



**REPUBLIC OF NAMIBIA**



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

# **MUNICIPALITY OF USAKOS**

**FOR THE FINANCIAL YEARS 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 Municipality of Usakos 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  
MUNICIPALITY OF USAKOS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

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**1. INTRODUCTION**

The accounts of the Municipality of Usakos 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 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; and  
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 the opinion of the Auditor-General 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 OBSERVATION AND COMMENTS**

##### **4.1 Investment in Erongo RED**

The auditors could not be provided with annual financial statements of Erongo RED and could consequently not establish whether any provision for impairment is required for the investment in Erongo RED.

##### **4.2 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 555 days (2013: 530 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 50 days (2013: 62 days). The Council should attend to the arrears as a matter of urgency.

##### **4.3 VAT receivable**

No reconciliation for VAT receivable of N\$ 1 365 015 could be provided for audit purposes.

##### **4.4 Arrear external loans**

The instalments on external loans from Central Government were not paid since 2001/2002 to date. No provision for interest on arrear payments has been made.

##### **4.5 Consumer deposits**

Consumer deposits are not sufficient to cover one month's charges.

##### **4.6 VAT and P.A.Y.E. returns**

Not all VAT and P.A.Y.E. returns were submitted timeously to the Directorate: Inland Revenue. No provision for penalties and interest has been made in the financial statements.

##### **4.7 Build Together advances**

No list for Build Together advances amounting to N\$ 4 857 039 (2013: N\$ 4 857 039) was available for audit purposes.

#### **5. ACKNOWLEDGEMENT**

The assistance and co-operation by the staff of the Municipality of Usakos 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:

	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>	<b>Balance</b>
	N\$	N\$	N\$	N\$
Accumulated deficit on 01/07/2013				(6 915 361)
General accounts				
- Non-profitable services	4 607 487	8 064 841	(3 457 354)	
- Self-supporting services	1 826 303	748 588	1 077 715	
Trade accounts				
- Electricity	1 656 568	773 906	882 662	
- Water	2 762 820	1 185 820	1 577 000	
Deficit for the year	10 853 178	10 773 155	80 023	80 023
Adjustments and utilisations				(6 835 338)
				314 834
Accumulated deficit on 30/06/2014				<b>(6 520 504)</b>

## 7. CURRENT BANK ACCOUNT

	<b>2014</b>	<b>2013</b>
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	(134 212)	142 355
Outstanding cheques	183 649	635 176
Other reconciling items	3 644	162 539
Unexplained difference	-	(1 862 896)
Balance as per bank statement	<b>53 081</b>	<b>(922 826)</b>

## 8. INVESTMENTS

The investments as at 30 June were as follows:

	<b>2014</b>	<b>2013</b>
<b>Institution</b>	<b>Investment</b>	<b>Investment</b>
	N\$	N\$
Commercial banks	12 529 130	7 705 990
Erongo Red	2 460 227	2 460 227
	<b>14 989 357</b>	<b>10 166 217</b>
<b>Distribution</b>		
Revenue	2 460 227	2 460 227
Housing Fund	783 565	748 716
Capital Development Fund	11 745 565	6 957 274
	<b>14 989 357</b>	<b>10 166 217</b>

## 9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in note 7 in Annexure D.

## 10. TRADE ACCOUNT

### 10.1 The results of water operations were as follows:

	Electricity		Water	
	2014	2013	2014	2013
	N\$	N\$	N\$	N\$
Erongo Red levies	1 651 734	1 383 602	-	-
Sales	-	-	2 752 625	2 937 131
Cost of sales	-	-	(556 103)	(1 439 615)
Gross surplus	1 651 734	1 383 602	2 196 522	1 497 516
Other expenses	(769 073)	(28 915)	(619 521)	1 554 195
<b>Net surplus</b>	<b>882 661</b>	<b>1 354 687</b>	<b>1 577 001</b>	<b>3 051 711</b>
Gross surplus percentage on sales			79.8%	51.0%
Net surplus percentage on sales			57.3%	103.9%

### 10.2 Distribution results were as follows:

No distribution results were available.

## 11. SELF SUPPORTING SERVICES

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

Service	Income 2014	Expenses 2014	Surplus/ (deficit) 2014	Surplus/ (deficit) 2013
	N\$	N\$	N\$	N\$
Ambulance	-	3 996	(3 996)	(6 025)
Housing	63 072	19 284	43 788	406 500
Sanatation and sewerage	1 763 231	725 308	1 037 923	1 023 399
	<b>1 826 303</b>	<b>748 588</b>	<b>1 077 715</b>	<b>1 423 874</b>

## 12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

There were no such expenses.

## 13. SUSPENSE ACCOUNTS

Suspense accounts were cleared on a regular basis during the years under review.

## 14. IRREGULARITIES AND LOSSES

There were no such expenses.

## 15. CAPITAL PROJECTS

The following were spent on capital projects:

Nature of projects/acquisitions	Financed by	Total expenditure 2014	Total expenditure 2013
	Revenue account		
	N\$	N\$	N\$
Motor vehicles	1 175 758	1 175 758	-
Furniture	57 348	57 348	55 974
Sewerage	289 618	289 618	-
Water	2 647 671	2 647 671	3 704 157
Streets	2 239 782	2 239 782	2 900 300
	<b>6 410 177</b>	<b>6 410 177</b>	<b>6 660 431</b>

## 16. STUDY LOANS/BURSARIES

No bursaries were granted during the year.

## 17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

	2014	2013
	N\$	N\$
Contribution from Government	-	6 586 645

## 18. COMPENSATION PAYMENTS

No compensation payments were claimed from the Municipality during the year under review.

## 19. VISITS TO FOREIGN COUNTRIES

Council did not pay for any visits to foreign countries during the year under review.

## 20. CLAIMS AGAINST THE LOCAL AUTHORITY

There were no claims against the local authority.

## 21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

There were no gifts or donations by the Municipality.

## 22. TRANSFER OF PROPERTY

Certain erven were sold in terms of the Build Together scheme.

No register was kept and supporting documentation was not available to determine the value thereof.

## 23. TRADE AND OTHER RECEIVABLES/TRADE AND OTHER PAYABLES

### 23.1 Trade and other receivables at 30 June were:

	<b>2014</b>	<b>2013</b>
	N\$	N\$
Consumers	8 921 057	8 616 580
Provision for bad debts	(8 124 154)	(7 600 705)
	796 903	1 015 875
VAT receivable	1 365 015	1 122 233
Accrued interest	-	86 068
Sundry debtors - Natis	568 817	365 086
Provision for stores	2 605	2 605
Sundry debtors	17 855	-
	<b>2 751 195</b>	<b>2 591 867</b>

### 23.2 Trade and other payables at 30 June were:

	<b>2014</b>	<b>2013</b>
	N\$	N\$
Trade payables	1 028 638	2 283 119
Consumer and other deposits	277 865	285 126
Government loans instalments in arrear	2 477 004	2 316 455
Regional Council	821 202	765 448
Provisions - Bonus, leave	471 085	434 415
Totals	<b>5 075 794</b>	<b>6 084 563</b>

## 24. ASSESSMENT RATES

	<b>2014</b>	<b>2013</b>
	N\$	N\$
The net proceeds from assessment rates were	1 115 088	1 132 803
Regional Council levies paid	55 754	56 640

## 25. LOANS

### 25.1 External loans

	<b>2014</b>	<b>2013</b>
	N\$	N\$
Government of Namibia (Including housing loans)	813 684	885 772
	<b>813 684</b>	<b>885 772</b>



## 25.2 Housing loans

	<b>2014</b>	<b>2013</b>
	N\$	N\$
Balance due to the Government	19 378	24 596
Due to the Municipality	4 857 039	4 857 039

## 26. SALE OF ERVEN

Due to unavailability of supporting documentation, as also reported in previous reports, this information is not available. Council should take urgent steps to rectify this issue. The non-disclosure of sale of erven also attributed to the fact that the financial statements may be incorrect.

## 27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

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

## 28. TARIFF ADJUSTMENTS

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

## 29. APPROVALS

All overspending was approved by the Council.

## 30. INVENTORY

No inventories were recorded in the financial statements of the Municipality.

## 31. SPECIAL INVESTIGATIONS

There were no special investigations.

## 32. GENERAL

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.

## 33. FORMAL AND INFORMAL QUERIES

**33.1** Formal queries are embodied in this report.

**33.2** Informal queries were discussed with the Municipality.

### **34. QUALIFIED AUDIT OPINION**

The accounts of the Municipality of Usakos for the financial year ended 30 June 2014, 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:

- Information on Investment in Erongo Red could not be provided.
- The instalments on external loans from Central Government were not paid since 2001/2002 to date.
- Not all VAT and P.A.Y.E. returns were submitted timeously to the Directorate: Inland Revenue
- No list for Build Together advances amounting to N\$ 4 857 039 was available for audit purposes.

Except for the effects of any adjustments which might have been necessary as referred to in the preceding paragraphs , in my opinion these financial statements fairly present the financial position of the Municipality at 30 June 2014 and the result of its operations and cash flows for the year then ended.

**WINDHOEK, June 2015**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**MUNICIPALITY OF USAKOS**  
**BALANCE SHEET AT 30 JUNE**

	<b>Notes</b>	<b>2014</b> N\$	<b>2013</b> N\$
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
		45 168 147	35 737 957
Property, plant and equipment	2	25 321 751	20 714 701
Investments	3	14 989 357	10 166 217
Loans receivable	4	4 857 039	4 857 039
<b>CURRENT ASSETS</b>			
		2 752 695	2 735 722
Trade and other receivables	5	2 751 195	2 591 867
Cash and bank balances		1 500	143 855
<b>TOTAL ASSETS</b>		<b>47 920 842</b>	<b>38 473 679</b>
<b>FUNDS AND LIABILITIES</b>			
<b>FUNDS AND RESERVES</b>			
		41 897 152	31 503 344
Capital outlay	6	24 527 445	19 853 525
Funds and accounts	7	17 369 707	11 649 819
<b>NON-CURRENT LIABILITIES</b>			
Long-term loans	8	813 684	885 772
<b>CURRENT LIABILITIES</b>			
		5 210 006	6 084 563
Trade and other payables	9	5 075 794	6 084 563
Bank overdraft		134 212	-
<b>TOTAL FUNDS AND LIABILITIES</b>		<b>47 920 842</b>	<b>38 473 679</b>

## MUNICIPALITY OF USAKOS

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2014</u> N\$	<u>2013</u> N\$
INCOME		10 726 330	16 988 746
EXPENDITURE		<u>10 773 155</u>	<u>16 892 556</u>
NET OPERATING SURPLUS/(DEFICIT)		(46 825)	96 190
INTEREST ON INVESTMENTS		<u>126 848</u>	<u>123 478</u>
NET OPERATING SURPLUS/(DEFICIT) AFTER INTEREST		80 023	219 668
APPROPRIATION ACCOUNT	10	<u>314 834</u>	<u>37 036</u>
NET SURPLUS/(DEFICIT) AFTER APPROPRIATIONS		394 857	256 704
REVENUE ACCOUNT - Beginning of year		<u>(6 915 361)</u>	<u>(7 172 065)</u>
REVENUE ACCOUNT - End of year		<u><b>(6 520 504)</b></u>	<u><b>(6 915 361)</b></u>

## MUNICIPALITY OF USAKOS

## CASH FLOW STATEMENT AT 30 JUNE

	Note	2014 N\$	2013 N\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		10 726 330	16 988 746
Cash paid to suppliers		(11 626 418)	(18 280 499)
Cash utilised by operations	11	(900 088)	(1 291 753)
Investment income		126 848	123 478
Increase in Fund accounts		5 325 031	3 707 648
Increase in Capital outlay		4 673 920	5 434 291
Net cash flow from operating activities		9 225 711	7 973 664
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net capital expenditure		(4 607 050)	(5 383 415)
Change in investments		(4 823 140)	(367 404)
Change in loans receivable		-	(1 096 053)
		(9 430 190)	(6 846 872)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Change in long-term liabilities		(72 088)	(55 826)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(276 567)	1 070 966
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		143 855	(927 111)
CASH AND CASH EQUIVALENTS - END OF YEAR		<b>(132 712)</b>	<b>143 855</b>

## MUNICIPALITY OF USAKOS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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**1. ACCOUNTING POLICIES****1.1 Introduction**

The annual financial statements set out in Annexures A to C 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. No provision for depreciation is made.

**1.3 Investments**

Investments are reflected at face value.

**1.4 Trade receivables**

Accounts receivable are recorded at originated cost less an allowance for bad debts.

**1.5 Cash and cash equivalents**

It consists of cash on hand and the current account with banks, all of which are available for immediate use by the Council.

**1.6 Trade and other payables**

All financial liabilities are recorded at cost.

**1.7 Internal Funds**

Internal Funds were created as follows by the Municipality:

**1.7.1 Fixed Property Fund**

Proceeds from the sale of land that have been developed by the Municipality of Usakos, accumulated in this fund. Costs incurred on the development of land are charged to this Fund.

**1.7.2 Capital Reserve Fund**

This Fund was created to make provision for unforeseen expenditure, as approved by the Municipality.

**1.7.3 Renewal Fund**

The purpose of this Fund is to provide for future replacement of assets and for additional depreciation on assets which have permanently declined in value. Income for this account is derived from general revenue contributions as well as interest on investments.

**1.7.4 Housing Funds**

These Funds are applied only for the purpose of providing loans to house owners in respect of purchase price, building costs and improvements made.

## MUNICIPALITY OF USAKOS

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

	<b>2014</b>	<b>2013</b>
	N\$	N\$
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>		
External loans	794 306	861 176
Loans redeemed	595 600	528 730
Contributions from income	16 976 432	12 315 224
General capital	6 955 413	7 009 571
Total	<b>25 321 751</b>	<b>20 714 701</b>
<b>3. INVESTMENTS</b>		
INVESTMENTS		
Commercial banks	12 529 130	7 705 990
Erongo Red	2 460 227	2 460 227
	<b>14 989 357</b>	<b>10 166 217</b>
ALLOCATED AS FOLLOWS		
Revenue	2 460 227	2 460 227
Housing Fund	783 565	748 716
Capital Development Fund	11 745 565	6 957 274
	<b>14 989 357</b>	<b>10 166 217</b>
<b>4. LOANS RECEIVABLE</b>		
Build Together loans	<b>4 857 039</b>	<b>4 857 039</b>
<b>5. TRADE AND OTHER RECEIVABLES</b>		
Consumers	8 921 057	8 616 580
Provision for bad debts	(8 124 154)	(7 600 705)
	796 903	1 015 875
VAT receivable	1 365 015	1 122 233
Accrued interest	-	86 068
Sundry debtors - Natis	568 817	365 086
Provision for stores	2 605	2 605
Sundry debtors	17 855	-
	<b>2 751 195</b>	<b>2 591 867</b>

## MUNICIPALITY OF USAKOS

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

	<b>2014</b>	<b>2013</b>
	N\$	N\$
<b>6. CAPITAL OUTLAY</b>		
Loans redeemed	595 600	528 730
Revenue contributions	16 976 432	12 315 224
General capital contributions	6 955 413	7 009 571
	<b>24 527 445</b>	<b>19 853 525</b>
<b>7. FUNDS, ACCOUNTS AND RESERVES</b>		
Capital Reserve Fund	15 420 815	10 163 051
Fixed Property Fund	1 563 109	1 535 909
Renewal Fund	364 597	364 597
Housing Fund	6 541 690	6 501 623
Revenue account kept in compliance with Section 86(1) of the Local Authority Act, 1992.	(6 520 504)	(6 915 361)
	<b>17 369 707</b>	<b>11 649 819</b>
<b>8. LONG-TERM LIABILITIES</b>		
External loans - Government	794 306	861 176
Housing Fund loans	19 378	24 596
	<b>813 684</b>	<b>885 772</b>
<b>9. TRADE AND OTHER PAYABLES</b>		
Trade payables	1 028 638	2 283 119
Consumer and other deposits	277 865	285 126
Government loans instalments in arrear	2 477 004	2 316 455
Regional Council	821 202	765 448
Provisions - Bonus, leave	471 085	434 415
	<b>5 075 794</b>	<b>6 084 563</b>
<b>10. ADJUSTMENTS TO APPROPRIATION ACCOUNT</b>		
Prior year adjustments	314 834	37 036
	<b>314 834</b>	<b>37 036</b>



## MUNICIPALITY OF USAKOS

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

	<u>2014</u>	<u>2013</u>
	N\$	N\$
<b>11. CASH UTILISED BY OPERATIONS</b>		
Net operating surplus/(deficit) before interest and transfers	(46 825)	96 190
Adjustments for:		
- Adjustments to appropriation account	<u>314 834</u>	<u>37 036</u>
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	<u>268 009</u>	<u>133 226</u>
CHANGES IN WORKING CAPITAL		
Change in trade and other receivables	(159 328)	(1 608 355)
Change in trade and other payables	<u>(1 008 769)</u>	<u>183 376</u>
	<u>(1 168 097)</u>	<u>(1 424 979)</u>
CASH UTILISED BY OPERATIONS	<u><b>(900 088)</b></u>	<u><b>(1 291 753)</b></u>