



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF OMARURU
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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REPUBLIC OF NAMIBIA



TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY

I have the honour to submit herewith my report on the accounts of the Municipality of Omaruru for the financial year ended 30 June 2014, 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 2015

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
THE MUNICIPALITY OF OMARURU
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

1. INTRODUCTION

The accounts of the Municipality of Omaruru for the year ended 30 June 2014 are being reported on in accordance with the provisions set out in the State Finance Act, 1991 (Act 31 of 1991) and the Local Authorities Act, 1992 (Act 23 of 1992).

The firm Mostert Landgrebe 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 Namibia Dollar. Deficits are indicated in brackets.

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. 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 at Annexure A is a true reflection of the original signed by the Accounting Officer.

The financial statements also include:

Annexure B: Abridged 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 these financial statements and for ensuring the regularity of the financial transactions. This responsibility includes designing, implementing and maintaining internal control 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 comply with ethical requirements and plan and perform 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Trade and other receivables - Provision for bad debts

The average collection period of trade receivables, before taking the provision for bad debts into account, is 157 days (2013: 125 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 21 days (2013: 42 days).

4.2 Trade and other receivables - Build Together

No list for the Build Together Debtor of N\$ 5 948 773 could be provided to the auditors for auditing purposes.

4.3 Inventories

The auditors did not observe the counting of the inventories on 30 June 2014. There were no alternative practical audit procedures that they could perform to confirm the existence of the inventories on hand at year-end.

4.4 Consumer deposits

The consumer deposits are not sufficient to cover one month's service charges.

4.5 Income

Rates and taxes are not charge as per Government Gazette. All these charges were overcharged.

4.6 Project expenses

Due to incomplete documentation, the project expenses could not be verified to the satisfaction of the auditors.

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Municipality of Omaruru during the audit is appreciated.

6. FINANCIAL RESULTS

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

	Revenue	Expenditure	Surplus/ (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated (deficit) on 01/07/2013				(7 649 981)
General accounts				
- Non-profitable	4 488 590	15 340 593	(10 852 003)	
- Self-supporting	4 331 609	3 765 436	566 173	
Trade accounts				
- Water	5 096 705	1 387 914	3 708 791	
- Electricity	870 695	1 111 445	(240 750)	
(Deficit) for the year	14 787 599	21 605 388	(6 817 789)	(6 817 789)
Adjustments and utilisations (See Note 11, Annexure D)				(14 467 770)
				547 832
Accumulated (deficit) on 30/06/2014				(13 919 938)

7. CURRENT BANK ACCOUNT

	2014	2013
	N\$	N\$
Cash-book balance at 30 June	(620 305)	(886 623)
Outstanding cheques - Disclosed as trade payables	-	1 016 896
Cash-book balance at 30 June - Balance sheet	(620 305)	130 273
Outstanding cheques	568 725	-
Balance as per bank statement	(51 580)	130 273

8. INVESTMENTS

The investments as at 30 June were as follows:

Institution	2014	2013
	N\$	N\$
Commercial Banks	10 853 977	23 116 577
	10 853 977	23 116 577

The investments were allocated as follows:

Allocation	2014	2013
	N\$	N\$
Capital Development Fund	7 123 874	8 363 494
Housing Fund	1 935 066	1 935 066
Build Together Fund	1 795 037	2 348 646
Capital Section	-	10 469 371
	10 853 977	23 116 577

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in Note 8 in Annexure D.

10. TRADE ACCOUNTS

10.1 The results of trade accounts were as follows:

	Electricity		Water	
	2014	2013	2014	2013
	N\$	N\$	N\$	N\$
Sales	870 695	744 585	5 070 787	5 380 908
Cost of sales	-	-	-	-
Gross surplus	870 695	744 585	5 070 787	5 380 908
Other expenses	(1 111 445)	(707 329)	(1 361 996)	(1 849 544)
Net (loss)/surplus	(240 750)	37 256	3 708 791	3 531 364
Gross surplus percentages on sales	100.0%	100.0%	100.0%	100.0%
Gross surplus percentages on cost of sales	-	-	-	-
Net surplus percentages on cost of sales	-	-	-	-
Net (loss)/surplus percentage on sales	(27.7%)	5.0%	73.1%	65.6%

10.2 Water distribution results, in cubic meters

The Municipality is pumping water from the river and boreholes which cannot be measured.

11. SELF SUPPORTING SERVICES

11.1 The result for the year under review is as follows:

	Income 2014	Expenses 2014	Surplus/ (deficit) 2014	Surplus/ (deficit) 2013
	N\$	N\$	N\$	N\$
Sewerage	2 345 920	1 636 024	709 896	883 581
Cleansing services	1 370 293	2 073 450	(703 157)	80 360
Natis	615 395	55 961	559 434	231 995
	4 331 608	3 765 435	566 173	1 195 936

The Council should introduce measures to reduce the losses on the loss-making services.

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

There were no such expenses.

13. SUSPENSE ACCOUNTS

Suspense accounts are cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

There were no such expenses.

15. CAPITAL PROJECTS

The following were spend on capital projects:

Nature of projects/acquisitions	Financed by	Total expenditure 2014	Total expenditure 2013
	Revenue account		
	N\$	N\$	N\$
Cemeteries & parks	190 357	190 357	297 140
Electricity	-	-	389 304
Emergency Services	17 650	17 650	38 686
Finance, IT and Asset Department	2 891 213	2 891 213	181 627
Property Administration	870 630	870 630	1 516 949
Roads and Streets	7 427 356	7 427 356	438 442
Sewerage	-	-	6 712 508
Town Planning	-	-	611 190
Water	5 698 450	5 698 450	2 742 147
	17 095 656	17 095 656	12 927 993

16. BURSARIES

There were no such expenses.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No Grants were received from the Government.

18. COMPENSATION PAYMENTS

There were no such expenses.

19. VISITS TO FOREIGN COUNTRIES

Municipality representatives travelled to Vänerborg Municipality in Sweden for a partnership meeting. All travel expenses and accommodation were paid by the Vänersborg Municipality. The Municipality of Omaruru only paid the S&T for the traveling. The total cost amounted to N\$ 43 974.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

There were no claims against the local authority.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

Donations of N\$ 23 261 were made by the Municipality during the current year.

22. TRANSFER OF PROPERTY

There was no transfer of property to or from the Local Authority.

23. TRADE AND OTHER RECEIVABLES/TRADE AND OTHER PAYABLES

23.1 Trade and other receivables at 30 June were:

	2014	2013
	N\$	N\$
Services, rates and taxes	5 361 807	4 157 756
Build Together advances	5 948 773	5 293 777
Sundry debtors	527 769	1 602 826
VAT	133 853	1 100 938
	11 972 202	12 155 297
Consumer deposits	(326 970)	(297 481)
Provision for bad debts	(4 658 271)	(2 748 902)
Total	6 986 961	9 108 914

The average collection period of trade receivables, before taking the provision for bad debts into account, is 157 days (2013: 125 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 21 days (2013: 42 days).

23.2 Trade and other payables at 30 June were:

	2014	2013
	N\$	N\$
Trade payables	1 851 635	397 625
Suspense accounts	1 225	-
Provisions	1 054 845	437 152
Outstanding cheques	-	1 016 896
Totals	2 907 705	1 851 673

24. ASSESSMENT RATES

	2014	2013
	N\$	N\$
The proceeds from assessment rates were	2 423 947	2 298 382
Residential		
Tariffs per N\$1 valuation per annum - Site valuation	0.033600	0.033600
Tariffs per N\$1 valuation per annum - Improvements	0.008610	0.008610
Business		
Tariffs per N\$1 valuation per annum - Site valuation	0.033600	0.033600
Tariffs per N\$1 valuation per annum - Improvements	0.008610	0.008610

25. LOANS**25.1 External loans**

	2014	2013
	N\$	N\$
The Government of Namibia	1 851 660	1 981 972
Housing Fund Loans	270 314	270 314
	2 121 974	2 252 286

25.2 Due to the Municipality

	2014	2013
	N\$	N\$
Build together advances - Included in trade and other receivables	5 948 773	5 293 777

25.3 Loans written off

No loans were written off by the Council.

26. SALE OF ERVEN

No sale of erven was done during the current financial year.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

None

28. TARIFF ADJUSTMENTS

Tariff adjustments were duly approved and promulgated in the Government Gazette.

29. APPROVALS

29.1 Excess on approved budget

All budget excesses were approved.

29.2 Internal loans

The Internal loans balance at 30 June 2014 was N\$ 9 245 743 (2013: N\$ 9 683 710). These loans were allocated to the Capital Development Fund and Housing Fund.

29.3 Revenue written off

None

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles and values thereof:

	Sedan		LDV's, 4x4's and Combi's		Other	
	Number	Value	Number	Value	Number	Value
Balance - 01/07/2013	1	N\$ 70 617	8	N\$ 662 406	10	N\$ 619 823
Additions	-	-	-	-	-	-
Adjustments	1	(14 122)	1	2 302	-	(856)
Sub-total	2	56 495	9	664 708	10	618 967
Depreciation	-	(11 299)	-	(1 754)	-	(2 532)
Balance - 30/06/2014	2	45 196	9	662 954	10	616 435

30.2 Inventory

Inventories amounted to N\$ 83 476 (2013: N\$ 198 353).

31. SPECIAL INVESTIGATIONS

None

32. GENERAL

There is an insufficient system of internal control at the Municipality. Proper segregation of duties is not possible due to the small number of staff employed. While increased management involvement does not reduce risks, it causes the risk that management and Council override existing controls, a potentially dangerous practice, which Council should vigilantly guard against.

33. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report. Informal queries were raised with the Chief Executive Officer.

34. QUALIFIED AUDIT OPINION

The accounts of the Municipality of Omaruru for the financial year ended 30 June 2014, summarised in Annexures A to D, were audited by me in terms of Section 85 of the Local Authorities Act, 1992, read with Section 25(1)(b) of the State Finance Act, 1991.

A qualified audit opinion is being expressed due to the following reasons:

Trade and other receivables - Build Together

No list for the Build Together Debtors of N\$ 5 948 773 could be provided.

Income

Rates and taxes are not charged as per Government Gazette.

Project expenses

Due to incomplete documentation, the project expenses could not be verified to the satisfaction of the auditors.

Except for the effects of any adjustments which might have been necessary as referred to in the preceding paragraph, in my opinion these financial statements fairly present the financial position of the Municipality at 30 June 2014 and the result of its operations and cash flows for the year then ended.

WINDHOEK, June 2015

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

THE MUNICIPALITY OF OMARURU

BALANCE SHEET AT 30 JUNE

	Note	2014 N\$	2013 N\$
ASSETS			
NON CURRENT ASSETS		72 214 839	69 666 381
Property, plant and equipment	2	61 360 862	46 549 804
Investments	3	10 853 977	23 116 577
CURRENT ASSETS		7 070 437	9 437 541
Trade and other receivables	4	6 986 961	9 108 914
Inventories	5	83 476	198 354
Bank and cash	6	-	130 273
TOTAL ASSETS		79 285 276	79 103 922
FUNDS AND LIABILITIES			
FUNDS AND RESERVES		73 635 292	74 999 963
Capital outlay	7	50 263 459	45 353 493
Funds and accounts	8	23 371 833	29 646 470
NON-CURRENT LIABILITIES			
Long-term liabilities	9	2 121 974	2 252 286
CURRENT LIABILITIES		3 528 010	1 851 673
Trade and other payables	10	2 907 705	1 851 673
Bank overdraft	6	620 305	-
TOTAL FUNDS AND LIABILITIES		79 285 276	79 103 922

THE MUNICIPALITY OF OMARURU

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2014 N\$	2013 N\$
INCOME		14 787 599	13 553 795
EXPENDITURE		(21 605 388)	(17 518 357)
NET OPERATING DEFICIT		(6 817 789)	(3 964 562)
INTEREST ON INVESTMENTS		-	1 355 649
NET DEFICIT AFTER INTEREST		(6 817 789)	(2 608 913)
APPROPRIATION ACCOUNT	11	547 832	(467 589)
		(6 269 957)	(3 076 502)
REVENUE ACCOUNT - Beginning of year		(7 649 981)	(4 573 479)
REVENUE ACCOUNT - End of year		(13 919 938)	(7 649 981)

THE MUNICIPALITY OF OMARURU

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2014 N\$	2013 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		14 787 599	13 553 795
Cash paid to suppliers		(17 764 693)	(23 640 617)
Cash utilised by operations	12	(2 977 094)	(10 086 822)
Interest received		-	1 355 649
(Decrease)/increase in Fund accounts		(4 680)	4 849 854
Increase in Capital outlay		4 909 966	5 946 892
Net cash flow from operating activities		1 928 192	2 065 573
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital expenditure		(14 811 058)	(11 927 574)
Decrease in investments		12 262 600	9 436 533
		(2 548 458)	(2 491 041)
CASH FLOW FROM FINANCING ACTIVITIES			
(Decrease)/increase in long-term loans		(130 312)	17 781
		(130 312)	17 781
NET DECREASE IN CASH AND CASH EQUIVALENTS		(750 578)	(407 687)
CASH AND CASH EQUIVALENTS			
- BEGINNING OF YEAR		130 273	537 960
CASH AND CASH EQUIVALENTS - END OF YEAR	6	(620 305)	130 273

THE MUNICIPALITY OF OMARURU

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements set out in Annexures A to D were prepared on the historical cost basis and incorporate the following principal accounting policies, which are consistent in all material aspects with those applied in the previous year.

1.2 Property, plant and equipment

Property, plant and equipment are stated at cost or valuation where assets have been acquired by grant or by donation. Assets are depreciated over their estimated useful lives.

1.3 Internal Funds

The following funds were created by the Municipality:

1.3.1 New Development Fund

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

1.3.2 Housing Fund

The purpose of this Fund is to provide for housing loans. Income for this Fund is derived from interest earned on secured housing loans and investments as well as profits made on the resale of housing scheme houses. Interest paid on external housing loans is charged to the Fund.

1.3.3 Capital Reserve Fund

The purpose of this Fund is to build up a general capital reserve to ensure a stable financial position. Income for this fund is derived from general revenue contributions and interest earned on internal loans and investments.

1.3.4 Betterment Fund

The purpose of this Fund is to provide for future improvements of municipal assets. Part of the proceeds of the sale of land as well as interest earned on internal loans and investments are allocated to this fund.

1.3.5 Renewal Fund

Its purpose is to provide for replacement of assets and for additional depreciation on assets which abnormally decreased in value. Income for this account is derived from general revenue contributions as well as interest earned on investments.

1.3.6 Capital Redemption Fund

Capital redemptions on external and internal loans are charged against income. A similar amount is credited to the Loan Redemption Fund for the duration of the loan. As and when the loan is fully redeemed the Loan Redemption Fund is transferred to the Revenue Contribution.

THE MUNICIPALITY OF OMARURU

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	2014	2013
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Total	61 360 862	46 549 804
3. INVESTMENTS		
INVESTMENTS		
Commercial Banks	10 853 977	23 116 577
	10 853 977	23 116 577
ALLOCATED AS FOLLOWS		
Capital Development Fund	7 123 874	8 363 494
Housing Fund	1 935 066	1 935 066
Build Together Fund	1 795 037	2 348 646
Capital Section	-	10 469 371
	10 853 977	23 116 577
4. TRADE AND OTHER RECEIVABLES		
Services, rates and taxes	5 361 807	4 157 756
Build Together advances	5 948 773	5 293 777
Sundry debtors	527 769	1 602 826
VAT	133 853	1 100 938
	11 972 202	12 155 297
Consumer deposits	(326 970)	(297 481)
Provision for bad debts	(4 658 271)	(2 748 902)
	6 986 961	9 108 914
5. INVENTORIES		
Materials	83 476	198 354
6. CASH AND BANK BALANCES		
Current account	(620 305)	130 273
Petty cash	-	-
	(620 305)	130 273

THE MUNICIPALITY OF OMARURU

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	2014	2013
	N\$	N\$
7. CAPITAL OUTLAY		
Loans redeemed	4 736 403	4 168 124
Revenue contributions	42 156 689	24 373 623
General Capital contributions	3 370 367	16 811 746
	50 263 459	45 353 493
8. FUNDS AND ACCOUNTS		
Capital Development Fund	27 129 564	27 235 632
Housing Fund	2 418 396	2 418 395
Build Together Fund	7 743 811	7 642 424
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(13 919 938)	(7 649 981)
	23 371 833	29 646 470
9. LONG-TERM LIABILITIES		
The Government of Namibia	1 851 660	1 981 972
Housing Fund	270 314	270 314
	2 121 974	2 252 286
Less: Current portion of liabilities included under current liabilities	-	-
	2 121 974	2 252 286
10. TRADE AND OTHER PAYABLES		
Trade payables	1 851 635	397 625
Suspense accounts	1 225	-
Provisions	1 054 845	437 152
Outstanding cheques	-	1 016 896
	2 907 705	1 851 673
11. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Prior year adjustments	2 897 621	(467 589)
Provision for leave	(2 348 563)	-
Difference on opening balance	(1 226)	-
	547 832	(467 589)

THE MUNICIPALITY OF OMARURU

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	2014	2013
	N\$	N\$
12. CASH UTILISED BY OPERATIONS		
Net operating deficit before transfers	(6 817 789)	(3 964 562)
Adjustments for:		
- Adjustments to appropriation account	547 832	(467 589)
- Investment income	-	-
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	(6 269 957)	(4 432 151)
CHANGES IN WORKING CAPITAL		
Change in trade and other receivables	2 121 953	(5 435 267)
Change in inventories	114 878	(63 162)
Change in trade and other payables	1 056 032	(156 242)
	3 292 863	(5 654 671)
CASH UTILISED BY OPERATIONS	(2 977 094)	(10 086 822)