



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF OMUTHIYA

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

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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 Town Council of Omuthiya for the financial year ended 30 June 2013, 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, March 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE TOWN COUNCIL OF OMUTHIYA
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2013**

1. INTRODUCTION

The accounts of the Town Council of Omuthiya for the year ended 30 June 2013 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 MAC & Associates has been appointed in terms of Section 26(2) of the State Finance Act, 1991, to audit the accounts of the Town Council 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 Town Council'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 his Office. The abridged balance sheet on Annexure A is a true reflection of the original. The following annexures are also attached to this report:

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 Town Council is responsible for the preparation and fair presentation of the financial statements and for ensuring the regularity of the financial transactions. This responsibility includes designing, implementing and maintaining internal controls 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 to report his opinion to the National Assembly. The said firm conducted the audit in accordance with the International Standards on Auditing. Those standards require that the firm complies with ethical requirements, plans and performs 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 judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. An audit also includes evaluating the appropriateness of

the 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

Items marked with the asterisk (*) were also reported in the prior year.

4.1 Unexplained difference on the VAT reconciliation (*)

At year-end there was an unexplained difference of N\$ 320 496 between the VAT receivable as per the annual financial statements and the VAT reconciliation.

4.2 Omission of investment in equities

The investment by the Town Council in the shareholding of Local Authorities Electricity Company (Pty) Limited is not reflected in the financial statements.

4.3 Unexplained difference on inventory reconciliation and lack of supporting documents (*)

The auditors did not attend the inventory count as at year-end. The Council's records did not permit the performing of alternative audit procedures to ascertain the existence and completeness of inventory.

There was a difference of N\$ 189 452 between the inventory listing and the financial statements.

4.4 Unsupported provision for leave pay

No leave pay provision was computed at 30 June 2013 and as a result, the auditors were unable to ascertain the adequacy of the amount reflected in the financial statements.

4.5 Understatement of depreciation charge

The depreciation charge is understated by N\$ 236 597 resulting in the misstatement of the carrying amount of property, plant and equipment and the related fund accounts.

4.6 Understatement of interest on overdue accounts

Interest on overdue accounts is understated by N\$ 209 178 as a result of an error in calculation.

4.7 Unsupported adjustments posted to the appropriation account

There were no supporting documents for material adjustments posted to the appropriation account, and as a result, the auditors were unable to verify the validity of the adjustments.

4.8 Overstatement of proceeds on sale of erven

Instalments (deposits) received on the intended sale of erven were credited to the revenue account instead of the liability account resulting in overstatement of revenue and understatement of the related liability.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

The results of the various operations and transactions on the Revenue Account for the year are as follows:

	Revenue	Expenditure	Surplus	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus 01/07/2012				6 457 190
General accounts				
Non-profitable services	11 467 902	10 684 835	783 067	
Self-supporting services	2 158 882	361 817	1 797 065	
Trade accounts				
Water & electricity	2 790 418	2 164 117	626 301	
Surplus for the year	16 417 202	13 210 969	3 206 433	3 206 433
Adjustments and appropriations (Note 7, Annexure D)				(575 070)
Accumulated surplus 30/06/2013				9 088 553

7. CURRENT BANK ACCOUNT

	2013	2012
	N\$	N\$
Cash-book balance at 30 June	1 870	149 306
Outstanding cheques	43 155	117 410
Deposits not in cash book	-	130 770
Other	-	14 413
Balance as per bank statement	45 025	411 899

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2013 and the interest thereon are as follows:

Institution	2013		2012	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	26 909 492	909 745	19 901 736	888 818
	26 909 492	909 745	19 901 736	888 818
Distribution				
Revenue	12 146 830	909 745	6 721 119	466 664
Capital development Fund	14 762 662	-	13 180 617	422 154
	26 909 492	909 745	19 901 736	888 818

9. FUND ACCOUNTS

The position of internal Funds and Reserves is shown in note 5 in annexure D.

10. TRADE ACCOUNTS

10.1 Operating results

The results for the financial year under review and the previous year were as follows:

	Water	
	2013	2012
	N\$	N\$
Sales	2 342 960	1 503 005
Cost of sales	(1 753 425)	(1 234 405)
Gross profit	589 535	268 600
Other expenses	(297 503)	(345 251)
NET PROFIT/(LOSS)	292 032	(76 651)
Gross profit on sales	25.2%	17.9%
Net profit on sales/(loss)	12.4%	(5.1%)

10.2 Distribution gains were as follows:

Water distribution gains, in cubic metres (m³), are as follows:

	Water	
	2013	2012
	m ³	m ³
Sold	189 538	137 497
Bought	(203 985)	(147 548)
Distribution loss	(14 447)	(10 051)
Loss as percentage of units sold	8%	7%

11. SELF-SUPPORTING EXTERNAL SERVICES

The net results of these services, compared with the previous year, are as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2013	2013	2013	2012
	N\$	N\$	N\$	N\$
Sewerage	361 437	70 767	290 670	(234 968)
Abattoir	-	-	-	-
Cleansing	396 872	219 783	177 089	(56 556)
Assessment rates	1 400 573	71 267	1 329 306	1 376 304
	2 158 882	361 817	1 797 065	1 084 780

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed.

13. SUSPENSE ACCOUNTS

The Council has unallocated deposits (credit balance) to the amount of N\$ 64 597 (2012: N\$ 666 112). These deposits should be re-allocated to debtors.

14. IRREGULARITIES AND LOSSES

14.1 No irregularities by employees were reported.

14.2 No losses were reported.

15. CAPITAL PROJECTS

Capital expenditure for the 2013 financial year amounted to N\$ 14 246 398 (2012: N\$ 9 408 905) and comprises the following:

	Financed by		Total 2013	Total 2012
	Revenue	Capital		
	N\$	N\$	N\$	N\$
CEO	8 798	-	8 798	56 895
Finance	-	-	-	16 991
Fire Brigade	-	-	-	2 326 885
Parks and Recreation	30 247	-	30 247	172 571
Health	-	-	-	43 200
Town Planning & Development	6 491 541	-	6 491 541	4 653 686
Technical Services	572 400	-	572 400	212 294
Cleansing Services	19 350	-	19 350	93 160
Sewerage	1 776 869	-	1 776 869	1 833 223
Council General Expenses	31 661	-	31 661	-
Human Resources	329 734	-	329 734	-
Electricity	1 279 399	-	1 279 399	-
Streets and Roads	3 706 399	-	3 706 399	-
	14 246 398	-	14 246 398	9 408 905

The Council did not allocate capital expenditure correctly since the full amount was allocated to revenue fund despite the fact that the capital development fund contributed N\$ 13 603 954 during the current year.

16. STUDY LOANS/BURSARIES

No study loan/bursaries were awarded during the year.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants and financial aid were made during the year.

18. COMPENSATION PAYMENTS

Land compensation payments made during the year amounted to N\$ 4 084 364 (2012: N\$ NIL).

19. VISITS TO FOREIGN COUNTRIES

No visits to foreign countries were undertaken.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

21. GIFTS AND DONATIONS TO THE LOCAL AUTHORITY

There were no donations received during the year.

22. TRANSFER OF PROPERTY TO/FROM THE GOVERNMENT

No property was transferred to/or from the Government.

23. DEBTORS/CREDITORS

23.1 Debtors on 30 June 2013 comprise the following:

	2013	2012
	N\$	N\$
Consumers	2 583 633	1 927 023
Sundry debtors	71 362	90 848
Inland Revenue - VAT	652 792	1 041 681
	3 307 787	3 059 552
Less: Provision for bad debts	(1 489 671)	(430 601)
	1 818 116	2 628 951

23.2 Creditors on 30 June 2013 comprise the following:

	2013	2012
	N\$	N\$
Trade payables	297 677	12 528
Other payables	4 190 699	1 775 980
Provisions	708 348	1 795 006
	5 196 724	3 583 514

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 1 426 061 (2012: N\$ 995 148), of which an amount of N\$ 71 267 was paid to the Regional Council relating to prior years' liability. No provision in respect of 2013 financial year was made as provided for in section 77(1) of the Local Authorities Act, 1992 as amended.

The gazetted tariffs were as follows:

N\$ 0.0459 (2012: N\$ 0.0459) on the value of the land per year and N\$ 0.00916 (2012: N\$0.00916) on the value of improvements per year.

25. LOANS

25.1 The Council did not have loans.

26. SALE OF ERVEN

The proceeds of erven and plots sold are as follows:

	2013	2012
	N\$	N\$
Ervens sold	2 777 075	3 602 962
Ervens sold (quantity and value information unavailable)	-	-

Sale of business erven amounted to N\$ 1 379 129 (2012: N\$ 873 195) and sale of residential erven amounted to N\$ 1 397 946 (2012: N\$ 2 729 767).

27. PROPERTY SOLD ON AN INSTALMENT BASIS

No information could be obtained with regards to the erven sold on an instalment basis.

28. TARIFF ADJUSTMENTS

Tariff adjustments were applied in accordance with the relevant Official Government Notices.

29. APPROVALS

There was no over expenditure recorded during the year.

30. STOCK AND EQUIPMENT

30.1 Motor vehicles

	Sedan vehicles		LDV and kombi's		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value	Number	Value
On hand 30/06/2012	2	N\$ 264 821	2	N\$ 84 910	6	N\$ 2 778 456
Acquisitions	-	-	1	328 734	-	-
Adjustments	(1)	(199 257)	1	199 257	-	-
	1	65 564	4	612 901	6	2 778 456
Depreciation	-	(32 783)	-	(200 469)	-	(640 174)
On hand 30/06/2013	1	32 781	4	412 432	6	2 138 282

30.2 Inventory

Inventories amount to N\$ 317 994 (2012: N\$ 541 328) and they comprises stationery and consumables. The auditors did not attend the inventory count and thus could not obtain sufficient evidence with regards to the completeness and existence thereof. The accuracy and valuation could also not be ascertained.

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year.

32. GENERAL

The accounting and internal controls applied by the Council are satisfactory. Proper segregation of duties is hindered by the small number of staff employed.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 Informal queries addressed to the Chief Executive Officer consist of:

- Omission of the accrual for Regional Council levy;
- Slow debt collection;
- Omitted accruals for electricity surcharges; and
- Inadequate water deposits.

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Omuthiya for the financial year ended 30 June 2013, summarized 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.

The audit opinion has been qualified due to the following reasons:

- Unexplained difference on the VAT reconciliation;
- Omission of the investment in equities;
- Unexplained difference on the inventory reconciliation and lack of supporting documentation;
- Unsupported provision for leave pay;
- Understatement of depreciation charge;
- Understatement of interest on overdue accounts;
- Unsupported adjustments posted to the appropriation account; and
- Overstatement of sale of erven revenue.

Except for the above mentioned issues, the financial statements fairly present the financial position of the Town Council of Omuthiya as at 30 June 2013, and the result of its operations and cash flows for the year then ended and in the manner required by the Local Authorities Act, 1992, and the State Finance Act, 1991.

WINDHOEK, March 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

OMUTHIYA TOWN COUNCIL

BALANCE SHEET AS AT 30 JUNE 2013

	Notes	2013 N\$	2012 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	48 360 881	38 138 217
Investments	3	26 909 492	19 901 736
Current assets			
Accounts receivable	4	1 818 116	2 628 951
Inventories		317 994	541 328
Bank		2 337	149 306
TOTAL ASSETS		77 408 820	61 359 538
EQUITY AND LIABILITIES			
Equity			
Accumulated surplus	5.2	9 088 553	6 457 191
Capital outlay	5.1	63 123 543	51 318 833
Current liabilities			
Accounts payable	6	5 196 724	3 583 514
TOTAL EQUITY AND LIABILITIES		77 408 820	61 359 538

OMUTHIYA TOWN COUNCIL

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

	<u>Note</u>	<u>2013</u>	<u>2012</u>
		N\$	N\$
INCOME		15 507 457	14 191 301
EXPENDITURE		<u>(13 210 769)</u>	<u>(14 584 277)</u>
OPERATING LOSS FOR THE YEAR		2 296 688	(392 976)
Interest earned		909 745	466 664
NET PROFIT FOR THE YEAR		3 206 433	73 688
Add : Appropriation and adjustments	7	<u>(575 070)</u>	<u>(2 803 774)</u>
RETAINED INCOME FOR THE YEAR		2 631 363	(2 730 086)
30 June 2012		<u>6 457 190</u>	<u>9 187 276</u>
30 June 2013		<u>9 088 553</u>	<u>6 457 190</u>

OMUTHIYA TOWN COUNCIL

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 N\$	2012 N\$
Cash flows from operating activities			
Cash receipts from customers		15 507 457	14 191 301
Cash paid to suppliers and employees		(11 138 460)	(18 192 134)
Cash generated from/(utilised by) operations	8	4 368 997	(4 000 833)
Investments income		909 745	466 664
Net cash flows from operating activities		5 278 742	(3 534 169)
Cash flows from investing activities			
Purchase of property, plant and equipment		(10 222 664)	(6 361 804)
Increase in capital outlay		11 804 710	19 542 421
Increase in investments		(7 007 755)	(9 829 879)
Net cash flows from investing activities		(5 425 709)	3 350 738
Net decrease in cash and cash equivalents		(146 967)	(183 431)
Cash and cash equivalents at the beginning of the year		149 304	332 735
Cash and cash equivalents at the end of the year		2 337	149 304

TOWN COUNCIL OF OMUTHIYA

NOTES TO THE FINANCIAL STATEMENT 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

All property, 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.

The carrying values of property, 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 estimated 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 in hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts.

1.4 Revenue account

All monies received by and accrued to and expenses paid are reflected in this account and kept in compliance with section 86 (1) (b) of the Local Authorities Act of 1992.

	<u>2013</u>	<u>2012</u>
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Consists of :		
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment	<u>48 360 881</u>	<u>38 138 217</u>
Financed by :		
Capital - GRN	25 204 355	26 854 975
Revenue account	23 156 526	11 283 242
	<u>48 360 881</u>	<u>38 138 217</u>

TOWN COUNCIL OF OMUTHIYA

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE

	2013	2012
	N\$	N\$
3. INVESTMENTS		
Fixed deposits and money on call	26 909 492	19 901 736
4. TRADE AND OTHER RECEIVABLES		
Consumers	2 583 633	1 927 023
Sundry debtors	71 362	90 848
Inland Revenue - VAT	652 792	1 041 681
	3 307 787	3 059 552
<i>Less :</i>		
Provision for doubtful debts	(1 489 671)	(430 601)
	1 818 116	2 628 951
5. FUNDS AND ACCOUNTS		
5.1 Financing of capital		
Capital development Fund	14 762 662	13 180 616
Contributions ex revenue	23 156 526	11 283 242
Contributions ex Government	25 204 355	26 854 975
	63 123 543	51 318 833
5.2 Accumulated Funds	9 088 553	6 457 191
6. TRADE AND OTHER PAYABLES		
Trade payables	-	12 528
Leave accruals	708 348	708 348
Unallocated deposits	64 597	666 112
Provisions	-	300 000
Other payables: Deposits	73 384	16 150
Retention Funds	-	51 679
Accrual Creditors	297 677	1 775 979
Land Compensation	4 052 718	52 718
	5 196 724	3 583 514

TOWN COUNCIL OF OMUTHIYA

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE

	2013	2012
	N\$	N\$
7. ADJUSTMENTS AND APPROPRIATIONS		
Unutilised funding from prior year	-	(2 163 077)
Adjustment - Provisions for leave and doubtful debts	(1 059 071)	(509 746)
Adjustment - Inventories	(94 400)	251 338
Other	(21 036)	(10 603)
Erf sales in respect of prior years	(472 807)	(371 686)
Income adjustments	1 402 694	-
Correction of prior year creditors	(330 450)	-
	(575 070)	(2 803 774)
8. CASH UTILISED IN OPERATIONS		
Net operating surplus/(deficit)	2 296 687	(392 976)
Adjustments (appropriations)	(575 070)	(2 803 774)
Operating surplus before changes in working capital	1 721 618	(3 196 750)
Changes in working capital		
Increase in trade and other payables	1 613 210	1 870 125
Decrease/(increase) in inventories	223 334	(396 144)
Decrease /(increase) in trade and other receivables	810 835	(2 278 064)
	2 647 379	(804 083)
	4 368 997	(4 000 833)