



REPUBLIC OF NAMIBIA



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

FOR THE FINANCIAL YEARS ENDED 30 JUNE 2007 AND 2008

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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 Outjo for the financial years ended 30 June 2007 and 2008, 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, February 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF OUTJO FOR THE FINANCIAL YEARS ENDED**

30 JUNE 2007 AND 2008

1. INTRODUCTION

The accounts of the Municipality of Outjo for the years ended 30 June 2007 and 2008 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 Saunderson & Co 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 on his behalf 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. **As in the previous financial, year the Municipality was again unable to finalize their financial statements within the period of three months after year-end as required by the Act. The signed financial statements for the 2006/07 financial year were submitted on 26 March 2009 and those for the 2007/08 financial year on 18 May 2009.** The audited financial statements are not in agreement with the general ledger and are filed in the Office of the Auditor-General. The abridged balance sheets at 30 June, Annexure A, are true reflections of the originals.

The following annexures are also attached to this report :

Annexure B : Abridged income statements

Annexure C : Cash flow statements

Annexure D : Notes to the financial statements

3. SCOPE OF THE AUDIT

The Accounting Officer of the Municipality is responsible for the preparation of the financial statements and for ensuring the regularity of the financial transactions. 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 audit as carried out by the said firm, included :

- (a) Examination on a test basis of the evidence relevant to the amounts, disclosure and regularity of financial transactions included in the financial statements;

- (b) assessment of the significant estimates and judgements made by the Accounting Officer of the Municipality in the preparation of the financial statements and whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed, and
- (c) evaluation of the overall adequacy of the presentation of information in the financial statements.

The audit was planned and performed so as to obtain all the information and explanations considered necessary to provide sufficient evidence to give reasonable assurance that :

- * The financial statements are free from material misstatement, whether caused by error, fraud or other irregularity;
- * in all material respects, the expenditure and income have been applied to the purposes intended; and
- * the financial transactions conform to the authorities which govern them.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Accounting records

2008

The audit could not agree the management report items to the financial statements. This means that no journals have been processed to align the accounting records with financial statements prepared by the Municipality for the year under review.

2007

No back-ups of accounting records was availed during the audit, therefore financial statements could not be agreed to any accounting system reports.

4.2 Appropriation account (2007 & 2008)

The opening balance of the accumulated funds was N\$ 78 429 and N\$ 498 532 less than the reported closing balance for the years ended 30 June 2008 and 2007 respectively. No explanation could be provided for the differences.

4.3 Property, plant and equipment (2007 & 2008)

The following was evident:

- The existence and values of fixed assets could not be confirmed as no fixed asset register was available.
- No depreciation calculations could be reperformed, due to the fact that no fixed asset register was availed to the auditors.
- No list of disposals was available for audit purposes.
- No licenses were availed for all motor vehicles.

Due to the above-mentioned, the auditors were again unable to satisfy themselves that assets are fairly stated in the financial statements. It is again recommended that the Municipality, as a matter of urgency, implements serious controls over their property, plant and equipment.

4.4 Current bank account

The unfavourable cash-book balances of N\$ 306 938 for 2008 and N\$ 764 048 for 2007 (2006: N\$ 1 787 468) could not be confirmed as being correct due to the absence of the relevant accounting records.

4.5 Accounts receivable (2007 & 2008)

Once again, as reported in the prior year, the controls regarding consumer debtors have not improved. The controls over accounts receivable are still inadequate. No evidence was obtained that any attempt was made by the Council to rectify the situation. It is therefore once again strongly recommended that the Municipality implements measures to control the debtors in a more efficient and effective manner.

	2008	2007
	N\$	N\$
Consumer debtors	9 287 884	8 099 458
General and other	715 306	275 154
	10 003 190	8 374 612
Provision for bad debts	(1 294 416)	(1 209 363)
	8 708 774	7 165 249
Percentage increase in outstanding debtors	19.45%	13.97%
Percentage increase in the percentage for provision for bad debts	7.03%	142.59%
Percentage provision against debts	13.94%	14.93%

Audit tests revealed that the recoverability of debtors is approximately 5% for 2008 and 5% for 2007 (2006: 5%) of total debtors. This indicates that the provision for bad debts is inadequate and may be understated with N\$ 3 998 952 for 2008 and N\$ 4 000 000 for 2007 (2006: N\$ 4 204 300). The financial statements reported an increase in debtors of 19% for 2008 and 14% for 2007 (2006: (10%)) and an increase of the provision for bad debts of 7% for 2008 and 143% for 2007 (2006: increase of 36%).

4.6 Creditors records (2007 & 2008)

As reported in the prior year, there are still material differences between the financial statements and the Finstel system. The auditors could not obtain any information as to how these differences occurred and were unable to perform further audit procedures. No creditors reconciliations were performed for the years under review.

A search for unrecorded liabilities was once again used to identify creditors and short-term liabilities at year-end. Due to missing documentation, it was not possible to conduct the tests.

It is imperative that management also investigates and rectifies the situation of creditor accounts.

4.7 Value Added Tax (2007 & 2008)

Included in the current assets is an amount equal to N\$ 941 675 for 2008 and N\$ 799 294 for 2007 (2006: N\$ 602 630) in respect of value added tax (VAT) receivable. Due to the limitation of scope no audit tests could be performed to establish the accuracy and fairness to the account. It is important that the Municipality must update the VAT control account in the general ledger as to show a true reflection in the financial statements.

4.9 Payroll (2007 & 2008)

Due to limitation of scope on audit procedures, sufficient audit evidence could not be obtained on which to base an opinion.

The following were evident:

- No supporting documentation could be obtained for allowances paid to employees.
- Variances were found in recalculating PAYE .
- Payment of statutory deductions could not be verified because actual payment documents were destroyed during a fire.

Due to the significance of this matter, the Auditor-General cannot express an opinion on payroll for the year under review.

4.10 Expenditure (2007 & 2008)

Due to lack of supporting documentation cheque expenditure could not be verified. It also became evident that no ledger was available to perform audit work. This posed a limitation of scope on the audit work.

Due to the significance of this matter, the Auditor-General cannot express an opinion on expenditure for the years under review.

4.11 Improper segregation of duties (2007 & 2008)

Duties in the finance department are not properly segregated among the staff. Incompatible functions of initiation, recording, checking and approval are being performed by the same individuals. There are no clear-cut duties for some staff members although they have job descriptions which still need to be revised. The Town Treasurer is overwhelmed by clerical duties as opposed to only strategic issues.

Currently there is not a proper or well defined departmental structure at the Municipality. The accountant responsible for creditors, also performs the payroll function and executes transfers to the bank accounts irrespective of the fact that there is a human resources officer.

The Municipality should ensure proper segregation of duties within various departments. The Town Treasurer, for example, should be relieved of clerical duties and the payroll function should be handled by the human resources section. There is a need for a clear organizational structure with well delineated lines of reporting and responsibility assignments.

4.12 Going concern (2007 & 2008)

The ability of the Municipality to continue as a going concern is dependent on a number of factors which have already been mentioned in paragraph 4.3. The most significant of these are the continuation of profitable operations and the recovery of long outstanding debtors and the maintaining of existing levels of finance by major creditors.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

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

	Revenue	Expenditure	Surplus / (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit 01/07/2007				(3 646 877)
General services				
Rate and general	4 045 345	5 834 406	(1 789 061)	
Self-supporting	3 108 542	2 983 999	124 543	
Trade accounts				
Water *	4 074 532	1 331 769	2 742 763	
Electricity	1 069 179	387 532	681 647	
	12 297 598	10 537 706	1 759 892	
Surplus for the year				1 759 892
Unexplained difference in opening balance				78 429
Adjustments and utilization (See note 10)				(1 401 962)
Accumulated deficit 30/06/2008				(3 210 518)

	Revenue	Expenditure	Surplus / (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit 01/07/2006				(3 149 907)
General services				
Rate and general	3 800 980	6 043 918	(2 242 938)	
Self-supporting	2 596 070	2 494 563	101 507	
Trade accounts				
Water *	3 502 380	1 151 824	2 350 556	
Electricity	1 348 366	668 075	680 291	
	11 247 796	10 358 380	889 416	
Surplus for the year				889 416
Unexplained difference in opening balance				498 532
Adjustments and utilization (See note 10)				(1 884 918)
Accumulated deficit 30/06/2007				(3 646 877)

* The water services are provided by the Municipality, because they are having boreholes where water is pumped from. Expenses are for maintenance of these boreholes.

7. CURRENT BANK ACCOUNT

The cash-book balance reflected an unfavourable balance of N\$ 306 938 for 2008 and an unfavourable N\$ 764 048 for 2007 (2006: Favourable N\$ 1 787 468). No bank statements were availed to the auditors. No list of cheques presented for payment, outstanding at year end was availed to the auditors.

8. INVESTMENTS

On 30 June 2008 there was N\$ 1 757 and 30 June 2007: N\$ 1 668 (2006: N\$ 651 668), invested at a financial institution, as follows:

	2008	2007	2006
	N\$	N\$	N\$
Investments on call	1 757	1 668	651 668

9. FUND ACCOUNTS

The position of the Fund Accounts as at the end of the financial year is shown in Note 7.2 of Annexure D.

10. TRADE ACCOUNTS

10.1 The results of water operations were as follows:

	2008	2007	2008	2007
	Water		Electricity	
	N\$	N\$	N\$	N\$
Sales	4 050 453	3 479 133	1 069 179	1 348 367
Cost of bulk purchases	-	-	104 454	382 161
Gross profit	4 050 453	3 479 133	964 725	966 206
Expenses (net)	1 307 690	1 128 577	283 079	285 914
Net surplus/(Losses)	2 742 763	2 350 556	681 646	680 292
Gross profit on bulk purchases	-	-	924%	253%
Net profit/(loss) on bulk purchases	-	-	653%	178%

	2007	2006	2007	2006
	Water		Electricity	
	N\$	N\$	N\$	N\$
Sales	3 479 133	2 517 259	1 348 367	1 931 877
Cost of bulk purchases	-	-	382 161	993 035
Gross profit	3 479 133	2 517 259	966 206	938 174
Expenses (net)	1 128 577	1 405 723	285 913	413 294
Net surplus/(Losses)	2 350 556	1 111 536	680 292	524 880
Gross profit on bulk purchases	-	-	253%	94%
Net profit/(loss) on bulk purchases	-	-	178%	53%

The current year net profit of both trading accounts increased tremendously. The Municipality should strive to continue with the trend, and continue to enforce strict controls regarding debt collection.

10.2 Water distribution results in cubic meters

No information could be obtained with regard to the cubic meters sold for both financial years under review. The Municipality should implement such a control system in order to detect material distribution losses at an early stage.

11. SELF-SUPPORTING SERVICES

The net results on self-supporting services were as follows:

	2008	2007	2006
	N\$	N\$	N\$
Abattoir	4 589	1 827	2 459
Cleansing services	(581 135)	(475 588)	(642 511)
Sewerage and plunger	709 585	581 443	(493)
Sidings and industrial plots	(8 496)	(6 175)	(9 583)
Net (deficit) / surplus	124 543	101 507	(650 128)

The above table shows that the self-supporting services indicate an overall net surplus, compared to prior year deficits. This indicates that the Municipality did enforce and review operational policies where possible for the years under review.

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorized or avoidable expenditure was revealed during the audit.

13. SUSPENSE ACCOUNTS

Suspense account balances amounted to N\$ 586 254 (Credit) and N\$ 140 469 (Debit) for 2008 and N\$ 539 554 (Credit) and N\$ 100 746 (Debit) for 2007 (2006: N\$ 222 346).

14. IRREGULARITIES AND LOSSES

No irregularities and losses were revealed by the audit for the years under review.

15. CAPITAL PROJECTS

The following expenditure was incurred during the years for capital projects or acquisitions:

2008	Revenue	Internal	Capital	Total
Nature of projects	account	loans	account	
	N\$	N\$	N\$	N\$
Town - Clerk / Treasurer	20 054	-	-	20 054
General Council Expenses	14 552	168 389	-	182 941
Fire Brigade	-	15 513	-	15 513
Workshop	4 238	-	-	4 238
Public buildings	-	-	582 370	582 370
Streets, roads and storm water	-	29 317	-	29 317
Natis - Decentralised - MWTC	4 548	-	-	4 548
Cleansing Services	-	236 860	-	236 860
Sewerage and Plunger	-	27 369	-	27 369
Water supply	11 429	165 395	-	176 824
	54 821	642 843	582 370	1 280 034

Loans to the value of N\$ 253 117 which were fully redeemed during the year, were transferred to the “General Capital” account instead of the “Contribution from Revenue” account.

The following loans have also been fully redeemed during the year, but were not transferred:

Loan number	Purpose	Amount
		N\$
CRF 192	Upgrade Erf 23	6 290
CRF 193	Renovate vehicles	58 700
CRF 196	Tools & equipment – Electrical	26 667
		91 657

The “Loans redeemed” account is as such overstated and the “Contributions from Revenue” account understated.

2007	Revenue	Internal	Capital	
Nature of projects	account	loans	account	Total
Town - Clerk / Treasurer	18 405	57 193	-	75 598
General Council Expenses	7 703	70 843	-	78 546
Fire Brigade	-	13 873	-	13 873
Sport grounds and parks	-	87 688	-	87 688
Single Quarters	-	13 850	33 373	47 223
Museum	-	83 971	772	84 743
Cleansing Services	-	46 555	-	46 555
Sewerage and Plunger	-	25 925	296 796	322 721
	26 108	399 898	330 941	756 947

Capital expenditure incurred for the years under review amounted to N\$ 1 280 033 for 2008 and N\$ 840 283 for 2007 (2006: N\$ 1 808 967). However no supporting documentation was availed to ensure the validity, accuracy of these expenditures.

Loans to the value of N\$ 83 338 which were fully redeemed during the year, were transferred to the “General Capital” account and not to the ‘Contributions from Revenue’ account. The following loans have also been fully redeemed during the year, but have not been transferred:

Loan number	Purpose	Amount
		N\$
OUT 115	Sewerage scheme	50 000
OUT 116	Sewerage dams	50 000
OUT 117	Network	60 000
		160 000

The “Loans redeemed” account is as such overstated and the “Contributions from Revenue” account understated.

16. BURSARIES

No bursaries were granted during the years under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No amount was received or given as contributions or grants during the years under review.

18. COMPENSATION PAYMENTS

No compensation payments were made during the years under review.

19. VISITS TO FOREIGN COUNTRIES

No amount was incurred on visits to other countries during the years under review.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the years under review.

21. GIFTS / DONATIONS BY / TO THE LOCAL AUTHORITY

21.1 An amount of N\$ 2 700 for 2008 and N\$ 2 858 for 2007 (2006: N\$ 9 067) was given as gifts/donations by the Municipality during the years under review.

21.2 An amount of N\$ 15 600 for 2008 and N\$ 14 200 for 2007 (2006: N\$ 14 941) was given as free services by the Municipality during the years under review.

21.3 An amount of N\$ Nil for 2008 and N\$ 236 766 for 2007 (2006: N\$ 188 269) was given as subsidies to pensioners and indigent people by the Municipality during the years under review.

22. TRANSFER OF PROPERTY TO / FROM GOVERNMENT

No transfer of property has been made to / from Government for the periods under review.

23. TRADE AND OTHER RECEIVABLES AND PAYABLES

23.1 Debtors at 30 June

	2008	2007	2006
	N\$	N\$	N\$
Consumers	9 287 884	8 099 457	7 145 679
General and other	715 305	275 154	202 668
VAT Control account	2 331 384	2 408 147	2 378 415
Advances: Housing Fund	941 675	799 294	602 630
	13 276 248	11 582 052	10 329 392
Less: Provision for bad debts	(1 294 416)	(1 209 363)	(498 532)
	11 981 832	10 372 689	9 830 860

A closer investigation revealed the following:

The consumer debt collection period not increased during the periods under review from 262 days to 506 days. The non-movement in the collection period is a matter of concern as this can influence the cash flow of the Municipality. It is strongly recommended that the Municipality implements strong measures and policies to decrease the outstanding debtors in future.

23.2 Creditors as 30 June

	2008	2007	2006
	N\$	N\$	N\$
Trade creditors	1 251 251	1 436 484	895 564
Provision for audit fees	338 330	258 330	198 330
External loan repayments in arrears	2 308 890	2 078 462	1 808 857
Other	1 276 474	951 088	642 358
Less: Unexplained investment duplication	(1 713)	(1 668)	(651 668)
	5 173 232	4 722 696	2 893 441

24. ASSESSMENT RATES

Net proceeds from assessment rates amounted to N\$ 1 235 427 for 2008 and N\$ 1 167 723 for 2007 (2006: N\$ 1 023,457). The tariffs for properties were 0.09 for 2008 and 0.09 for 2007 (2006: 0.09) on land value and 0.012 for 2008 and 0.012 for 2007 (2006: 0.012) on improvement value. The rates remained unchanged in the years under review.

25. LOANS

25.1 External loans

Loan assets	Balance at 01/07/2007	Repayments	Balance at 30/06/2008
	N\$	N\$	N\$
Capital accounts	1 626 982	40 813	1 586 169
Housing Fund	200 226	19 227	180 999

Loan assets	Balance at 01/07/2006	Repayments	Balance at 30/06/2007
	N\$	N\$	N\$
Capital accounts	1 674 323	47 341	1 626 982
Housing Fund	219 381	19 155	200 226

26. SALE OF ERVEN

Sale of erven amounted to N\$ 235 213 for 2008 and N\$ 302 165 for 2007 (2006: N\$ 895 708) for the years under review. All the proceeds were allocated to the Capital Reserve Fund.

27. PROPERTY SOLD ON AN INSTALMENT BASIS

No properties were sold on instalment basis during the years under review.

28. TARIFF ADJUSTMENTS

All tariff adjustments were in accordance with the relevant Official Government notice.

29. APPROVALS

29.1 Revenue written off

No revenue was written off during the years under review.

30. STOCK AND EQUIPMENT

30.1 Motor vehicles and equipment

The auditors could not obtain any information regarding the movement of the motor vehicles and equipment.

30.2 Inventory

Inventory control was maintained during the year. Due to the fire outbreak no stock sheets were availed to the auditors, therefore quantities and values of stock could not be verified.

31. SPECIAL INVESTIGATIONS

32.1 The Office is aware of a fire break out at the offices of the Municipality, and a formal case was opened at the Namibian police.

When writing this report, no final report has been received by the investigation parties.

33. GENERAL

33.1 Internal controls

The accounting and internal controls are not satisfactory, except where indicated otherwise in this report. Proper segregation of duties is not feasible due to the small number of staff employed. While increased management involvement does reduce risks, the risk arises that management and Council override existing controls, a potentially dangerous practice which the Municipality should vigilantly guard against. The integrity of staff in appropriate positions should however be reviewed to ensure that qualified personnel are employed in respective positions.

34. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report.

Informal queries addressed to the Accounting Officer consisted of:

- Investments / Funds
- Accounts receivable
- General accounting processing
- Fixed assets

Most of the above queries are similar to the previous years' reports. The Municipality should ensure that improvements on audit queries are evident in the next financial year.

35. DISCLAIMED AUDIT OPINION

The accounts of the Municipality of Outjo for the financial years ended 30 June 2007 and 2008, summarised in Annexure 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.

I am unable to express an opinion on the financial statements, results of operations and the cash flows of the Municipality for the years ended 30 June 2007 and 2008 due to the following reasons:

- The accounting records do not agree with the financial statements
- The existence and values of fixed assets could not be verified as not asset register was available.
- The opening balances in the appropriation account differ with N\$ 78 429 and N\$ 498 532 for the financial years 2006/07 and 2007/08 respectively.
- The provision of bad debts is understated by N\$ 3 998 952 for 2008 and N\$ 4 000 000 for 2007.
- The completeness and correctness of account payable could not be determined.
- The balance of N\$ 941 675 for 2008 and N\$ 799 294 for 2007 in respect of Value Added Tax could not be audited due to a lack of records/
- The withdrawal of an investment of N\$ 650 000 could not be confirmed.
- There was a limitation of scope relating to the Payroll deductions due to a lack of records.
- The expenditure transactions could not be verified as no supporting documents were available.

WINDHOEK, February 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

MUNICIPALITY OF OUTJO

BALANCE SHEETS AT 30 JUNE

	Notes	2008 N\$	2007 N\$	2006 N\$
ASSETS				
Non-current assets		17 013 423	16 342 421	16 812 751
Property, plant and equipment	2	17 011 666	16 340 753	16 161 083
Investments	3	1 757	1 668	651 668
Current assets		12 110 006	10 469 860	9 927 071
Accounts receivable	4	11 981 832	10 372 689	9 830 860
Inventory	8	127 709	96 706	95 746
Bank and cash	9	465	465	465
Total assets		29 123 429	26 812 281	26 739 822
EQUITY AND LIABILITIES				
Funds and reserves				
Funds and accounts	5	20 278 709	17 443 907	18 122 843
Non-current liabilities				
Interest bearing borrowings	6	3 364 550	3 881 630	3 936 070
Current liabilities		5 480 170	5 486 744	4 680 909
Accounts payable and other payables	7	5 173 232	4 722 696	2 893 441
Bank overdraft		306 938	764 048	1 787 468
Total equity and liabilities		29 123 429	26 812 281	26 739 822

MUNICIPALITY OF OUTJO

INCOME STATEMENTS FOR THE YEARS ENDED 30 JUNE

	Notes	2008	2007	2006
		N\$	N\$	N\$
INCOME		12 297 598	11 247 796	9 953 175
EXPENDITURE		<u>10 537 706</u>	<u>10 358 380</u>	<u>11 238 103</u>
NET OPERATING (DEFICIT)/ SURPLUS		1 759 892	889 416	(1 284 928)
Difference in opening balance of the accumulated funds		78 429	498 532	-
Less net adjustments	10	<u>(1 401 962)</u>	<u>(1 884 918)</u>	<u>(7 878)</u>
ACCUMULATED SURPLUS/(LOSS) FOR THE YEAR		436 359	(496 970)	(1 292 806)
ACCUMULATED FUNDS - At the beginning of the year		<u>(3 646 877)</u>	<u>(3 149 907)</u>	<u>(1 857 101)</u>
ACCUMULATED FUNDS - At the end of the year		<u>(3 210 518)</u>	<u>(3 646 877)</u>	<u>(3 149 907)</u>

MUNICIPALITY OF OUTJO

CASH FLOW STATEMENTS FOR THE YEARS ENDED 30 JUNE

	Notes	2008 N\$	2007 N\$	2006 N\$
CASH FLOW FROM OPERATING ACTIVITIES				
Operating income before changes in working capital	11.1	436 359	(496 970)	(1 292 806)
Change in working capital	11.2	(1 189 610)	1 286 466	(1 058 139)
Cash (utilized by)/generated from operations		(753 251)	789 496	(2 350 945)
Investment income		-	-	-
Cash (utilized by)/generated from operating activities		(753 251)	789 496	(2 350 945)
CASH UTILIZED BY INVESTING ACTIVITIES				
Increase in investments		(89)	650 000	(49)
Decrease / (Increase) in plant, property and equipment		(670 913)	(179 670)	(1 278 302)
CASH GENERATED FROM FINANCING ACTIVITIES				
Change in Funds and accounts		2 398 443	(181 966)	3 520 292
(Decrease) / Increase in long term liabilities		(517 080)	(54 440)	(61 470)
Increase / (decrease) in cash and cash equivalents		457 110	1 023 420	(170 474)
Cash and cash equivalents at beginning of year		(763 583)	(1 787 003)	(1 616 529)
Cash and cash equivalents at end of year		(306 473)	(763 583)	(1 787 003)

MUNICIPALITY OF OUTJO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT 30 JUNE

1. ACCOUNTING POLICIES

1.1 Introduction

The annual financial statements set out in Annexure A, B and C are prepared on the historical cost basis and incorporate the following principal accounting policies, which are consistent with those applied in the prior year.

1.2 Property, plant and equipment

Property, plant and equipment are stated at cost or at valuation where assets have been acquired by grant or by donations, less depreciation written off over the expected useful lives as determined by the Municipality 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.

1.3 Inventory

Inventory is valued at the lower of landed cost or net realizable value on a first-in-first-out basis.

1.4 Fund Accounts

The following Funds were created by the Municipality in terms of Sections 58(1) and 80(4) of the Local Authorities Act (Act 23 of 1992):

1.4.1 Capital Reserve Fund

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

1.4.2 Water Tower Restoration Fund

The purpose of this Fund is to accumulate reserves to restore the water tower.

1.4.3 Provision for Leave Pay Fund

The purpose of this Fund is to pay leave due to staff.

MUNICIPALITY OF OUTJO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT 30 JUNE (continued)

1. ACCOUNTING POLICIES (continued)

1.4.4 M-Net Fund

The purpose of this Fund is to provide television services to the Public of Outjo. Income is derived by means of connection fees and M-Net commission.

1.4.5 Sport and Social Fund

The purpose of this Fund is to utilize available funds for sport recreational purposes for staff employed by the Municipality.

1.4.6 Fund for Office Upgrading

The purpose of this Fund is to upgrade a new office block utilized by technical staff.

1.4.7 Decentralized Single Quarter Fund

The purpose of this Fund is to upgrade the single quarters in Etoshapoort. Income is derived from Government grants.

1.4.8 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.

1.4.9 Holland Somo-ablutions Fund

The purpose of this Fund is to provide ablution units in Etoshapoort. Income is derived from donations received from the town of Maarssen in the Netherlands.

1.4.10 Museum Fund

The purpose of this Fund is to build a reserve to upgrade the museum facilities. Income is derived from donations.

MUNICIPALITY OF OUTJO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT 30 JUNE (continued)

	2008	2007	2006
	N\$	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT			
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment.	17 011 666	16 340 753	16 161 083
Financed from :	17 011 666	16 340 753	16 161 083
Revenue account	336 456	379 375	448 179
Loan assets	9 041 058	8 651 332	8 334 773
General capital	7 634 152	7 310 046	7 378 131
3. INVESTMENTS			
Fixed deposits and money on call	1 757	1 668	651 668
	1 757	1 668	651 668
4. TRADE AND OTHER RECEIVABLES			
Consumers	9 287 884	8 099 457	7 145 679
Vat Control Account	941 675	799 294	602 630
Advances - Housing Fund	2 331 384	2 408 147	2 378 415
Natis refund	569 748	148 297	120 053
Other	145 557	126 857	82 615
Less : Provision for doubtful debts	(1 294 416)	(1 209 363)	(498 532)
	11 981 832	10 372 689	9 830 860
5. FUNDS AND ACCOUNTS			
Financing of capital	10 910 980	10 496 745	10 373 769
Current loans redeemed			
Contribution from:			
- Revenue	336 455	379 375	448 179
- Loans	2 940 373	2 807 325	2 547 460
- General capital	7 634 152	7 310 045	7 378 130
Accumulated funds	(3 210 518)	(3 646 877)	(3 149 907)

MUNICIPALITY OF OUTJO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT 30 JUNE (continued)

5. FUNDS AND ACCOUNTS (continued)

	2008	2007	2006
	N\$	N\$	N\$
INTERNAL FUNDS	12 578 247	10 594 039	10 898 981
Capital Reserve Fund	10 165 066	8 373 493	7 627 872
Water Tower Restoration Fund	7 946	7 946	7 946
Provision for Leave Pay Fund	483 851	440 723	394 294
M-Net Fund	96 415	96 415	96 415
Decentralised Single Quarter Fund	366 400	-	25 145
Sport and Social Fund	1 742	(14 207)	(4 709)
Ablutions Settlement Area Fund	120 834	-	-
Office Upgrading Fund	14 057	14 057	14 057
Housing Fund	1 309 312	1 662 988	2 722 162
Museum Fund	12 624	12 624	15 799
Total	20 278 709	17 443 907	18 122 843

6. LONG-TERM LIABILITIES

The Government of Namibia			
Up to 5%	188 914	203 149	226 650
- 5% to 10%	176 062	183 262	189 854
- 10% to 12%	1 221 192	1 240 571	1 257 819
- Housing Fund	180 999	200 226	219 381
- Build Together Fund	1 356 089	1 829 376	1 829 376
	3 123 256	3 656 584	3 723 080
Consumer Deposits	241 294	225 046	212 990
	3 364 550	3 881 630	3 936 070

7. TRADE AND OTHER PAYABLES

Trade creditors	1 251 251	1 436 484	895 564
Provision for audit fees	338 330	258 330	198 330
Provision for regional council levies	453 304	411 533	353 147
Amount received in advance	236 916	-	66 865
Loan installments in arrears	2 308 890	2 078 462	1 808 857
Other	586 254	539 555	222 346
Total	5 174 945	4 724 364	3 545 109
Unexplained difference - Investment	(1 713)	(1 668)	(651 668)
	5 173 232	4 722 696	2 893 441

ANNEXURE D

MUNICIPALITY OF OUTJO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT 30 JUNE (continued)

	2008	2007	2006
	N\$	N\$	N\$
8. INVENTORY			
Inventory comprises:			
- Fuel	88 796	57 793	55 286
- Stationery	38 913	38 913	40 460
	127 709	96 706	95 746
9. BANK AND CASH			
Current bank account	(306 938)	(764 048)	(1 787 468)
Petty cash	465	465	465
	(306 473)	(763 583)	(1 787 003)
10. ADJUSTMENTS AND UTILIZATIONS ON THE APPROPRIATION ACCOUNT			
Provision for bad debts (net)	-	-	(498 532)
Provision for bad debts	(1 294 416)	(1 209 364)	778 996
Income	1 433 237	137 868	3 418
Bad debts written off	(1 389 758)	(812 723)	(18 029)
Other expenses / income (net)	(151 025)	(699)	(273 731)
	(1 401 962)	(1 884 918)	(7 878)
11. CASH UTILIZED BY OPERATIONS			
Net operating profit before transfers	1 759 892	889 416	(1 284 928)
Adjustments for :			
- Adjustments and utilizations	(1 401 962)	(1 884 918)	(7 878)
- Unexplained differences	78 429	498 532	-
11.1 OPERATING INCOME BEFORE CHANGES IN WORKING CAPITAL	436 359	(496 970)	(1 292 806)

MUNICIPALITY OF OUTJO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT 30 JUNE (continued)

11. CASH UTILIZED BY OPERATIONS (continued)

	2008	2007	2006
	N\$	N\$	N\$
11.2 CHANGE IN WORKING CAPITAL			
(Increase) in inventory	(31 003)	(960)	(11 311)
Increase in trade and other receivables	(1 609 143)	(541 829)	(1 446 942)
Increase in trade and other payables	450 536	1 829 255	400 114
	(1 189 610)	1 286 466	(1 058 139)

TRANSFER (TO)/FROM FUNDS

The following amounts were transferred from/(to) funds:

- Housing Fund	(353 676)	(1 059 174)	2 089 448
- Capital Reserve Fund	1 791 573	745 621	1 206 226
- Provision for Leave Pay Fund	43 128	46 429	50 022
- Decentralized Single Quarter Fund	366 400	(25 145)	(164 549)
- Holland Somo-ablutions Fund	120 834	-	-
- Sport and Social Fund	15 949	(9 498)	(6 543)
- Museum Fund	-	(3 175)	(11 142)
	1 984 208	(304 942)	3 163 463