



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF OMARURU
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 Municipality of Omaruru 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, September 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
THE MUNICIPALITY OF OMARURU
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013**

1. INTRODUCTION

The accounts of the Municipality of Omaruru 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 Mostert Landgrebe of Windhoek has been appointed in terms of Section 26 (2) of the State Finance Act, 1991, to audit the accounts of the Municipality 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 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. The audited financial statements are in agreement with the general ledger and are filed in the Office of the Auditor-General. The abridged balance sheet at Annexure A is a true reflection of the original signed by the Accounting Officer.

The financial statements also include:

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 Municipality is responsible for the preparation and fair presentation of these financial statements and for ensuring the regularity of the financial transactions. This responsibility includes designing, implementing and maintaining internal control 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 and to report his opinion to the National Assembly. The said firm conducted the audit in accordance with International Standards on Auditing. Those standards require that the firm comply with ethical requirements and plan and perform 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Trade and other receivables - Provision for bad debts

The average collection period of trade receivables, before taking the provision for bad debts into account, is 125 days. The average collection period of trade receivables, after taking the provision for bad debts into account, is 42 days. Due to this statistics, the auditors are of the opinion that the provision for bad debts is overstated by N\$ 594 916.

4.2 Trade and other receivables - Build Together

No list for the Build Together Debtors of N\$ 5 293 777 could be provided to the auditors for auditing purposes.

4.3 Trade and other receivables - Credit Balances

On the age analysis the following credit balance were found:

- Sale of erven that was not invoiced, for which payment was received - N\$ 85 722.
- Surcharges from Erongo Red not allocated to income - N\$ 430 933.
- Double payments received from the Ministry of Health and Social Services not repaid - N\$ 88 837.
- Unallocated deposits - N\$ 520 067.

Therefore, the trade and other receivables were understated and the income was understated for the current financial year.

4.4 Inventories

The auditors did not observe the counting of the inventories on 30 June 2013. There were no alternative practical audit procedures that they could perform to confirm the existence of the inventories on hand at year-end.

4.5 Consumer deposits

The consumer deposits are not sufficient to cover one month's service charges.

4.6 Fixed assets

No proper fixed asset register was provided for audit purposes.

4.7 Trade and other payables - Leave provision

No list for the leave provision could be provided to the auditors for audit purposes.

4.8 Income

The water rates used for the Municipal Office Ozondje and Municipal Taxi Rank are charged at N\$ 6.58 less than the rates in the Government Gazette. According to the Municipality the rates are according to the rates approved in the Government Gazette, but has not been adjusted in the last 10 years.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

The results of the operations of, and transactions on the Revenue account for the year were as follows:

	Revenue	Expenditure	Surplus/ (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated (deficit) on 01/07/2012				(4 573 479)
General accounts				
- Non-profitable	4 999 858	12 373 325	(7 373 467)	
- Self-supporting	3 759 846	2 563 911	1 195 935	
Trade accounts				
- Water	5 405 156	1 873 792	3 531 364	
- Electricity	744 585	707 329	37 256	
(Deficit) for the year	14 909 445	17 518 357	(2 608 912)	(2 608 912)
Adjustments and utilisations (See Note 11, Annexure D)				(7 182 391)
				(467 589)
Accumulated (deficit) on 30/06/2013				(7 649 980)

7. CURRENT BANK ACCOUNT

	2013	2012
	N\$	N\$
Cash-book balance at 30 June	(886 623)	705 697
Outstanding cheques - Disclosed as trade payables	1 016 896	-
Cash-book balance at 30 June - Balance sheet	130 273	705 697
Outstanding cheques	-	(167 737)
Balance as per bank statement	130 273	537 960

8. INVESTMENTS

The investments as at 30 June were as follows:

Institution	2013	2012
	N\$	N\$
Commercial Banks	23 116 577	32 553 110

The investments were allocated as follows:

Allocation	2013	2012
	N\$	N\$
Capital Development Fund	8 363 494	10 197 882
Housing Fund	1 935 066	1 935 066
Build Together Fund	2 348 646	3 434 798
Capital Section	10 469 371	16 985 364
	23 116 577	32 553 110

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in note 8 in Annexure D.

10. TRADE ACCOUNTS

10.1 The results of trade accounts were as follows:

	Electricity		Water	
	2013	2012	2013	2012
	N\$	N\$	N\$	N\$
Sales	744 585	1 063 113	5 380 908	5 349 348
Cost of sales	-	-	-	-
Gross surplus	744 585	1 063 113	5 380 908	5 349 348
Other expenses	(707 329)	(537 144)	(1 849 544)	(1 219 519)
Net (loss)/surplus	37 256	525 969	3 531 364	4 129 829
Gross surplus percentages on sales	100.0%	100.0%	100.0%	100.0%
Net (loss)/surplus percentage on sales	5.0%	49.5%	65.6%	77.2%

10.2 Water distribution results, in cubic meters

The Municipality is pumping water from the river and boreholes which can not be measured.

11. SELF-SUPPORTING SERVICES

11.1 The result for the year under review is as follows:

	Income 2013	Expenses 2013	Surplus/ (deficit) 2013	Surplus/ (deficit) 2012
	N\$	N\$	N\$	N\$
Sewerage	2 073 266	1 189 685	883 581	87 719
Cleaning services	1 313 646	1 233 286	80 360	1 418
Natis	372 935	140 940	231 995	130 919
	3 759 847	2 563 911	1 195 936	220 056

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

There were no such expenses.

13. SUSPENSE ACCOUNTS

Suspense accounts are cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

There were no such expenses.

15. CAPITAL PROJECTS

The following were spend on capital projects:

Nature of projects/acquisitions	Financed by	Total expenditure 2012
	Total expenditure 2013	
	N\$	N\$
Buildings	-	886 809
Cemeteries & parks	297 140	-
Electricity	389 304	-
Emergency Services	38 686	-
Finance, IT and Asset Department	181 627	-
Infrastructure	-	4 657 954
Property Administration	1 516 949	-
Roads and Streets	438 442	-
Sewerage	6 712 508	-
Town Planning	611 190	4 126 990
Vehicles	-	134 783
Water	2 742 147	-
	12 927 993	9 806 536

No proper fixed asset register was provided for audit purposes.

16. BURSARIES

There were no such expenses.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID.

No Grants were received from the Government.

18. COMPENSATION PAYMENTS

There were no such expenses.

19. VISITS TO FOREIGN COUNTRIES

Three (3) Municipality representatives travelled to Vänerborg Municipality in Sweden for Waste Water Infrastructure training from 10 - 16 December.

Four (4) NGO representatives travelled to Vänersborg Municipality in Sweden for a Development of citizen NGO network from 28 April - 6 May.

All travel expenses and accommodation was paid by the Vänersborg Municipality. The Municipality of Omaruru only paid the S&T for the travels.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

There were no claims against the Local Authority.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

Donations of N\$ 9 571 was made by the Municipality during the current year.

22. TRANSFER OF PROPERTY

There were no transfers of property to or from the Local Authority.

23. TRADE AND OTHER RECEIVABLES/TRADE AND OTHER PAYABLES

23.1 Trade and other receivables at 30 June were:

	2013	2012
	N\$	N\$
Services, rates and taxes	4 157 756	4 135 380
Build Together advances	5 293 777	1 578 887
Consumer deposits	9 451 533	5 714 267
Provision for bad debts	(297 481)	-
	(2 748 902)	(2 748 902)
Total	6 405 150	2 965 365

The average collection period of trade receivables, before taking the provision for bad debts into account, is 125 days. The average collection period of trade receivables, after taking the provision for bad debts into account, is 42 days. Due to this statistics, the auditors are of the opinion that the provision for bad debts is overstated by N\$ 594 916.

23.2 Trade and other payables at 30 June were:

	2013	2012
	N\$	N\$
Trade payables	397 625	1 126 203
Loan instalments in arrear	-	-
VAT	-	-
Suspense accounts	-	-
Provisions	437 152	504 796
Outstanding cheques	1 016 896	-
Total	1 851 673	1 630 999

No list for the leave provision could be provided to the auditors for audit purposes.

24. ASSESSMENT RATES

	2013	2012
	N\$	N\$
The proceeds from assessment rates were	2 298 382	2 362 645
Residential		
Tariffs per N\$1 valuation per annum - Site valuation	0.033600	0.047300
Tariffs per N\$1 valuation per annum - Improvements	0.008610	0.010212
Business		
Tariffs per N\$1 valuation per annum - Site valuation	0.033600	0.047300
Tariffs per N\$1 valuation per annum - Improvements	0.008610	0.009460

25. LOANS

25.1 External loans

	2013	2012
	N\$	N\$
The Government of Namibia Housing Fund Loans	1 981 972 270 314	2 065 927 270 314
Less: Short term portion	-	(101 736)
Total	2 252 286	2 234 505

25.2 Due to the Municipality

	2013	2012
	N\$	N\$
Build together advances - Included in trade and other receivables	5 293 777	1 578 887

25.3 Loans written off

No loans were written off by the Council.

26. SALE OF ERVEN

No sale of erven was done during the current financial year.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

None

28. TARIFF ADJUSTMENTS

Tariff adjustments were duly approved and promulgated in the Government Gazette.

29. APPROVALS

29.1 Excess on approved budget

All budget excesses were approved.

29.2 Internal loans

The Internal loans balance at 30 June 2013 were N\$ 9 683 710 (2012: N\$ 10 135 099). These loans were allocated to the Capital Development Fund and Housing Fund

29.3 Revenue written off

None

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles and values thereof:

	Sedan		LDV's, 4x4's and Combi's		Other	
	Number	Value	Number	Value	Number	Value
Balance - 01/07/2012	1	N\$ 70 617	8	N\$ 662 406	10	N\$ 619 823
Additions	-	-	-	-	-	-
Disposals/write-off	-	-	-	-	-	-
Sub-total	1	70 617	8	662 406	10	619 823
Depreciation	-	-	-	-	-	-
Balance - 30/06/2013	1	70 617	8	662 406	10	619 823

No proper fixed asset register was provided for audit purposes.

30.2 Inventory

Inventories amounted to N\$ 198 353 (2012: N\$ 135 192).

31. SPECIAL INVESTIGATIONS

None

32. GENERAL

There is an insufficient system of internal control at the Municipality. Proper segregation of duties is not possible due to the small number of staff employed. While increased management involvement does not reduce risks, it causes the risk that management and Council override existing controls, a potentially dangerous practice, which the Council should vigilantly guard against.

33. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report. Informal queries were raised with the Chief Executive Officer. Audit differences and other comments are addressed in paragraph 4 of this report.

34. QUALIFIED AUDIT OPINION

The accounts of the Municipality of Omaruru for the financial year ended 30 June 2013, summarised in Annexures A to D, were audited by me in terms of Section 85 of the Local Authority 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:

Trade and other receivables - Provision for bad debts

The auditors are of the opinion that the provision for bad debts is overstated by N\$ 594 916.

Trade and other receivables - Build Together

No list for the Build Together Debtor of N\$ 5 293 777 could be provided to the auditors for auditing purposes.

Trade and other receivables - Credit Balances

On the age analysis the following credit balances were found:

Sale of erven that was not invoice, for which payment was received - N\$ 85 722.

Surcharges from Erongo Red not allocated to income - N\$ 430 933.

Double payments received from Ministry of Health and Social Services not repaid - N\$ 88 837.

Unallocated deposits - N\$ 520 067.

Therefore the trade and other receivables were understated and the income was understated for the current financial year.

Fixed assets

No proper fixed asset register was provided for audit purposes.

Trade and other payables - Leave provision

No list for the leave provision could be provided to the auditors for audit purposes.

Income

The water rates used for the Municipal Office Ozondje and Municipal Taxi Rank are charged at N\$ 6.58 less than the rates on the Government Gazette. According to the Municipality the rates are according to the rates approved in the Government Gazette, but has not been adjusted in the last 10 years.

Except for matters raised above, I certify that, in my opinion, the financial statements fairly present the financial position of the Municipality at 30 June 2013 and the results of its operations and cash flow for the year then ended.

WINDHOEK, September 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

THE MUNICIPALITY OF OMARURU

BALANCE SHEET AT 30 JUNE

	Notes	2013 N\$	2012 N\$
ASSETS			
NON CURRENT ASSETS		69 666 381	67 175 340
Property, plant and equipment	2	46 549 804	34 622 230
Investments	3	23 116 577	32 553 110
CURRENT ASSETS		9 437 541	4 346 799
Trade and other receivables	4	9 108 914	3 673 647
Inventories	5	198 354	135 192
Bank and cash	6	130 273	537 960
TOTAL ASSETS		79 103 922	71 522 139
FUNDS AND LIABILITIES			
FUNDS AND RESERVES		74 999 963	67 279 719
Capital outlay	7	45 353 493	39 406 601
Funds and accounts	8	29 646 470	27 873 118
NON-CURRENT LIABILITIES			
Long-term liabilities	9	2 252 286	2 234 505
CURRENT LIABILITIES			
Trade and other payables	10	1 851 673	2 007 915
TOTAL FUNDS AND LIABILITIES		79 103 922	71 522 139

THE MUNICIPALITY OF OMARURU

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2013 N\$	2012 N\$
INCOME		13 553 795	15 940 368
EXPENDITURE		(17 518 357)	(14 342 795)
NET OPERATING DEFICIT		(3 964 562)	1 597 573
INTEREST ON INVESTMENTS		1 355 649	-
NET DEFICIT AFTER INTEREST		(2 608 913)	1 597 573
APPROPRIATION ACCOUNT	11	(467 589)	(1 644 665)
		(3 076 502)	(47 092)
REVENUE ACCOUNT - Beginning of year		(4 573 479)	(4 526 387)
REVENUE ACCOUNT - End of year		(7 649 981)	(4 573 479)

THE MUNICIPALITY OF OMARURU

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Notes	2013 N\$	2012 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		13 553 795	15 940 368
Cash paid to suppliers		(23 640 617)	(15 240 003)
Cash utilised by operations	12	(10 086 822)	700 365
Interest received		1 355 649	-
Increase in Fund accounts		4 849 854	2 150 166
Increase in Capital outlay		5 946 892	19 358 011
Net cash flow from operating activities		2 065 573	22 208 542
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital expenditure		(11 927 574)	(8 371 970)
Decrease/(increase) in investments		9 436 533	(13 223 557)
		(2 491 041)	(21 595 527)
CASH FLOW FROM FINANCING ACTIVITIES			
Decrease in long-term loans		17 781	(99 350)
		17 781	(99 350)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(407 687)	513 665
CASH AND CASH EQUIVALENTS			
- BEGINNING OF YEAR		537 960	24 295
CASH AND CASH EQUIVALENTS - END OF YEAR	6	130 273	537 960

THE MUNICIPALITY OF OMARURU**NOTES TO THE ANNUAL FINANCIAL STATEMENTS 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

Property, plant and equipment are stated at cost or valuation where assets have been acquired by grant or by donation. Assets are depreciated over their estimated useful life's.

1.3 Internal Funds

The following Fund were created by the Municipality:

1.3.1 New Development Fund

The purpose of this Fund is to make provision for future capital development projects of the Council. Income is obtained from the Revenue Account as well as a cash donation from Government.

1.3.2 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 as well as profits made on the resale of housing scheme houses. Interest paid on external housing loans is charged to the Fund.

1.3.3 Capital Reserve Fund

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

1.3.4 Betterment Fund

The purpose of this Fund is to provide for future improvements of municipal assets. Part of the proceeds of the sale of land as well as interest earned on internal loans and investments are allocated to this Fund.

1.3.5 Renewal Fund

Its purpose is to provide for replacement of assets and for additional depreciation on assets which abnormally decreased in value. Income for this account is derived from general revenue contributions as well as interest earned on investments.

1.3.6 Capital Redemption Fund

Capital redemptions on external and internal loans are charged against income. A similar amount is credited to the Loan Redemption Fund for the duration of the loan. As and when the loan is fully redeemed the Loan Redemption Fund is transferred to the Revenue Contribution.

THE MUNICIPALITY OF OMARURU

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	2013	2012
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Total	46 549 804	34 622 230
3. INVESTMENTS		
INVESTMENTS		
Commercial Banks	23 116 577	32 553 110
	23 116 577	32 553 110
ALLOCATED AS FOLLOWS		
Capital Development Fund	8 363 494	10 197 882
Housing Fund	1 935 066	1 935 066
Build Together Fund	2 348 646	3 434 798
Capital Section	10 469 371	16 985 364
	23 116 577	32 553 110
4. TRADE AND OTHER RECEIVABLES		
Services, rates and taxes	4 157 756	4 135 380
Build Together advances	5 293 777	1 578 887
Sundry debtors	1 602 826	9 555
VAT	1 100 938	698 727
	12 155 297	6 422 549
Consumer deposits	(297 481)	-
Provision for bad debts	(2 748 902)	(2 748 902)
	9 108 914	3 673 647
5. INVENTORIES		
Materials	198 354	135 192
6. CASH AND BANK BALANCES		
Current account	130 273	537 960
	130 273	537 960

THE MUNICIPALITY OF OMARURU

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	2013	2012
	N\$	N\$
7. CAPITAL OUTLAY		
Loans redeemed	4 168 124	3 632 814
Revenue contributions	24 373 623	25 052 704
General Capital contributions	16 811 746	10 721 083
	45 353 493	39 406 601
8. FUNDS AND ACCOUNTS		
Capital Development Fund	27 235 632	25 014 516
Housing Fund	2 418 395	2 418 396
Build Together Fund	7 642 424	5 013 685
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(7 649 981)	(4 573 479)
	29 646 470	27 873 118
9. LONG-TERM LIABILITIES		
The Government of Namibia	1 981 972	2 065 927
Housing Fund	270 314	270 314
	2 252 286	2 336 241
Less: Current portion of liabilities included under current liabilities	-	(101 736)
	2 252 286	2 234 505
10. TRADE AND OTHER PAYABLES		
Trade payables	397 625	1 126 203
Provisions	437 152	504 796
Current portion of long-term liabilities	-	101 736
Consumer deposits	-	275 180
Outstanding cheques	1 016 896	-
	1 851 673	2 007 915
11. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Prior year adjustments	(467 589)	(1 068 857)
Various expenditures	-	15 491
Provision for bad debts	-	(592 447)
Difference in internal loans adjusted	-	1 148
	(467 589)	(1 644 665)

THE MUNICIPALITY OF OMARURU

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	<u>2013</u>	<u>2012</u>
	N\$	N\$
12. CASH UTILISED BY OPERATIONS		
Net operating deficit before transfers	(2 608 913)	1 597 573
Adjustments for:		
- Adjustments to appropriation account	(467 589)	(1 644 665)
- Investment income	(1 355 649)	-
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	<u>(4 432 151)</u>	<u>(47 092)</u>
CHANGES IN WORKING CAPITAL		
(Increase)/decrease in trade and other receivables	(5 435 267)	(666 533)
(Increase)/decrease in inventories	(63 162)	239 675
Increase/(decrease) in trade and other payables	(156 242)	1 174 315
	<u>(5 654 671)</u>	<u>747 457</u>
CASH UTILISED BY OPERATIONS	<u>(10 086 822)</u>	<u>700 365</u>