



**REPUBLIC OF NAMIBIA**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE  
MUNICIPALITY OF OMARURU  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

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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 2017, 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, September 2018**

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

**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 2017**

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**1. Report on the financial statements**

**1.1 INTRODUCTION**

The accounts of the Municipality of Omaruru for the year ended 30 June 2017 are being reported on in accordance with the provisions set out in Section 85 of 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 2017. 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; and  
Annexure D: Notes to the financial statements.

The financial statements were submitted by the Accounting Officer to the Auditor-General in compliance with Section 87 (1) of the Local Authorities Act, 1992, except that they were only submitted on 16 January 2018 instead of three months (3 months) after the year end as required by the Act.

The financial statements and notes to the financial statements provided by the Accounting Officer are attached as Annexure A-D.

**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 relevant legislation, and for such internal control as management determines it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**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 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 sufficient to provide a basis of the adverse 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 SUSPENSE ACCOUNT**

A suspense account with a total balance of N\$ 1 723 791 was not cleared at year-end.

## **Recommendation**

It is recommended that the Municipality should ensure that proper reconciliations are performed to clear the suspense account at year-end.

## **Management response**

*The Municipality take note of the concern; however, it should also be noted that the Local Authority is in the process of transforming its reporting practices.*

## **5.2 CASH AND CASH EQUIVALENT**

A difference of N\$ 340 509 was observed between the reconciled bank balance of N\$ 2 873 138 and financial statements balance of N\$ 2 532 629.

## **Recommendation**

It is recommended that monthly reconciliation should be performed to avoid misstatements.

## **Management response**

*The Council will improve on the bank reconciliation by reconciling it monthly.*

## **5.3 BUILT TOGETHER LOANS**

A difference of N\$ 617 691 was found between the financial statement and the list for Build together customers balance (N\$ 5 002 049: N\$ 4 384 358).

## **Recommendation**

It is recommended that the Municipality should ensure that Build Together customers' accounts are properly reconciled.

## **Management response**

*The Municipality will reconcile the build together loans in the 2017/2018 financial year.*

## **5.4 DIRECT DEPOSITS**

A total amounting to N\$ 599 847 was deposited directly into the Municipality bank account subsequently, such deposit could not be traced due to the fact that it lacks customer's details.

## **Recommendation**

It is recommended that the Municipality should ensure that proper reconciliation is done.

## **Municipality response**

*The Local Authority will reconcile the direct deposit to the rates payers' accounts. Furthermore, efforts are being made by management to ensure that consumers provide correct details when making direct deposits; unfortunately not all consumers are providing such detailed information.*

### **5.5 MUNICIPALITY ADOPTED IFRS FOR SME**

These standards do not apply to Public Interest Entities.

#### **Recommendation**

It recommended that the Council approach the Line Ministry before adoption of any standards in future.

### **5.6 FRUITLESS EXPENDITURE □**

The Council incurred an unauthorised expenditure or was responsible for incurring it amounting to N\$ 58 358 by adopting IFRS for SME without prior approval from Line Ministry.

#### **Recommendation**

## **6. BASIS FOR ADVERSE AUDIT OPINION**

- No supporting documents to verify suspense account balance amounting to N\$ 1 723 791;
- Cash and cash equivalent overstated by N\$ 340 509;
- Build Together Housing loans understated by N\$ 617 691;
- Fruitless expenditure amounting to N\$ 58 358;
- Direct deposits amounting to N\$ 599 847 not cleared; and
- Municipality Adopted IFRS for SME.

## **7. ADVERSE AUDIT OPINION**

The accounts of the Municipality of Omaruru for the financial year ended 30 June 2017, summarised in annexure A to D, were audited by me in terms of the provisions of section 85 of the Local Authorities Act, 1992.

In my opinion, because of the significance of the matter discussed in the Basis for Adverse Audit Opinion paragraph, the financial statements do not present fairly the financial position of the Municipality of Omaruru as at 30 June 2017 and cash flows, receipts and payments for the years then ended.

**WINDHOEK, September 2018**



**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**



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

	Note	2017 N\$	2016 N\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		66 038 980	66 506 405
Investments	2	11 342 067	12 069 607
<b>Current assets</b>			
Accounts receivables	3	8 154 511	8 010 758
Inventories		2 029 096	219 414
<b>TOTAL ASSETS</b>		<b>87 564 654</b>	<b>86 806 184</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Funds and Reserve</b>			
Capital outlay	4	-	56 582 387
Fund accounts	5	12 144 006	34 314 148
Retained earnings		61 964 735	-22 233 995
<b>Non-current liabilities</b>			
Long term liabilities	6	2 555 824	1 862 727
<b>Current liabilities</b>			
Accounts Payables	7	8 367 460	11 436 196
Bank overdraft		2 532 629	4 844 721
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>87 564 654</b>	<b>86 806 184</b>

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

	Note	<u>2017</u>	<u>2016</u>
		N\$	N\$
Income		32 223 454	25 111 341
Expenditure		<u>(34 362 157)</u>	<u>(29 195 247)</u>
<b>Net operating loss</b>		<b>(2 138 703)</b>	<b>(4 083 906)</b>
Interest earned		<u>3 075 049</u>	<u>-</u>
<b>Net surplus / (deficit)</b>		<b>936 346</b>	<b>(4 083 906)</b>
Adjustments	10	<u>83 262 384</u>	<u>(4 723 164)</u>
<b>Net surplus / (deficit) for the year</b>		<b>84 198 730</b>	<b>(8 807 070)</b>
Appropriation beginning of the year		<u>(22 233 995)</u>	<u>(13 426 925)</u>
<b>Appropriation account at end of year</b>		<b>61 964 735</b>	<b>(22 233 995)</b>

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

	<b>2017</b>	<b>2016</b>
	N\$	N\$
<b>Net cash flow from operating activities</b>	<b>942 321</b>	<b>(4 357 982)</b>
Cash receipts from customers	26 348 247	21 122 267
Cash paid to suppliers	(32 990 831)	(23 821 567)
Interest income	3 075 049	-
Movements in funds	4 509 856	(1 658 682)
Increase in Capital outlay	(56 582 387)	(315 647)
Decrease in Fund accounts	61 092 243	(1 343 035)
<b>Cash flow from investing activities</b>	<b>1 414 090</b>	<b>1 862 335</b>
Decrease in capital value	467 425	1 921 878
Decrease in loans	219 125	-
Decrease in investments	727 540	(59 543)
<b>Cash flows from financing activities</b>		
Decrease in long term loans	(44 319)	(135 883)
<b>Net decrease in cash and cash</b>	<b>2 312 092</b>	<b>(2 631 530)</b>
Cash and cash equivalents at beginning of year	(4 844 721)	(2 213 191)
<b>Cash and cash equivalents at end of year</b>	<b>(2 532 629)</b>	<b>(4 844 721)</b>

**THE MUNICIPALITY OF OMARURU  
NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2017**

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**1. ACCOUNTING POLICIES**

**1.1 Introduction**

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**

Properties, plant and equipment are stated at cost or valuation were applicable. Assets are depreciated over their estimated useful lives.

**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 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

**1.5 Inventory**

Inventories include those assets that are held for consumption and for provision of goods and services. Inventories are measured at the lower of cost and estimated selling price less costs to complete and sell, on the first in, first out (FIFO) basis.

**1.6 Internal reserves and funds**

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

**1.7 Fixed property reserve**

Established by the municipality as a revolving fund to fund infrastructure development including development of new municipal areas. Contributions to the fund are by way of sales of land and qualifying government contributions. Subsequently, the funds recognised as revenue is transferred to fixed property reserve through the Statement of Changes in Net Assets.

**THE MUNICIPALITY OF OMARURU**  
**NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2017**

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**ACCOUNTING POLICIE (continues)**

**1.8 Other reserves**

Municipality established other reserves for such as Sanitation reserves, to fund other municipality projects. Contributions and interest earned on investment to and from the reserve are transferred via the Statement of Changes in Net Assets to the reserve in line with the amount provided for in the operating budget.

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

**1.9 Housing loan funds**

The purpose of this Fund is to provide funding to low income earners within Municipality area for the purpose of housing development. 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.

**1.10 Revenue**

Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes and discounts. Interest is recognised in surplus or deficit, using the effective interest rate method.

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

	<b>2017</b>	<b>2016</b>
	N\$	N\$
<b>2. INVESTMENTS</b>	<b>11 342 067</b>	<b>12 069 607</b>
Comprising of:		
Oasis Housing Fund	-	59 543
Build Together Fund	3 612 413	2 968 303
Erongo Investment Equity	6 225 100	6 225 100
Capital Development Fund Account	1 504 554	2 816 661
<b>3. ACCOUNT RECEIVABLE</b>		
<b>3.1 HOUSING RECEIVABLES</b>	<b>3 914 686</b>	<b>4 133 811</b>
Housing debtors	3 288 790	3 473 426
Oasis Fund	625 896	660 385
<b>3.2 TRADE RECEIVABLE</b>	<b>4 239 825</b>	<b>3 876 947</b>
Service rates and taxes	16 143 111	10 401 173
Erven Sale Fund Advances	124 246	124 246
Other loan receivables	963 117	753 644
Student loans	73 640	58 810
Value Added Tax	-	183 038
Consumer deposits	-	(417 099)
Sundry debtors	-	318 193
Internal loan difference	-	74 392
<b>Sub total</b>	<b>17 304 114</b>	<b>11 496 397</b>
Less: Provision for bad debts	(13 064 289)	(7 619 450)
<b>Total</b>	<b>8 154 511</b>	<b>8 010 758</b>
<b>4. CAPITAL OUTLAY</b>	<b>-</b>	<b>56 582 387</b>
Loans	-	5 909 788
Income assets	-	47 773 177
General capital	-	2 899 422

During the current year, the municipality adopted IFRS for SME as the reporting framework. As a result, capital outlay was reclassified to accumulated surplus or loss to be in line with the reporting framework.

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

	<b>2017</b>	<b>2016</b>
	N\$	N\$
<b>5. FUND ACCOUNTS</b>	<b>12 144 006</b>	<b>34 314 148</b>
Capital development fund	1 504 554	24 384 667
Housing fund	2 418 396	2 418 396
Oasis fund	625 896	719 928
Build together fund	7 595 160	6 664 002
Erven sale refund	-	124 245
Fund Difference	-	2 910
Revenue account	61 964 735	-22 233 995
<b>Total</b>	<b>74 108 741</b>	<b>12 080 153</b>
<b>6. LONG – TERM LIABILITIES</b>	<b>2 555 824</b>	<b>1 862 727</b>
The Government of Namibia	1 548 095	1 592 413
Current portion	737 415	-
Housing fund	270 314	270 314
<b>7. TRADE PAYABLES</b>	<b>8 367 460</b>	<b>11 436 196</b>
Accrued creditors	2 505 937	307 667
VAT	89 535	-
Tippeg funds	2 244 972	9 591 585
Accounts receivables credit balances	1 267 676	-
Deposits received	1 040 701	-
Suspense	(1 723 791)	-
Provisions;		
Severance pay	1 424 832	-
Leave pay provisions	1 517 598	1 536 944
<b>8. ADJUSTMENTS AND UTILIZATIONS</b>	<b>83 307 384</b>	<b>(4 723 164)</b>
Adjustments - relating to prior year	(111 537)	-
IFRS adoption reclassification	56 582 377	-
Transfer to net interest on fund investments	(638 898)	-
Reclassification of unutilised funds	27 475 442	-
Provision for bad debts	-	(4 805 233)
Revenue adjustments	-	106 023
Expenditure	-	(23 954)

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

	<b>2017</b>	<b>2016</b>
	N\$	N\$
<b>CASH GENERATED/UTILISED BY</b>		
<b>9. OPERATIONS</b>		
Net operating surplus	936 346	-4 083 906
Adjustment for:		
Interest income	(3 075 049)	-
Adjustment to appropriation account	-	(4 723 164)
<b>Operating deficit before changes in working capital</b>	<b>(2 138 703)</b>	<b>(8 807 070)</b>
<b>Change in working capital</b>	<b>(4 503 881)</b>	<b>6 107 770</b>
Change in trade receivables	(362 878)	(1 193 478)
Change in trade payables	(2 331 322)	7 296 165
Change in inventory	(1 809 681)	5 083
<b>Total</b>	<b>(6 642 584)</b>	<b>(2 699 300)</b>