capitalized in both financial years under review.

The Committee asked why Council captured expenditure of capital nature as expenditure instead of fixed assets and what measures has been put in place to ensure the error did not re-occur.

Response of the Accounting Officer

According to the Accounting Officer, it was an error that these items were paid as operational instead of capital.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee noted with concern, that the knowledge and understanding of accounting principles of the Council's finance staff and the consultant used in the preparation of the financial statements for the years under review, was very poor, because assets were expensed rather than capitalized in both financial years under review.

Recommendation

The Committee recommends that Council should ensure it employs staff within the Finance Department with appropriate qualifications.

Furthermore, Council should embark upon a rigorous professional development programme for its staff in the finance department.

7.15 Main Concern

QUESTION 15: LONG TERM LOANS

It was observed that loans are being reduced without any repayment being made.

The Committee, therefore, requested Council to provide the Committee with supporting documents alluded to in the ML response (for example, the Ministry of Finance statement and the settlement from NHE and Wesbank).

Response of the Accounting Officer

According to the Accounting Officer, the long-term loans being referred to are pre and post-independence loans. The expert used had a specific format in which the loan was treated, it showed the redemption and interest. While there were no physical payments being made on these loans, the balance was reducing which is why it became an audit query. In terms of the IPSAS, it will be handled differently with the amortization tables, and that will only be implemented with the 2021/22 statements, hence this issue is something that Council still need to address.

Both the Ministry of Finance and the Ministry of Urban and Rural Development could not trace the documentation of these loans. The only thing that they could provide were Excel Amortization Tables, which together with the statements from Nedbank and the statement of the vehicle loan and were couriered to the auditors. The initial documentation of prior years when the loans were signed could not be found. They could only trace the date the loan was given, and the amount agreed to in terms of interest rate and repayment.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council must approach the Ministry of Finance to obtain the latest agreement on pre-independence loans for possible write-off.

7.16 Main Concern

QUESTION 16: SUBSISTENCE AND ALLOWANCE

The following subsistence and travelling allowances claims amounting to N\$39 483.00 for the 2017 financial year and N\$50 127.00 for the 2018 financial year were not provided for auditing purposes. The Committee asked why Council failed to submit supporting documentation for subsistence and allowance to the auditors at the time of audit.

Response of the Accounting Officer

According to the Accounting Officer, those supporting documents were provided to the auditors after it was raised in the Management Letter.

Nevertheless, Council has rectified the situation whereby staff submit supporting documents for approval before travelling and a formal claim after a trip with the same supporting documents.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee noted that Council delays the submission of supporting documents whenever requested.

Recommendation

The Committee recommends that Council should, as a matter of urgency, develop and maintain a proper filing system to safeguard all supporting documents and avail them to auditors upon request.

7.17 Main Concern

QUESTION 17: ACCOUNTS PAYABLE

The Committee asked why Council did not disclose the accounts payable amounting to N\$ 4 649 854.93 for both Nampower and Namwater in their annual financial statements.

Response of the Accounting Officer

According to the Accounting Officer, the accounts were disclosed," it is just that they were included with the other trade creditors in total. Then following that what Council did was to open for them a provisional account of their own on which they perform reconciliation."

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council should always disclose all accounts payable account as at year end to reflect a true picture of Council's books.

8. DISCONTINUATION OF PUBLIC HEARINGS WITH CERTAIN ENTITIES

In the course of conducting the public hearing with the Gibeon Village Council (Audit Report for the financial Years ended 30 June 2016,2017 and 2018), Okakarara Town Council (Audit Report for the Financial Year ended 30 June 2016), Eenhana Town Council (Audit Report for the Financial Years ended 30 June 2016) and Rundu Town Council (Audit Report for the Financial Year ended 2016 and 2017), the Committee had no option but to discontinue due to the inability of the Accounting Officers and accompanying staff of the respective Finance Departments, to provide satisfactory responses to the findings of the Auditor General. Thus, it would have been a futile exercise to continue with the public hearings.

In view of the above, the Committee resolved to engage key role players such as the Minister of Finance, Minister of Urban and Rural Development, Auditor-General, CEOs and local authorities' councillors of Okakarara, Rundu, Gibeon and Eenhana, and the Constituency Councillor of each of these jurisdictions, as a follow up to the Committee's public hearings conducted in Oct/Nov 2021.

The main objective of the engagement is for the targeted stakeholders to acquaint themselves with the root causes of poor financial reporting at the local authorities of Okakarara, Rundu, Gibeon and Eenhana; and to recommend remedial measures intended to improve the situation. Most importantly the observations, lessons learnt, and recommendations adopted can serve as a blueprint for similar challenges across the local authorities' spectrum in Namibia.

The report of the engagement of stakeholders with the afore mentioned Local Authorities is attached as an addendum to this report.

9. OMUTHIYA TOWN COUNCIL – AUDIT REPORT FOR THE FINANCIAL YEARS ENDED 30 JUNE 2018

10.1 Main Concern

QUESTION 1: AUDIT OPINION

The Committee observed that Omuthiya Town Council received a disclaimer audit opinion for the year 2018. The Committee, therefore, asked Council to explain what they understood by a Disclaimer audit opinion and its impact on the performance of the Council. The Committee further asked what remedies Council has put in place to improve the audit opinion, and to provide proof thereof. Furthermore, the Committee wanted to know who prepares Council's financial statements.

Similarly, Council was asked whether it has a fully-fledged Finance Department and to provide proof of the training provided for the finance staff utilising the exemption provided by the AG's office.

Response of the Accounting Officer

According to the Accounting Officer, a disclaimer audit opinion means that Council received the worst recommendation of audit opinion. This opinion comes whenever during audit the entity failed to provide supporting documents, especially to show money spent by the Council. A disclaimer audit opinion sent a message of poor performance to the public, the government and everybody who has an interest in it.

On the question of whether Council had an action plan to remedy or improve on the audit opinion, Council did not have an action plan in place. Although Council did not have a plan in black and white, they made use of the Management Letter given during the exit meeting to prepare for the next financial year's statements. The audit report for the year under review was tabled at an Ordinary Council meeting with the sole purpose of informing them about the audit outcome. Hence, no Council resolutions on the report or audit opinion could be provided.

In terms of how equipped the Finance Department is, there are six staff members in total: one Cashier, one Meter Reader, one Assistant Accountant, one Accountant for creditor, one Accountant for debtors and a Manager. The staff qualification ranges from Bachelor of Accounting (Honours), Bachelor of Accounting, Accounting Diploma and Grade 12.

Regarding the question of who prepare their financial statements, in the past it was the consultant, however in 2019 Council received a letter from the line ministry instructing them to start reporting in IPSA standard. Hence, 2019/2020 and 2020/2021, the financials were prepared by staff within the finance department. Regarding training of staff members, Council confirmed that staff were trained.

Evaluation

The Committee took note of the Accounting Officer's response, particularly on the IPSAS training provided to the staff members, which the Committee believe will contribute towards improving preparations of financial statements in line with the new reporting framework.

Furthermore, take note that Council do not have an action plan in place and the report was tabled in Council only for note taking without discussing and resolutions taken that should result in the formulation of an action plan.

Recommendation

The Committee recommends that Council should always table the Auditor-General's audit report before Council in terms of section 87(3) of the Local Authorities Act, in order to develop an action plan from the resolutions taken at Council.

10.2 Main Concern

QUESTION 2: LAND COMPENSATION OVERSTATED

The Town Council reported a liability of N\$ 11 647 744.99 as a balance for the Land Compensation fund. The fund had an opening balance of N\$ 516 279.70, receipts N\$ 3 500 000.00 and pay outs amounting to N\$37 007.14 resulting in a closing balance of

N\$ 3 979 272.56. Reconciliation of the balance resulted in the fund being over stated by N\$ 7 668 494.43.

The Committee asked Council to explain the total amount of commitment under land compensation for the year under review and to submit to the Committee the valuation and assessment reports from the line Ministry together with the list of the beneficiaries for the year under review.

Response of the Accounting Officer

According to the Accounting Officer, in their Balance Sheet, under trade payables, it was recorded that they owe N\$ 11 million. However, that N\$ 11 million, is the amount which was made up by the transfer from the line ministry. It was from that N\$ 11 million where they used to pay the homestead owners for compensation. "The N\$ 11 million has been reported as a liability but however we did not owe. Therefore, it was just a wrong recording of the transaction because Council had a list of names that were paid from the N\$ 11 million. In the meantime, the audit query has been corrected and was removed from the financial statement. A report printed from the financial system and the list of all the beneficiaries was available for presentation to the Committee."

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council should always ensure that all transactions are correctly classified in the financial statements.

10.3 Main Concern

QUESTION 3: GOING CONCERN

The Council incurred a net loss of N\$ 4 709 271.00 (2017: N\$ 12 404 933.00) and further the Council reported and accumulated loss of N\$ 14 588 900.00 (2017: N\$ 9 897 629.00). These conditions indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Council to continue operating as a going concern.

The Committee, therefore, asked Council to explain how it intends to improve the situation with regards to the Going Concern. It further asked the Council to provide a detailed plan/strategy as to how this would be achieved. Furthermore, the Committee asked the Council to furnish the list of all the payables amounting to N\$ 16 606 828.00.

Response of the Accounting Officer

According to the Accounting Officer, Council reported a loss, which was caused by wrong reporting of transactions. The value of all the assets were recorded under expense, and when revenue is minus from expenses, the amount that remains is always a net loss. Hence, Council realised that the loss was caused mainly by the asset value that were reported as an expense as well as an asset. Council have rectified the situation, which used to be recorded like that by the consultant.

The other reason is that the depreciation amount was quite high, hence the reported loss. The depreciation was very high because in the asset register, they included some of the assets that needed to be taken out. Something that they have not yet done, so that they could stop reporting a net loss.

Therefore, this loss was caused by wrong posting of transactions and not because the entity itself was really making a loss.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that Council must provide the action plan and progress made towards addressing the going concern to the auditors at next audit.

10.4 Main Concern

QUESTION 4: TRADE CREDITORS OVERSTATED

The Committee noted that trade payables as recorded in the financial statements amounting to N\$ 3 514 726.33 was correlating with the creditors listing amounting to N\$ 3 208 905.05 resulting in a difference of N\$ 305 821.98. The Committee, therefore, requested Council to provide the Committee with the proof of the rectification of the overstatements.

Response of the Accounting Officer

Regarding overstated trade payables, this was caused by the listing of the approved creditors. The total creditors in the list were not in agreement with what was recorded in the balance sheet. The difference was for the provision of redemption, which was not appearing in the list

of creditors. What was lacking was just the excel list, which was missing a N\$ 305 000.00, but which was included in the balance sheet. Therefore, what was recorded in the Balance Sheet was correct, the problem was only the listing. Although the list given to auditors was not correct, they made sure the following year list balanced with what appeared in the balance sheet.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee is concerned with the failure of the Council to provide the auditors with an explanation for the difference at the time of the audit but chose to provide this explanation to the Committee during the hearing, because this amounts to a waste of valuable time.

Recommendation

The Committee recommends that Council address audit queries and observations timeously at the first granted opportunity, to avoid wastage.

10.5 Main Concern

QUESTION 5: TRADE CREDITORS OMITTED

The Committee asked Council to explain why invoices amounting to N\$ 1 554 287.00 were omitted from the trade payables listing and how the omission was rectified.

Response of the Accounting Officer

According to the Accounting Officer, this amount was for the compensation paid immediately after the financial year-end.

Usually at the end of the financial year all the departments are requested to bring forth all invoices that were dated before 30th June each year, so that when the auditors come they are subjected for audit.

However, when the auditors also audited at least three months, like July, August, September to see the events after the reporting date they noticed the omission of the amount stated above.

Since at that date they were already signed by the beneficiaries, which mean they were already their creditors, they failed to include them among the list of approved creditors.

This finding made them realise that they should not only focus on invoice themselves, but also on other contractual agreements, like the compensation. Since this error happened once and it did not happen the following year.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee is once again concerned with the timeframe it takes Council to respond to audit queries and observations.

Recommendation

The Committee recommends that Council should put measures in place to ensure that errors, omissions and misstatements are easily detected and acted upon, timeously.

10.6 Main Concern

QUESTION 6: OPENING BALANCES UNDERSTATED

The Committee asked Council to explain why the closing balance was not the same as the opening balance for the year under review.

Response of the Accounting Officer

According to the Accounting Officer, at that time the financial statements were prepared by the consultant. During audit the auditors discovered that there was wrong formula used to bring the balance forward.

When they transformed from the old way of reporting to IPSAS, they have even noticed that there was a wrong amount presented in the financials, and this amount was for the fixed Asset Register, however they did not rectify it.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee noted that Council expensed additions to assets instead of classifying them as assets in the balance sheet. Therefore, Council applied cash-based accounting instead of accrual.

Recommendation

The Committee recommends that Council should apply accrual based accounting instead of cash based.

10.7 Main Concern

QUESTION 7: PROPERTY, PLANT AND EQUIPMENT UNDERSTATED

The Committee asked why Council was charging depreciation for projects under construction and how it rectified the error.

Response of the Accounting Officer

Since in accounting one cannot charge depreciation on an asset which is not in use, this was just an error made. However, this error was rectified in 2019, whereby that amount was added back to its original amount. The PPE that year was understated but the amount was reinstated in the financial year that followed.

Evaluation

The Committee took note of the Accounting Officer's response. However, the Committee is concerned that Council heavily relies on the consultant without them verifying the work of the consultant. The Committee observed that Council is not exercising due care in the verification of financial statements prepared by the consultant before submitting for auditing.

Recommendation

The Committee recommends that Council should perform checks and balances on work performed by the consultant to ensure that errors, omissions, and misstatements are avoided.

10.8 Main Concern

QUESTION 8: REPORTING FRAMEWORK

The Committee asked whether Council adopted an acceptable reporting framework as per the circular of the line Ministry (dated 13/09/2019).

Response of the Accounting Officer

According to the Accounting Officer, in 2019, the first financial that was submitted was in the old format. At a later stage after having received the circular late from the line ministry, they converted their 2019 financials to IPSAS. Therefore, for 2019 they have prepared their financials in both reporting frameworks, but the one audited was the one in the old reporting format. In other words, the first auditing for IPSAS will be 2020.

Evaluation

The Committee took note of the Accounting Officer's response.

Recommendation

The Committee recommends that the Office of the Auditor-General should verify whether Council is using IPSAS reporting framework during the next audit.

10. CONCLUSION

The Committee noted with concern that a number of municipalities are failing to submit a full set of financial statements as well as key accounting policies as per requirement of the international accounting standards, due to the absence of appropriate financial reporting framework.

The Committee is pleased to indicate that it has conducted engagement meetings with the Ministry of Finance, Ministry of Urban and Rural Development, Auditor-General, CEOs and local authorities' councillors of Okakarara, Rundu, Gibeon and Eenhana, and the Constituency Councillor of each of these jurisdictions, as a follow up to the Committee's public hearings conducted in Oct/Nov 2021 in order to come up with long-lasting solutions.

Once more, the Committee is delighted to table before the House this report with the hope that, once adopted and referred to the National Assembly's Public Accounts Committee, it will eventually reach the stakeholders that appeared before the Committee and those mentioned in the general recommendations contained in it.

The audit reports dealt with by the Committee on this report are not current because of non-submission of financial statements to the OAG on time. OAG is mandated to audit years that are not current.

11. GENERAL RECOMMENDATIONS

1. The Committee recommends that financial policies of local authorities must include the performance of monthly reconciliations on key accounts.
2. The Committee recommends that local authorities should obtain ministerial approval in terms of section 30(1)(v)(i) of the Local Authorities Act, and in respect regional councils in terms of section 28(j)(ii) of the Regional Councils Act, before taking out loans.
3. The Committee recommends that regional councils and local authorities should ensure that staff are subjected to continuous professional development.
4. The Committee recommends that regional councils and local authorities should put measures in place to ensure data integrity (to prevent loss of data) during migration from one financial system to another.
5. The Committee recommends that all regional councils and local authorities adopt IPSAS reporting framework as per the circular (dated 13/09/2019) issued by the Ministry of Urban and Rural Development.
6. The Committee recommends that regional councils and local authorities respond to audit queries and observations timeously at the first granted opportunity, to avoid wastage.
7. The Committee recommends that regional councils and local authorities make the Auditor-General reports a standing item point on the council's agenda and refer such reports for review by Council.
8. The Committee recommends that regional councils and local authorities should always table the Auditor-General's audit report before Council in terms of section 87(3) of the Local Authorities Act and section 40(3) of the Regional Councils Act, respectively, in order to develop an action plan from the resolutions taken at Council.
9. The Committee recommends that the National Council Standing Committee on Public Accounts and Economy, Office of the Auditor-General, Ministry of Finance and Ministry of Urban and Rural Development should as a matter of urgency, find an amicable solution on the pre-independence loans of local authorities, because it negatively affects the financial status of the local authorities.
10. The Committee recommends that the Ministry of Urban and Rural Development should seriously consider Auditor-General's audit opinion expressed before proclamation of local authorities from village to town or town to municipality.
11. The Committee recommends that the Ministry of Urban and Rural Development, Ministry of Finance and Attorney General should review treasury rules to allow proceeds earned through selling off obsolete items at auctions be disbursed to the regional councils and local authorities which held/owned such obsolete items prior to it being sold.
12. The Committee recommends that, as a rule, the terms and conditions of contracts between consultants and regional councils or local authorities for assistance with the financial statement preparation should be discussed with the Ministry of Urban and Rural Development, Ministry of Finance and the Office of the Auditor-General for input and advice before entered into.



Hon. P.K. Kazongominja
Chairperson

29/11/2022

Date