



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF OMUTHIYA

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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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 2014, 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 2015

**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 2014**

1. INTRODUCTION

The accounts of the Town Council of Omuthiya for the year ended 30 June 2014 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 these 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 comply with ethical

requirements, plans and performs the audit to obtain reasonable assurance about 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 misstatement 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 Omission of investment in equity (*)

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

4.2 Understatement of depreciation charge (*)

The depreciation charge is understated by N\$ 324 278 resulting in the overstatement of the carrying amount of property, plant and equipment and the related fund accounts.

4.3 Understatement of interest on overdue accounts (*)

Interest on overdue accounts is understated by N\$ 335 228 as a result of an error in calculation.

4.4 Overstatement of proceeds on sale of erven (*)

Proceeds on sale of erven were incorrectly credited to the revenue account instead of the Fixed Property Fund resulting in overstatement of revenue and understatement of the related Fixed Property Fund by N\$ 1 329 118.

4.5 Understatement of provision for doubtful debts

Provision made by the Council for bad and doubtful debts as per the financial statements was N\$ 2 190 092 (2013: N\$ 1 489 671). The auditors review and considering the slow debt collection on consumer accounts indicate an under-provision of N\$ 492 728.

4.6 Overstatement of the Land Compensation Fund

Land Compensation expenditure amounting to N\$ 2 757 835 were incorrectly debited to the revenue account resulting in the overstatement of the Land Compensation Fund and the related expenditure by N\$ 2 757 835.

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 at 01/07/2013 | | | | 9 088 553 |
| General accounts | | | | |
| Non-profitable services | 16 517 508 | 19 505 443 | (2 987 935) | |
| Self-supporting services | 2 607 787 | 414 440 | 2 193 347 | |
| Trade accounts | | | | |
| Electricity | 469 830 | - | 469 830 | |
| Water | 2 862 885 | 2 454 765 | 408 120 | |
| Surplus for the year | 22 458 010 | 22 374 648 | 83 362 | 83 362 |
| Adjustments and appropriations (Note 7 of Annexure D) | | | | (555 219) |
| Accumulated surplus at 30/06/2014 | | | | 8 616 696 |

7. CURRENT BANK ACCOUNT

| | 2014 | 2013 |
|-------------------------------|------------------|---------------|
| | N\$ | N\$ |
| Cash-book balance at 30 June | 1 138 743 | 1 870 |
| Outstanding cheques | 70 510 | 43 155 |
| Outstanding deposits | (16 664) | - |
| Balance as per bank statement | 1 192 590 | 45 025 |

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2014 and the interest thereon are as follows:

| Institution | 2014 | | 2013 | |
|--------------------------|-------------------|------------------|-------------------|----------------|
| | Investment | Interest | Investment | Interest |
| | N\$ | N\$ | N\$ | N\$ |
| Invested at: | | | | |
| Commercial banks | 18 808 978 | 1 059 988 | 26 909 492 | 909 745 |
| | 18 808 978 | 1 059 988 | 26 909 492 | 909 745 |
| Distribution | | | | |
| Revenue | 11 861 300 | 756 778 | 12 146 830 | 909 745 |
| Capital Development Fund | 4 659 290 | 303 086 | 14 762 662 | - |
| Senior Citizens Fund | 28 330 | 103 | - | - |
| Build Together Fund | 21 | 21 | - | - |
| Fixed Property Fund | 2 260 037 | - | - | - |
| | 18 808 978 | 1 059 988 | 26 909 492 | 909 745 |

9. FUND ACCOUNTS

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

10. TRADE ACCOUNTS

10.1 Operating results

The results for the financial year under review are as follows:

| | Water | |
|--------------------|----------------|----------------|
| | 2014 | 2013 |
| | N\$ | N\$ |
| Sales | 2 726 298 | 2 342 960 |
| Cost of sales | (1 910 472) | (1 753 425) |
| Gross profit | 815 826 | 589 535 |
| Other expenses | (407 705) | (297 503) |
| NET SURPLUS | 408 121 | 292 032 |
| Gross profit % | 29.9% | 25.2% |
| Net profit % | 15.0% | 12.4% |

10.2 Distribution gains were as follows:

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

| | Water | |
|----------------------------------|-----------------|-----------------|
| | 2014 | 2013 |
| | m ³ | m ³ |
| Sold | 193 193 | 189 538 |
| Bought | (211 301) | (203 985) |
| Distribution loss | (18 108) | (14 447) |
| Loss as percentage of units sold | 9.4% | 7.6% |

11. SELF-SUPPORTING EXTERNAL SERVICES

The net results of these services are as follows:

| | Revenue | Expenditure | Surplus/ (Deficit) | Surplus/ (Deficit) |
|------------------|------------------|----------------|-----------------------|-----------------------|
| | 2014 | 2014 | 2014 | 2013 |
| | N\$ | N\$ | N\$ | N\$ |
| Sewerage | 568 340 | 82 322 | 486 018 | 290 670 |
| Cleansing | 589 917 | 262 089 | 327 828 | 177 089 |
| Assessment rates | 1 449 530 | 70 029 | 1 379 501 | 1 329 306 |
| | 2 607 787 | 414 440 | 2 193 347 | 1 797 065 |

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed.

13. SUSPENSE ACCOUNTS

No suspense accounts were maintained.

14. IRREGULARITIES AND LOSSES

No irregularities or losses were revealed by the audit for the year.

15. CAPITAL PROJECTS

The following were spent on capital projects:

| | Financed by | | Total 2014 | Total 2013 |
|-----------------------------|-------------------|----------|-------------------|-------------------|
| | Revenue | Capital | | |
| | N\$ | N\$ | N\$ | N\$ |
| Chief Executive Officer | 22 966 | - | 22 966 | 8 798 |
| Finance | 30 366 | - | 30 366 | - |
| Parks and recreation | - | - | - | 30 247 |
| water | 453 430 | - | 453 430 | - |
| Town Planning & development | 79 277 | - | 79 277 | 6 491 541 |
| Technical services | 41 392 | - | 41 392 | 572 400 |
| Cleansing services | - | - | - | 19 350 |
| Sewerage | - | - | - | 1 776 869 |
| Council general expenses | - | - | - | 31 661 |
| Human resources | - | - | - | 329 734 |
| Electricity | 5 395 847 | - | 5 395 847 | 1 279 399 |
| Streets and roads | 4 251 140 | - | 4 251 140 | 3 706 399 |
| | 10 274 418 | - | 10 274 418 | 14 246 398 |

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\$ 2 757 835 (2013: N\$ 4 084 364).

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. TRADE AND OTHER RECEIVABLES/PAYABLES

23.1 Trade and other receivables at 30 June are as follows:

| | 2014 | 2013 |
|-------------------------------|------------------|-------------------|
| | N\$ | N\$ |
| Consumers | 3 184 357 | 2 583 633 |
| Sundry receivables | 46 161 | 71 362 |
| Inland Revenue - VAT | 672 783 | 652 792 |
| | 3 903 301 | 3 3307 787 |
| Less: Provision for bad debts | (2 190 092) | (1 489 671) |
| | 1 713 209 | 1 818 116 |

23.2 Trade and other payables at 30 June are as follows:

| | 2014 | 2013 |
|-------------------------|------------------|------------------|
| | N\$ | N\$ |
| Trade payables | 1 245 674 | 297 677 |
| Other payables | 4 202 719 | 4 052 718 |
| Consumer deposits | 242 961 | 137 981 |
| Provision for leave pay | 498 773 | 708 348 |
| | 6 190 127 | 5 196 724 |

24. ASSESSMENT RATES

| | 2014 | 2013 |
|--|-------------|-------------|
| | N\$ | N\$ |
| The proceeds from assessment rates | 1 449 438 | 1 426 061 |
| Tariffs per N\$1 valuation per annum - Site valuation | 0.04590 | 0.04590 |
| Tariffs per N\$1 valuation per annum – Improvements | 0.00916 | 0.00916 |

25. LOANS

25.1 The Council did not have loans.

26. SALE OF ERVEN

The proceeds of erven and plots sold are as follows:

| | 2014 | 2013 |
|------------|-------------|-------------|
| | N\$ | N\$ |
| Erven sold | 3 589 156 | 2 777 075 |

Sale of business erven amounted to N\$ 1 912 112 (2013: N\$ 1 379 129) and sale of residential erven amounted to N\$ 1 677 044 (2013: N\$ 1 397 946).

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

All budget excesses were approved.

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 30/06/2013 | 1 | N\$ 32 781 | 4 | N\$ 412 432 | 6 | N\$ 2 138 282 |
| Acquisitions | * | * | * | * | * | * |
| Depreciation | - | - | - | - | - | - |
| On hand 30/06/2014 | * | * | * | * | * | * |

*Council could not provide the information.

30.2 Inventory

Inventories amount to N\$ 91 843 (2013: N\$ 317 994) and they comprises stationery and consumables.

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year.

32. GENERAL

The accounting and internal controls applied by the Council are reasonable. 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:

- Incorrect depreciation application;
- Slow debt collection; and
- Overstatement of accruals and related expenditure account.

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Omuthiya for the financial year ended 30 June 2014, 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.

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

- Omission of the investment in equity;
- Understatement of depreciation charge;
- Understatement of interest on overdue accounts;
- Understatement of provision for doubtful debts;
- Overstatement of sale of erven revenue and understatement of the related Fixed Property Fund; and
- Overstatement of the Land Compensation Fund and the related expenditure.

Except for the effects of any adjustment which might have been necessary as referred to in the preceding paragraph, the financial statements fairly present the financial position of the Town Council of Omuthiya as at 30 June 2014, and the results 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, June 2015

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

OMUTHIYA TOWN COUNCIL

BALANCE SHEET AS AT 30 JUNE 2014

| | Notes | 2014 N\$ | 2013 N\$ |
|------------------------------------|-------|-------------------|-------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 2 | 72 968 594 | 75 270 373 |
| Investments | 3 | 54 159 616 | 48 360 881 |
| | | 18 808 978 | 26 909 492 |
| Current assets | | | |
| Trade and other receivables | 4 | 2 945 523 | 2 138 447 |
| Inventories | | 1 713 209 | 1 818 116 |
| Bank | | 91 843 | 317 994 |
| | | 1 140 471 | 2 337 |
| TOTAL ASSETS | | 75 914 117 | 77 408 820 |
| FUNDS AND LIABILITIES | | | |
| Funds and reserves | | | |
| Capital outlay | 5.1 | 69 723 990 | 72 212 096 |
| Funds and accounts | 5.2 | 54 159 616 | 48 360 881 |
| | | 15 564 374 | 23 851 215 |
| Current liabilities | | | |
| Trade and other payables | 6 | 6 190 127 | 5 196 724 |
| TOTAL FUNDS AND LIABILITIES | | 75 914 117 | 77 408 820 |

OMUTHIYA TOWN COUNCIL

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

| | Note | 2014 N\$ | 2013 N\$ |
|---|------|------------------|------------------|
| INCOME | | 21 701 232 | 15 507 457 |
| EXPENDITURE | | (22 374 648) | (13 210 769) |
| OPERATING (DEFICIT)/SURPLUS | | (673 416) | 2 296 688 |
| Interest earned | | 756 778 | 909 745 |
| NET SURPLUS AFTER INTEREST | | 83 362 | 3 206 433 |
| Add : Appropriation and adjustments | 7 | (555 219) | (575 070) |
| NET (DEFICIT)/SURPLUS AFTER APPROPRIATION | | (471 857) | 2 631 363 |
| ACCUMULATED SURPLUS | | | |
| - 30 June 2013 | | 9 088 553 | 6 457 190 |
| - 30 June 2014 | | 8 616 696 | 9 088 553 |

OMUTHIYA TOWN COUNCIL

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

| | Note | 2014 N\$ | 2013 N\$ |
|---|------|--------------------|---------------------|
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 21 701 232 | 15 507 457 |
| Cash paid to suppliers and employees | | (21 605 406) | (11 138 460) |
| Cash generated by operations | 8 | 95 826 | 4 368 997 |
| Investments income | | 756 778 | 909 745 |
| Net cash flows from operating activities | | 852 604 | 5 278 745 |
| Cash flows from financing activities | | | |
| Increase in Capital outlay | | 5 798 735 | 11 804 710 |
| Decrease in fund accounts | | (7 814 984) | - |
| Net cash flows from financing activities | | (2 016 249) | 11 804 710 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (5 798 735) | (10 222 664) |
| Decrease/(Increase) in investm | | 8 100 514 | (7 007 755) |
| Net cash flows from investing activities | | 2 301 779 | (17 230 419) |
| Net decrease in cash and cash equivalents | | 1 138 135 | (146 967) |
| Cash and cash equivalents at the beginning of the year | | 2 337 | 149 304 |
| Cash and cash equivalents at the end of the year | | 1 140 471 | 2 337 |

TOWN COUNCIL OF OMUTHIYA

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

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 and are depreciated over their estimated useful lives.

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, 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>2014</u> | <u>2013</u> |
|---|-------------------|-------------------|
| | N\$ | N\$ |
| 2. PROPERTY, PLANT AND EQUIPMENT | | |
| Consists of : | | |
| Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment | 54 159 616 | 48 360 881 |
| Financed by : | | |
| Capital - GRN | 23 649 922 | 25 204 355 |
| Revenue account | 30 509 694 | 23 156 526 |
| | 54 159 616 | 48 360 881 |

TOWN COUNCIL OF OMUTHIYA

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2014 (continued)

| | 2014 | 2013 |
|--|-------------------|-------------------|
| | N\$ | N\$ |
| 3. INVESTMENTS | | |
| Fixed deposits and money on call | 18 808 978 | 26 909 492 |
| 4. TRADE AND OTHER RECEIVABLES | | |
| Consumers | 3 184 357 | 2 583 633 |
| Sundry debtors | 46 161 | 71 362 |
| Inland Revenue - VAT | 672 783 | 652 792 |
| | 3 903 301 | 3 307 787 |
| <i>Less :</i> | | |
| Provision for doubtful debts | (2 190 092) | (1 489 671) |
| | 1 713 209 | 1 818 116 |
| 5. FUNDS AND ACCOUNTS | | |
| 5.1 Financing of capital | | |
| Contributions ex revenue | 30 509 694 | 23 156 526 |
| Contributions ex Government | 23 649 922 | 25 204 355 |
| | 54 159 616 | 48 360 881 |
| 5.2 Funds and Reserves | | |
| Fixed Property Fund | 4 659 290 | 14 762 662 |
| Capital Development Fund | 2 260 037 | - |
| Build Together Fund | 21 | - |
| Senior Citizens Fund | 28 330 | - |
| Subtotal | 6 947 678 | 14 762 662 |
| Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992. | 8 616 696 | 9 088 553 |
| | 15 564 374 | 23 851 215 |
| 6. TRADE AND OTHER PAYABLES | | |
| Trade creditors | 1 245 675 | 297 677 |
| Provision for leave pay | 498 773 | 708 348 |
| Consumer deposits | 242 961 | 137 981 |
| Land Compensation – Unutilised funds | 4 052 718 | 4 052 718 |
| Business Survey – Unutilised funds | 150 000 | - |
| | 6 190 127 | 5 196 724 |

TOWN COUNCIL OF OMUTHIYA

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2014
(continued)

| | 2014 | 2013 |
|--|--------------------|------------------|
| | N\$ | N\$ |
| 7. ADJUSTMENTS AND APPROPRIATIONS | | |
| Decrease in provision for doubtful debts | (700 421) | (1 059 071) |
| Increase in provision for leave pay | 209 574 | - |
| Adjustment - Inventories | - | (94 400) |
| Prior year expenditure | (73 716) | - |
| Other | 35 894 | (21 036) |
| Erven sales in respect of prior years | (26 550) | (472 807) |
| Income adjustments | - | 1 402 694 |
| Correction of prior year creditors | - | (330 450) |
| | (555 219) | (575 070) |
| 8. CASH UTILISED IN OPERATIONS | | |
| Net operating (deficit)/surplus | (673 416) | 2 296 687 |
| Adjustments and appropriations | (555 219) | (575 070) |
| Operating (deficit)/surplus before changes in working capital | (1 228 635) | 1 721 617 |
| Changes in working capital | | |
| Increase in trade and other payables | 993 403 | 1 613 210 |
| Decrease in inventories | 226 151 | 223 334 |
| Decrease in trade and other receivables | 104 907 | 810 836 |
| | 1 324 462 | 2 647 380 |
| | 95 826 | 4 368 997 |