



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE MUNICIPALITY OF OMARURU

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

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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 2016, 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.

A handwritten signature in black ink, appearing to read 'Junias Etuna Kandjeke'.

WINDHOEK, November 2017

**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 2016**

1. REPORT ON THE FINANCIAL STATEMENTS

1 INTRODUCTION

The accounts of the Municipality of Omaruru for the year ended 30 June 2016 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 Strategis Registered Accountants and Auditors of Windhoek has been appointed by the Auditor-General in terms of Section 26(2) of the State Finance Act, 1991, to audit the accounts of the Municipality of Omaruru on behalf of the Auditor-General and under his supervision.

Figures in the report are rounded to the nearest Namibia dollar and deficits are indicated in (brackets).

I certify that I have audited the accompanying financial statements of the Municipality of Omaruru for the year ended 30 June 2016. These financial statements comprise the following statements submitted for the year then ended:

Annexure A: Balance sheet;
Annexure B: Income statement;
Annexure C: Cash flow statement;
Annexure D: Notes to the financial statements;

The financial statements were submitted by the Accounting Officer to the Auditor-General in compliance with Section 27 (1) of the Local Authorities Act, 1992, except that they were only submitted on 18 October 2016 instead of three months (3 months) after the year end as required by the Act.

2. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Section 86 of the Local Authorities Act, 1992 and for such internal control as management determines it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

3. AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on the audit. I conducted the audit in accordance with International Standards for Supreme Audit Institutions (ISSAIs). These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Powers and duties

Section 25(1) (c) of the State Finance Act, 1991, provides that the Auditor-General should satisfy himself that:

- (a) All reasonable precautions have been taken to ensure that all monies due to the State are collected, and that the laws relating to the collection of such monies have been complied with;
- (b) All reasonable precautions have been taken to safeguard the receipt, custody and issue of and accounting for, the State's assets, such as stores, equipment, securities and movable goods; and
- (c) The expenditure has taken place under proper authority and is supported by adequate vouchers or other proof.

In addition, Section 26(1) (b)(iv) of the State Finance Act, 1991, empowers the Auditor-General to investigate and report on the economy, efficiency and effectiveness of the use of the State's resources.

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.

I believe that the audit evidence I have obtained is insufficient and inappropriate to provide a basis of the audit opinion.

4. ACKNOWLEDGEMENT

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

5. KEY AUDIT FINDINGS

5.1 Investments

Investments recorded in the financial statements to the value of N\$ 5 844 507 differ to the total investments as reflected in the bank statements, and also as confirmed by the respective commercial banks totalling N\$ 10 497 189. Commercial banks investments are therefore understated by N\$ 4 652 682.

Recommendation

The Municipality should put measures in place for the investment accounts in Finstel to be reconciled on a monthly basis with the bank statements and errors should be timeously corrected.

5.2 Appropriation account adjustments

Provision for bad debts reported in the Appropriation account amounting to N\$ 4 805 233 differs to the recalculated provision for bad debts movement of N\$ 1 956 031. Resultantly provision for bad debts adjustment is overstated by N\$ 2 849 202.

Recommendation

All adjustments relating to the Appropriation account should be accurately performed. Furthermore, such adjustments should be reviewed before being reflected in the financial statements.

5.3 Bank Reconciliation

The bank balance of (N\$ 4 844 721) reported in the financial statements differs with the cashbook balance as reflected in the bank reconciliation of N\$ 1 528 310, resulting in a difference of N\$ 6 373 031. Accuracy of the bank reconciliation is therefore questionable given this discrepancy.

Recommendation

The Municipality should put measures in place to ensure that bank reconciliations are performed accurately.

5.4 Consumer deposits

The Municipality was unable to provide for audit verification, the listing of consumer deposits amounting to N\$ 417 099. The auditors could therefore not confirm the completeness and accuracy of the consumer deposit balance.

The average monthly water consumption during the period under review was N\$ 642 481 while the consumer deposits were recorded at N\$ 417 099. This implies that the water deposits held are inadequate to cover monthly water charges.

Recommendation

Consumer deposits should be reconciled to the Finstel records. The Municipality should consider revision of the consumer deposits in line with the increase in water consumption and in line with the latest price gazette.

5.5 Development Fund

The opening balance for the Development Fund carried forward from the 2014/2015 financial year amounting to N\$ 24 802 901 differs with the opening balance as shown in the 2015/2016 financial year amounting to N\$ 24 168 185 resulting in a difference of N\$ 634 716.

Recommendation

The Municipality should ensure that correct balances are carried forward as per the prior year audited financial statements.

5.6 Payroll

The recomputed payroll summary based on the monthly payroll records amounting to N\$ 11 039 844 does not agree to the payroll reflected in the financial statements amounting to N\$ 13 719 829 resulting in a difference of N\$ 2 679 985. However, no explanation was given for such variance and there is a difference of N\$ 1 232 813 between Pension Fund balance as per the audit recalculation and that which is recorded in the financial statements.

Recommendation

The Municipality should ensure that reconciliations are performed and that pension contributions are correctly recorded in Finstel and the financial statements. Furthermore, variances should be timeously investigated and corrected.

5.7 Income

There is a difference of N\$ 290 398 between the income recorded in the financial statements and that recorded in the management accounts. Auditors also noted inaccurate reporting on some of the accounts in the financial statements as follows:

- Claims for insurance was recorded as N\$ 900 000 in the financial statements in comparison to the general ledger entry of N\$ 9 000.
- The Electricity department's income was reported as N\$ 1 231 149 in the financial statements where as the management accounts reflects N\$ 1 119 601.

Recommendation

The Municipality should reconcile annual financial statements to the management accounts to ensure that entries in the financial statements are accurately recorded.

5.8 Provision for Bad Debts

The auditors' reasonableness test calculation of provision for bad debts based on the recovery rate using three months' receipt after year end resulted in an estimated provision for bad debts of N\$ 9 307 846. This amount is higher than the bad debts provision in the financial statements of N\$ 7 619 450. Resultantly provision for bad debts is understated by N\$ 1 688 396.

Recommendation

The Municipality should intensify its debt collection process. Bad debts provision estimates should be revised in accordance with possible recoverability of debts.

5.9 Expenditure

The recomputed expenditure based on the management accounts amounting to N\$ 29 556 808 differs to the expenditure as recorded in the financial statements amounting to N\$ 29 195 247 resulting in a difference of N\$ 371 561.

Recommendation

The Municipality should ensure that the financial statements are reconciled to the management accounts. Differences thereof should be investigated and corrected timeously.

5.10 Going concern

The Municipality incurred a net loss of N\$ 4 083 906 (2015: 4 145 492) and further the Municipality reported an accumulated loss of N\$ 22 233 995 (2015: N\$ 13 426 925). The current liabilities of the Municipality exceeded its current assets by N\$ 8 050 745. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Municipality to continue operating as a going concern.

Recommendation

Appropriate measures should be put in place for the Municipality to generate or raise enough funds to run its operations.

5.8 CIRCULAR D3/2015

The Chief Executive Officer of the Municipality of Omaruru for the year under review did not submit to the Auditor-General's Circular D3/2015.

Recommendations

It is recommended that the Chief Executive Officer should submit all annual statements to the Auditor-General as required by Circular D3/2015 of the Auditor-General.

6. BASIS FOR DISCLAIMER OF OPINION

- Investments recorded in the financial statements were understated by N\$ 4 652 526;
- Provision for bad debts adjustment understated by N\$ 2 849 202;
- Difference of N\$ 6 373 031 between bank reconciliation cashbook balance;
- Unavailability of consumer deposits listing amounting to N\$ 417 099;
- Opening balance for development fund understated by N\$ 634 716;
- Unexplained payroll difference of N\$ 2 679 985;
- Pension fund contributions in the financial statements understated by N\$ 1 232 813;
- Income variance of N\$ 290 398;
- Provision for bad debts understated by N\$ 1 688 396;
- Expenditure difference of N\$ 371 561; and
- Going concern due to continuous losses being reported;

7. DISCLAIMER AUDIT OPINION

The accounts of the Municipality of Omaruru for the financial year ended 30 June 2016, summarised in annexure A to D, were audited by me in terms of the provisions of section 85 of the Local Authorities Act, 1992.

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

WINDHOEK, November 2017



**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**THE MUNICIPALITY OF OMARURU
BALANCE SHEET AT 30 JUNE**

	Note	2016 N\$	2015 N\$
ASSETS			
Non-current assets		78 576 012	80 438 347
Property, plant and equipment	2	66 506 405	68 428 283
Investments	3	12 069 607	12 010 064
Current assets		8 230 172	7 041 776
Accounts receivables	4	8 010 758	6 817 280
Inventories	5	219 414	224 496
TOTAL ASSETS		86 806 184	87 480 123
EQUITY AND LIABILITIES			
Funds		68 662 540	79 128 292
Capital outlay	6	56 582 387	57 925 422
Accumulated funds	7	12 080 153	21 202 870
Non-current liabilities		1 862 727	1 998 609
Long term liabilities	8	1 862 727	1 998 609
Current liabilities		16 280 917	6 353 222
Accounts Payables	9	11 436 196	4 140 031
Bank overdraft	10	4 844 721	2 213 191
TOTAL EQUITY AND LIABILITIES		86 806 184	87 480 123

**THE MUNICIPALITY OF OMARURU
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE**

	Note	2016 N\$	2015 N\$
INCOME		25 111 341	17 020 470
EXPENDITURE		(29 195 247)	(21 170 792)
NET OPERATING LOSS		(4 083 906)	(4 150 322)
INVESTMENT INTEREST EARNED		-	4 830
NET LOSS		(4 083 906)	(4 145 492)
ADJUSTMENTS	11	(4 723 164)	4 638 505
NET (LOSS) / PROFIT for the year		(8 807 070)	493 013
APPROPRIATION START OF THE YEAR		(13 426 925)	(13 919 938)
APPROPRIATION ACCOUNT AT END OF YEAR		(22 233 995)	(13 426 925)

ANNEXURE C

THE MUNICIPALITY OF OMARURU
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2016 N\$	2015 N\$
Cash receipts from customers		25 111 341	17 020 470
Cash paid to suppliers		(27 810 641)	(15 271 300)
Cash (utilised)/ generated by operations	12	(2 699 300)	1 749 170
Investment income		-	4 830
Movements in funds		(1 658 682)	4 999 987
- Funds accounts		(315 647)	(2 661 976)
- Capital outlay excluding loans redeemed		(1 343 035)	7 661 963
Net cash flow from operating activities		(4 357 982)	6 753 987
Cash flow from investing activities		1 862 335	(8 223 508)
Decrease / (increase) in capital value		1 921 878	(7 067 421)
Increase in investments		(59 543)	(1 156 087)
Cash flows from financing activities		(135 883)	123 365
(Decrease) / increase in long term loans		(135 883)	123 365
Net decrease in cash and cash equivalents		(2 631 530)	(1 592 886)
Cash and cash equivalents at beginning of year		(2 213 191)	(620 305)
Cash and cash equivalents at end of year		(4 844 721)	(2 213 191)

THE MUNICIPALITY OF OMARURU
NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2016

1 ACCOUNTING POLICIES

1.1 Basis of presentation

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

1.2 Property, plant and equipment and depreciation

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

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

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

1.3 Cash and cash equivalents

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

1.4 Fixed property fund

Proceeds from the sale of land that has been developed by the Municipality accumulates in this Fund. Cost incurred on the development of land is charged to this fund.

1.5 Housing Fund

The purpose of this Fund is to provide for housing loans. Income to this Fund is transferred from the general income statement account, external loans from Government and interest on investments and loans.

1.6 Capital Reserve Fund

This Fund was created to make provision for unforeseen expenditures as approved by the Municipality.

1.7 New Development Fund

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

ANNEXURE D

THE MUNICIPALITY OF OMARURU

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE (continued)

	2016	2015
	N\$	N\$
2. Property plant and equipment	66 506 405	68 428 283
	66 506 405	68 428 283
3. INVESTMENTS		
Comprising of:		
Oasis Housing Fund	59 543	-
Build Together Fund	2 968 303	2 968 303
Erongo Investment Equity	6 225 100	6 225 100
Capital Development Fund Account	2 816 661	2 816 661
	12 069 607	12 010 064
4. ACCOUNTS RECEIVABLE		
Service rates and taxes	10 401 173	6 927 065
Difference on internal loans	-	6 621
Build Together advances	3 473 425	3 473 425
Oasis Fund advances	660 385	660 385
Erven Sale Fund Advances	124 246	124 246
Student Loans	58 810	56 855
Customer deposits	(417 099)	(343 160)
Less: Provision for bad debts	(7 619 450)	(5 663 419)
Value Added Tax	183 038	818 322
Sundry debtors	318 193	3 296
Adjustment loans	74 392	753 644
	7 527 113	6 817 280
5. INVENTORY		
Inventory consists of:		
Stores	219 414	224 496
	219 414	224 496
6. CAPITAL OUTLAY		
Loans redeemed	5 909 788	5 330 946
Revenue contributions	47 773 177	49 469 566
General capital contribution	2 899 422	3 124 910
	56 582 387	57 925 422

THE MUNICIPALITY OF OMARURU
NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE (continued)

	2016	2015
	N\$	N\$
7. FUND AND ACCOUNTS		
Capital development fund	24 384 667	24 802 901
Housing fund	2 418 396	2 418 396
Oasis fund	719 928	660 385
Erven sale fund	124 245	124 246
Build together fund	6 664 002	6 623 867
Fund Difference	2 910	
Revenue account kept in compliance with Section 86 (1) of the Local Authorities Act 1992	(22 233 995)	(13 426 925)
	12 080 153	21 202 870
8. LONG – TERM LIABILITIES		
The Government of Namibia	1 592 413	1 728 295
Housing fund	270 314	270 314
	1 862 727	1 998 609
9. TRADE PAYABLES		
Accrued creditors	307 667	477 984
General creditors	-	915 339
Tippeg funds	9 591 585	1 402 176
Leave pay provisions	1 536 944	1 344 532
	11 436 196	4 140 031
10. CASH AND BANK BALANCES		
Current bank account	(4 844 721)	(2 213 191)
	(4 844 721)	(2 213 191)
11. ADJUSTMENTS AND UTILIZATIONS		
Adjustments - relating to prior year	-	5 643 653
Provision for bad debts	(4 805 233)	(1 005 148)
Revenue adjustments	106 023	
Expenditure	(23 954)	-
	(4 723 164)	4 638 505

THE MUNICIPALITY OF OMARURU

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE (continued)

	2016	2015
	N\$	N\$
12. Cash generated/utilised by operations		
Net operating deficit	(4 083 906)	(4 145 492)
Adjustment for:		
Adjustment to appropriation account	(4 723 164)	4 638 505
Investment income	-	(4 830)
OPERATIONG SURPLUS/(DEFICIT) BEFORE CHANGES IN WORKING CAPITAL	(8 807 070)	488 183
CHANGES IN WORKING CAPITAL		
Change in trade and other receivables	(1 193 478)	169 681
Change in trade payables	7 296 165	1 232 326
Change in inventories	5 083	(141 020)
	6 107 770	1 260 987
	(2 699 300)	1 749 170

