



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

MUNICIPALITY OF OMARURU

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Published by authority

Price (Vat excluded) N\$ 26.73

Report no 849

REPUBLIC OF NAMIBIA



TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY

I have the honour to submit herewith my report on the accounts of the Municipality of Omaruru for the financial year ended 30 June 2009, in terms of Article 127(2) of the Namibian Constitution. The report is transmitted to the Honourable Minister of Finance in terms of Section 27(1) of the State Finance Act, 1991, (Act 31 of 1991) to be laid upon the Table of the National Assembly in terms of Section 27(4) of the Act.

WINDHOEK, June 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF OMARURU FOR THE FINANCIAL YEAR ENDED
30 JUNE 2009**

1. INTRODUCTION

The accounts of the Municipality of Omaruru for the year ended 30 June 2009 are being reported on in accordance with the provisions set out in the State Finance Act, (Act 31 of 1991) and the Local Authorities Act, (Act 23 of 1992).

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

Figures in the report are rounded off to the nearest Namibian Dollar.

2. FINANCIAL STATEMENTS

The Municipality's financial statements were submitted to the Auditor-General by the Accounting Officer in compliance with Section 87(1) of the Local Authorities Act, 1992, **except that they were only submitted 15 January 2010. The Act only allow for such submission within a period of three months after year-end.** The audited financial statements are in agreement with the general ledger and are filed in the Office of the Auditor-General. The abridged balance sheet, Annexure A, is a true reflection of the original, signed by the Accounting Officer.

The financial statements also include:

Annexure B: Income statement
Annexure C: Cash flow statement
Annexure D: Notes to the financial statements

3. SCOPE OF THE AUDIT

Management's responsibility for the financial statements

The Accounting Officer of the Municipality is responsible for the preparation and fair presentation of the financial statements and for ensuring the regularity of the financial transactions. The responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

It is the responsibility of the Auditor-General to form an independent opinion, based on the audit, on those statements and on the regularity of the financial transactions included in them and to report his opinion to the National Assembly. The said firm conducted the audit in accordance with International Standards on

Auditing. Those standards require that the firm complies with ethical requirements and plans and performs the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose or expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

4. AUDIT OBSERVATIONS AND COMMENTS

During the audit the following observations were made:

4.1 Inadequate provision for doubtful debts

The Council made a provision of N\$ 707 146 for doubtful debts. The service debtors outstanding for a period of 120 days or more stood at N\$ 2 057 506 at 30 June 2009. The auditors are of the opinion, the current provision for doubtful debt is understated by N\$ 1 350 360 considering the credit quality of Council's consumer debtors as shown in its age analysis.

4.2 Missing expense vouchers

Expenses incurred by Council during the month of May 2009 could not be verified by audit for validity and accuracy as the relevant supporting documentation could not be located by the Municipality. Accordingly the auditors could not satisfy themselves regarding the validity and accuracy of these expenditure.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

The results of the various operations of, and transactions on the Revenue Account for the year were as follows:

2009	Revenue	Expenditure	(Deficit)/ Surplus	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit: 01/07/2008				(2 243 690)
General accounts				
Non-profitable	3 373 090	6 344 177	(2 971 087)	
Self-supporting	1 621 049	1 202 375	418 674	
Trade accounts				
Water	2 044 054	775 090	1 268 964	
Electricity*	977 620	106 350	871 270	
Subtotal	8 015 813	8 427 992	(412 179)	
Deficit for the year				(412 179)
Adjustments and utilization detailed in Note 10 to the financial statements				(2 655 869)
				1 962 490
Accumulated deficit 30/06/2009				(693 379)

* See paragraph 10.1

7. CURRENT BANK ACCOUNT

The current bank account reflected an overdrawn cash-book balance of N\$ 644 541 (2008: N\$ 1 310 439). Outstanding cheques and other transactions totalling N\$ 644 199 (2008: N\$ 1 405 043), resulted in the bank statement reflecting an unfavourable balance of N\$ 342 (2008: N\$ 94 604 favourable).

8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June 2009 there was N\$ 8 880 522 (2008: N\$ 8 566 656) invested at a commercial bank on a call account at 8.91% (2008: 9.38%). The Build Together Funds were invested in a separate call account, which had a balance of N\$ 2 302 604 at year-end (2008: N\$ 2 093 795).

The investments and interest earned were allocated as follows:

Allocation	2009		2008	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Build Together Fund	2 302 604	187 487	2 093 795	177 056
Capital Development Fund	7 011 515	603 093	6 912 152	352 638
Housing Fund	1 869 007	144 234	1 654 502	196 108
	11 183 126	934 814	10 660 449	725 802

9. FUND ACCOUNTS

The Municipality had the following funds and reserves at the end of the year:

	2009	2008
	N\$	N\$
Build Together Fund	3 107 831	2 889 470
Capital Development Fund	19 489 005	14 939 588
Housing Fund	2 245 474	2 043 094
Revenue Account	(693 379)	(2 243 690)
Contribution from Revenue	1 542 684	1 723 618
General Capital	4 594 043	4 972 988
Loans Redeemed	2 794 296	2 136 200
	33 079 954	26 461 268

10. TRADE ACCOUNTS

10.1 The results of operations were as follows:

	Electricity		Water	
	2009	2008	2009	2008
	N\$	N\$	N\$	N\$
Surcharges/sales	941 272	867 625	1 992 353	2 030 850
Cost of bulk purchases	-	-	-	-
Gross profit	941 272	867 625	1 992 353	2 030 850
Other expenses (net)	(70 002)	(267 689)	(723 389)	(462 200)
NET SURPLUS	871 270	599 936	1 268 964	1 568 650
Gross profit % on sales	-	-	-	-
Net profit % on sales	92.56%	69.15%	63.69%	77.24%

As from 01 July 2005, the Council is no longer selling electricity as this function has been taken over by E-red.

10.2 Distribution losses were:

	Water	
	2009	2008
	m³	m³
Units bought/pumped	582 360	521 011
Units sold	434 289	474 524
(LOSS)	(148 071)	(46 487)
Percentage	(25.43%)	(8.92%)

The distribution loss on water increased drastically and must be investigated by Council as a matter of urgency.

11. SELF-SUPPORTING SERVICES

The net results were as follows:

	2009	2008
	N\$	N\$
Commonage	75 006	103 448
Sewerage	224 239	211 174
Natis Agency	119 429	81 809
Net surplus/(loss)	418 674	396 431

12. FRUITLESS/UNAUTHORISED OR AVOIDABLE EXPENDITURE

No fruitless or unauthorized expenditure was revealed during the year.

13. SUSPENSE ACCOUNTS

Council maintained the following seven suspense accounts in its general ledger:

	2009	2008
	Balance Dr/(Cr)	Balance Dr/(Cr)
	N\$	N\$
Receipts not on bank statement	-	223 038
Direct deposits – no receipts	(289 019)	(2 331 822)
Creditors suspense account	(67 720)	(231 081)
Debtors suspense accounts	1 897 937	240 112

14. IRREGULARITIES AND LOSSES

No irregularities or losses were detected during the audit.

15. CAPITAL PROJECTS

The following expenditure was incurred during the year under review for capital projects or acquisitions:

Nature of project/acquisitions	Total expenditure 2009	Financed by	
		Internal loans	Revenue account
	N\$	N\$	N\$
Infrastructure	330 150	330 150	-
Buildings	41 127	41 127	-
Vehicles	573 485	573 485	-
Capital work-in-progress	278 792	278 792	-
	1 223 554	1 223 554	-

Nature of project/acquisitions	Total expenditure 2008	Financed by	
		Internal loans	Revenue account
	N\$	N\$	N\$
Infrastructure	42 179	42 179	-
Buildings	277 091	277 091	-
Vehicles	13 122	13 122	-
Plant and equipment	398 502	325 202	73 300
	730 894	657 594	73 300

16. BURSARIES

No bursaries were granted during the year.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants or financial aid were made during the year.

18. COMPENSATION PAYMENTS

No compensation payments were made during the year.

19. VISITS TO FOREIGN COUNTRIES

During the 2009 financial year, two Councilors (2008: one), two employees of the Municipality (2008: one) and six community members (2008: six) visited Vannersbürg in Sweden at a cost of N\$ 32 379 (2008: N\$ 24 717).

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

	2009	2008
	N\$	N\$
Hakahana Kindergarten	450	240

22. TRANSFER OF PROPERTY

No Government property was transferred to or from the Municipality during the year.

23. DEBTORS/CREDITORS**23.1 Debtors at 30 June were:**

	2009	2008
	N\$	N\$
Consumers, combined billing	2 931 291	2 641 102
- Build Together debtors	805 227	795 674
- VAT	1 109 521	898 551
- Sundry debtors	1 897 937	463 150
	6 743 976	4 798 477
Current portion of housing loan installments	1 875	1 875
	6 745 851	4 800 352
Less: Provision for doubtful debts	(707 146)	(1 749 106)
	6 038 705	3 051 246

23.2 Creditors at 30 June were:

	2009	2008
	N\$	N\$
Trade creditors	221 351	174 892
Provisions and external loan installments	793 240	703 679
Suspense account – direct deposits	289 019	2 331 822
Current portion of long-term liabilities	76 285	69 327
	1 379 895	3 279 720

24. ASSESSMENT RATES

Net proceeds from assessment rates were N\$ 1 800 008 (2008: N\$ 1 159 332).

The Council provided for the Regional Council levy of N\$ 249 461 (2008: N\$ 132 060), which is payable to the Regional Council in terms of Section 77(1) of the Act.

25. LOANS

25.1 External capital loan balances at 30 June 2009 were N\$ 2 318 069 (2008: N\$ 2 714 024). The balances correspond with the balances as per actuarial tables and the general ledger. Arrear installments amounted to N\$ 158 381(2008: N\$ 475 145) at year-end. The Municipality has identified loans amounting to N\$ 473 340 (2008: N\$ 473 340) as pre-independence loans. Government has offered the write-off of these loans in return for land. During the year loans amounting to N\$ 326 628 were written off by Council, without the Government conditions being fulfilled.

Loan assets were correctly capitalized and no loan assets had been disposed of before the loan was completely redeemed. Loan monies were used for the purpose they were obtained for and there were no unspent loan monies of a long-term nature.

25.2 Internal loan balances at 30 June 2008 were N\$ 9 182 045 (2008: N\$ 8 220 632). All loans advanced during the year were provided for in Council's Capital Budget.

25.3 The Housing Fund loans were as follows at 30 June:

	2009	2008
	N\$	N\$
Owing by the Municipality to the Government on 35 loans:	270 314	270 314
Owing by three (2008: three) borrowers to the Municipality	1 875	1 875

It has been noted with concern that the Housing Fund activities are not reflecting any movement during the past four years.

26. SALE OF ERVEN

Erven were sold for N\$ 3 110 397 (2008: N\$ 3 795 748). The revenue was allocated to the Capital Development Fund.

27. PROPERTY SOLD ON AN INSTALMENT BASIS

77 Erven were sold on installment basis.

28. TARIFF ADJUSTMENTS

Tariff adjustments were all in accordance with the relevant Government notice.

29. APPROVALS

29.1 Revenue written off

No debts were written off during the year.

29.2 Excess on approved budget

No approval was obtained for votes totaling to N\$ 794 458 that were over-expended.

29.3 Internal loans

All internal loans made during the year were approved.

30. INVENTORY AND EQUIPMENT

30.1 Inventory

Inventories as disclosed in the financial statements of the Council amount to N\$ 175 361 (2008: N\$ 693 062).

30.2 Motor Vehicles

	Sedans, LDV's, combi's and trailers		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value
On hand 01/07/2008 (restated)	13	N\$ 372 607	16	N\$ 73 802
Additions	-	-	1	573 485
	13	372 607	17	647 287
Less: Depreciation	-	(38 073)	-	-
On hand 30/06/2009	13	334 534	17	647 287

The above schedules are overstated with N\$ 124 200, compared to the motor vehicle figure in the general ledger.

31. SPECIAL INVESTIGATIONS FACTUAL FINDINGS

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

32. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report. The following informal queries were addressed in the report to management of the Municipality:

- Uncleared suspense accounts.
- External loans written off without Council approval and fulfilling Government conditions.
- Misuse of the appropriation account.
- Poor control over Build Together Debtors.
- Rental agreements not in place.
- Errors on the Fixed Asset Register.
- Inadequate controls over inventory.
- General expenses.
- Provision for bad debts.
- Unauthorised transactions.

– Rental agreements.

33. GENERAL

The accounting and internal controls are satisfactory except for those cases specifically pointed out in the management letter to Council. Proper segregation of duties is not possible due to the small number of staff employed. While increased management involvement does reduce risks partly, it causes the risk that management and Council override existing controls, a potentially dangerous practice, which Council should vigilantly guard against.

34. QUALIFIED AUDIT OPINION

The accounts of the Municipality of Omaruru for the financial year ended 30 June 2009, summarized in Annexures A to D, were audited by me in terms of the provisions of Section 85 of the Local Authorities Act, 1992, read with Section 25(1)(b) of the State Finance Act, 1991.

The audit opinion has been qualified due to the following reasons:

- The provision for doubtful debts is understated by N\$ 1 350 360.
- Expenses incurred during May 2009 could not be located by the Municipality.

Except for the effect of any adjustments which might have been necessary as referred to above, in my opinion, these financial statements fairly present the financial position of the Municipality at 30 June 2009, and the results of operations and cash-flows for the year then ended in accordance with generally accepted accounting practice.

WINDHOEK, June 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

MUNICIPALITY OF OMARURU

ANNEXURE A

BALANCE SHEET AT 30 JUNE

	Notes	2009 N\$	2008 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	4	20 431 137	19 767 461
Investments	5	11 183 126	10 660 449
Current assets			
Inventories	6	175 361	693 062
Accounts receivable	7	6 038 705	3 051 246
Cash on hand		-	565
Total assets		37 828 329	34 172 783
EQUITY AND LIABILITIES			
Equity			
Funds and reserves	2	33 079 954	26 461 268
Non-current liabilities			
Long-term liabilities	3	2 723 939	3 121 356
Current liabilities			
Accounts payable	8	1 379 895	3 279 720
Bank overdraft		644 541	1 310 439
Total equity and liabilities		37 828 329	34 172 783

MUNICIPALITY OF OMARURU

ANNEXURE B

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Notes	<u>2009</u> N\$	<u>2008</u> N\$
INCOME		8 015 813	6 464 454
EXPENDITURE		<u>(8 427 992)</u>	<u>(6 899 927)</u>
NET OPERATING (LOSS)		(412 179)	(435 473)
Interest earned on revenue account		<u>-</u>	<u>-</u>
NET (LOSS) for the year		(412 179)	(435 473)
Adjustments to appropriation account	10	<u>1 962 490</u>	<u>536 417</u>
Retained income for the year		1 550 311	100 944
ACCUMULATED (DEFICIT)			
– At the beginning of the year		<u>(2 243 690)</u>	<u>(2 344 634)</u>
– At the end of the year	2	<u>(693 379)</u>	<u>(2 243 690)</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
		N\$	N\$
Cash (utilized)/generated by operating activities			
Cash receipts from customers		8 015 813	6 464 454
Cash paid to suppliers		(12 797 575)	(7 285 262)
Cash (utilized)/generated by operating activities	11	(4 781 762)	(820 808)
Cash available for investment		(4 781 762)	(820808)
Cash effects on investing activities		(1 186 353)	(5 162 623)
Capital expenditure		(663 676)	(114 899)
(Increase) in investments		(522 677)	(5 047 724)
Cash effects on financing activities		6 633 448	5 440 807
Increase in capital funds		2 060 708	279 430
Net proceeds from statutory funds	9	4 970 157	5 229 684
Loans repaid		(397 417)	(68 307)
Net (decrease)/increase in cash and cash equivalents		665 333	(542 624)
Cash and cash equivalents at the beginning of the year		(1 309 874)	(767 250)
Cash and cash equivalents at the end of the year		(644 541)	(1 309 874)

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

1. ACCOUNTING POLICIES

The financial statements set out in Annexure A to C were prepared on the historical cost basis and incorporate the following principal accounting policies, which are consistent with those applied in the previous year:

1.1 Property, plant and equipment

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

1.2 Inventory

Inventory is valued using the average cost basis. Obsolete stock is written off.

1.3 Fund accounts**1.3.1 Revenue Account**

All monies received by and accrued to and expenses paid, except for allocations to other Funds, are reflected in this account, and are kept in compliance with Section 86(1)(b) of the Act.

1.3.2 Housing Fund

Housing loans have been paid from this Fund. Sections 30(1)(i) and 57 to 62 of the Act, 1992, refer.

1.3.3 Reserve Funds

The Municipality also maintains the following Funds in terms of the authorisation in Section 80(4) of the Act:

- **Capital Reserve Fund**

The purpose is to stabilize the financial position. Income is obtained from the Revenue Account.

- **Fixed Property Fund**

Proceeds on the sale of developed property accumulate in this Fund, which is used to develop properties.

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

1.3.4 Build Together Fund

The purpose is to provide loans for low cost housing.

	2009	2008
	N\$	N\$
2. FUNDS AND RESERVES		
Build Together Fund	3 107 831	2 889 470
Capital Development Fund	19 489 005	14 939 588
Housing Fund	2 245 474	2 043 094
Revenue Account	(693 379)	(2 243 690)
Total	24 148 931	17 628 462
Contribution from revenue	1 542 684	1 723 618
General capital	4 594 043	4 972 988
Loans redeemed	2 794 296	2 136 200
	8 931 023	8 832 806
TOTAL FUNDS AND RESERVES	33 079 954	26 461 268
3. LONG TERM LIABILITIES		
Loans from the Government of Namibia at interest rates of:		
- Lower than 5%	270 314	321 129
- 5% to 9%	1 195 519	1 522 341
- 12%	1 122 550	1 140 868
	2 588 383	2 984 338
Deposits held	211 841	206 345
	2 800 224	3 190 683
Less: Current portion of liabilities included under current liabilities	(76 285)	(69 327)
	2 723 939	3 121 356
4. PROPERTY, PLANT AND EQUIPMENT		
At net book value:		
Infrastructure	13 885 616	13 903 320
Buildings	4 135 357	4 223 616
Vehicles	857 620	322 209
Plant and equipment	1 552 544	1 318 316
	20 431 137	19 767 461

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

	2009	2008
	N\$	N\$
5. INVESTMENTS		
Moneys on call at a commercial bank	11 183 126	10 660 449
6. INVENTORIES		
Consumable goods in store	175 361	693 062
7. ACCOUNTS RECEIVABLE		
General and subsidies	3 814 560	2 159 250
Consumers	2 931 291	2 641 102
	<u>6 745 851</u>	<u>4 800 352</u>
Less: Provision for doubtful debts	(707 146)	(1 749 106)
	6 038 705	3 051 246
8. ACCOUNTS PAYABLE		
Creditors	221 351	174 892
Provisions and external loan instalments	793 240	703 679
Current portion of long-term liabilities	76 285	69 327
Suspense accounts	289 019	2 331 822
	1 379 895	3 279 720
9. TRANSFER TO FUNDS		
The following amounts were transferred to/(from) Funds:		
Build Together Fund	218 361	189 075
Capital Development Fund	4 549 416	4 801 157
Housing Fund	202 380	239 452
	4 970 157	5 229 684

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

	2009	2008
	N\$	N\$
10. ADJUSTMENTS AND UTILISATIONS – REVENUE ACCOUNT		
Arrear external loan installment	-	(158 383)
Workers compensation adjustment	-	21 000
Correction of levies	(33 311)	-
Clearing of suspense accounts	1 187 423	-
Reversal of stale cheques	-	136 425
Various expenditures	(54 307)	(26 472)
Accrued leave adjustment	(211 750)	25 560
Provision for bad debts	1 041 960	538 287
Sundry revenue	32 475	-
	1 962 490	536 417
11. CASH (UTILIZED)/GENERATED BY OPERATIONS		
Operating (loss) before interest	(412 179)	(435 473)
Working capital changes		
Decrease/(increase) in inventories	517 701	(260 263)
(Increase) in accounts receivable	(2 987 459)	(1 217 051)
(Decrease)/increase in accounts payable	(1 899 825)	1 091 979
	(4 781 762)	(820 808)