



REPUBLIC OF NAMIBIA



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

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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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 2018, 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 2019

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 2018**

1. DISCALIMER OF OPINION

I have audited the financial statements of the Municipality of Omaruru for the financial year ended 30 June 2018. These financial statements comprise the balance sheet, income statement, cash flow statement and notes to the annual financial statements for the year then ended, and a summary of significant accounting policies.

Because of the significance of the matters described in the basis for disclaimer of audit 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.

2. BASIS FOR DISCLAIMER OF OPINION

I conducted my audit in accordance with International Standards for Supreme Audit Institutions; my responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the financial statements section of my report. I am independent of the entity in accordance with the code of ethics for Supreme Audit Institutions together with the ethical requirements that are relevant to my audit of the financial statements in Namibia, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the code of ethics.

I believe that the audit evidence I have obtained is insufficient and inappropriate to provide a basis for my opinion. A disclaimer audit opinion is being expressed due to the following:

- Comparative figures prepared on wrong financial reporting framework;
- Trade receivables understated by N\$ 437 672;
- Bank and cash understated by N\$ 1 301 408;
- Funds, accounts and reserves understated by N\$ 3 783 010;
- No supporting documents for appropriation account adjustments amounting to N\$ 5 872 026;
- Direct deposits amounting to N\$ 1 893 641 not cleared;
- Payroll understated by N\$ 499 705; and
- No supporting documents for government funding to the value of N\$ 823 760; and
- Absences of recognised accounting reporting framework.

3. OTHER INFORMATION

Management is responsible for the other information. The auditor's opinion on the financial statements does not cover the other information and, accordingly, the auditor does not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

4. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with General Accepted Accounting Principles and 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.

In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible of overseeing the entity's financial reporting process.

5. AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS

My objectives are to obtain reasonable assurance about whether the financial statements as a whole free from material misstatement, whether due to fraud or error and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs), will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards for Supreme Audit Institutions, I exercise professional scepticism throughout the audit, I also;

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies uses and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence, obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit

evidence obtained up to the date of my report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
- I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.
- From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my report unless law or regulation precludes public disclosure about the matter or, when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

6. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The financial statements were submitted later than required by the Accounting Officer to the Auditor-General on 25 October 2018 in terms of Section 87 (1) the Local Authorities Act, 1992 (Act 23 of 1992), instead of three months after year end.

7. GENERAL INFORMATION

The accounts of the Municipality of Omaruru for the year ended 30 June 2018 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).

WINDHOEK, June 2019



**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

	Note	2018 N\$	2017 N\$
ASSETS			
Non-current assets		84 398 452	81 295 733
Property, plant and equipment	2	65 457 355	66 038 980
Investments	3	14 795 597	11 342 067
Housing debtors	4	4 145 500	3 914 686
Current assets		22 841 439	6 268 921
Accounts receivables	5	21 499 392	4 239 825
Inventories	6	222 223	2 029 096
Bank	11	1 119 824	-
TOTAL ASSETS		107 239 891	87 564 654
EQUITY AND LIABILITIES			
Funds		87 058 602	74 108 741
Capital outlay	7	65 457 355	-
Fund accounts	8	12 112 045	12 144 006
Retained earnings		9 489 202	61 964 735
Non-current liabilities		2 285 509	1 818 409
Long-term liabilities	9	2 285 509	1 818 409
Current liabilities		17 895 780	11 637 504
Accounts payables	10	16 595 018	8 367 460
Current portion of long-term loans	9	1 300 762	737 415
Bank overdraft	11	-	2 532 629
TOTAL EQUITY AND LIABILITIES		107 239 891	87 564 654

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

	Note	2018	2017
		N\$	N\$
Income		44 059 715	32 223 454
Expenditure		(24 791 805)	(34 362 157)
Net operating surplus / (deficit)		19 267 910	(2 138 703)
Interest earned		5 334	3 075 049
Net surplus		19 273 244	936 346
Adjustments	12	(71 748 777)	83 262 384
Net (deficit) / surplus for the year		(52 475 533)	84 198 730
Appropriation account at the beginning of the year		61 964 735	(22 233 995)
Appropriation account at the end of the year		9 489 202	61 964 735

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

	Note	2018 N\$	2017 N\$
Cash flow from operating activities			
Cash receipts from customers		27 732 961	26 303 781
Cash paid to suppliers		(2 531 373)	(14 622 109)
Cash paid on behalf of employees		(15 818 203)	(18 368 722)
Other cash receipts		2 659 390	44 466
Cash (utilised) by operations	13	12 042 775	(6 642 584)
Interest income		5 334	3 075 049
Movements in funds		(6 323 383)	4 509 856
- Capital outlay		65 457 355	(56 582 387)
- Fund accounts		(71 780 738)	61 092 243
Net cash flow from operating activities		5 724 726	942 320
Cash flow from investing activities		(3 102 720)	1 414 090
Changes in capital value		581 625	467 425
Changes in loans		(230 814)	219 125
Changes in investments		(3 453 531)	727 540
Cash flows from financing activities		1 030 447	(44 319)
Decrease in long term loans		1 030 447	(44 319)
Net increase in cash and cash equivalents		3 652 453	2 312 092
Cash and cash equivalents at the beginning of the year		(2 532 629)	(4 844 721)
Cash and cash equivalents at the end of the year		1 119 824	(2 532 629)

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

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.

Subsequent expenditure

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential over the total life of the asset more than the most recently assessed standard of performance of the existing asset will flow to the municipality. All other repairs and maintenance are charged to surplus or deficit for the year in which they are incurred.

1.3 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For 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 reserve fund

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

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.

Sales of land are recognised in the statement of surplus or deficit and subsequently transferred to the fund through the Statement of Changes in Net Assets to the reserve. Time to time the municipality receives government contributions for infrastructure development. Government contribution is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions, or obligations embodied in the funding agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Unconditional grants and receipts are recognised in the surplus or deficit upon receipt. Subsequently the funds recognised as revenue is transferred to fixed property reserve through the Statement of Changes in Net Assets.

Other reserves

Municipality established other reserves for example sanitation reserves, to fund other municipality projects. Contributions 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.

1.7 Revenue

Revenue is recognised to the extent that the municipality has transferred the significant risks and rewards of ownership of goods to the buyer or has rendered services under an agreement provided the amount of revenue can be measured reliably and it is probable that economic benefits associated with the transactions will flow to the municipality. 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 2018

	2018	2017
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT	65 457 355	66 038 980
3. INVESTMENTS		
Comprising of:		
Build together fund	3 843 517	3 612 413
Erongo investment equity	6 225 100	6 225 100
Capital development account	4 726 980	1 504 554
	14 795 597	11 342 067
4. HOUSING RECEIVABLES		
Housing debtors	3 573 134	3 288 790
Oasis fund	572 366	625 896
	4 145 500	3 914 686
5. ACCOUNTS RECEIVABLES		
Service rates and taxes	35 792 125	16 143 111
Erven sale fund advances	-	124 246
Other loan receivables	-	963 117
Student loans	158 900	73 640
Value added tax	676 296	-
Sub total	36 627 321	17 304 114
Less: Provision for bad debts	(15 127 929)	(13 064 289)
	21 499 392	4 239 825
6. INVENTORY		
Consumables	222 223	2 029 095
7. CAPITAL OUTLAY		
Loans	17 179 679	-
Income assets	38 826 146	-
General capital	9 451 530	-
	65 457 355	-

THE MUNICIPALITY OF OMARURU
NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2018

	2018	2017
	N\$	N\$
8. FUND ACCOUNTS		
Capital development fund	1 358 216	1 504 554
Housing fund	180 313	2 418 396
Oasis fund	587 117	625 896
Build together fund	9 986 399	7 595 160
Sub total	<u>12 112 045</u>	<u>12 144 006</u>
Revenue account kept in compliance with section 86 (1) of the Local Authorities Act	9 489 202	61 964 735
	<u>21 601 247</u>	<u>74 108 741</u>
9. LONG-TERM LIABILITIES		
The Government of Namibia	2 285 509	1 548 095
Current Loan Portion	1 300 762	737 415
Housing fund	-	270 314
	<u>3 586 271</u>	<u>2 826 138</u>
10. TRADE PAYABLES		
Accrued creditors	1 828 719	2 505 937
VAT	-	89 535
TIPEEG funds	1 828 533	2 244 972
Accounts receivables credit balances	2 991 118	1 267 676
Deposits received	1 042 924	1 040 701
Government funds	5 841 697	-
Suspense	-	(1 723 791)
Provisions	3 062 027	2 942 430
Severance pay	1 361 734	1 424 832
Leave pay provisions	1 700 293	1 517 598
	<u>16 595 018</u>	<u>8 367 460</u>
11. BANK AND CASH		
Current bank account	<u>1 119 824</u>	<u>(2 532 629)</u>

THE MUNICIPALITY OF OMARURU
NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2018

	2018	2017
	N\$	N\$
12. ADJUSTMENTS AND UTILISATION		
Adjustments - relating to prior year	63 098	(111 537)
Build together fund adjustment	1 047 018	-
Oasis fund	77 559	-
Students loans	85 260	-
Provision for bad debts	(2 063 640)	-
Correction prior year transaction	(1 736 204)	-
External loans	(1 300 792)	-
Suspense	(1 723 831)	-
Contribution loan assets	(17 179 677)	-
Adjustment leave days	(182 695)	-
Contribution income assets	(41 995 314)	-
Contribution general capital assets	(6 775 378)	-
Prior year adjustments	(64 181)	-
IFRS adoption reclassification	-	56 582 377
Transfer to net interest on fund investments	-	(638 898)
Reclassification of unutilised funds	-	27 475 442
	(71 748 777)	83 307 384
13. CASH UTILISED BY OPERATIONS		
Net operating surplus	19 273 244	936 346
Adjustment for:		
Interest income	(5 334)	(3 075 049)
Operating deficit before changes in working capital	19 267 910	(2 138 703)
CHANGES IN WORKING CAPITAL	(7 225 135)	(4 503 881)
Change in trade receivables	(17 259 566)	(362 878)
Change in trade payables	8 227 558	(2 331 322)
Change in inventory	1 806 873	(1 809 681)
	12 042 775	(6 642 584)

