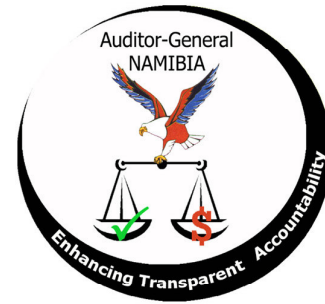




REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF OKAHAO

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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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 Okahao for the financial year ended 30 June 2009, 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, August 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF OKAHAO
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009**

1. INTRODUCTION

The accounts of the Okahao Town Council for the year ended 30 June 2009 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 BDO 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.

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 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 Village 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 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 complies with ethical requirements and 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 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 that were also reported in previous financial year are indicated by way of an asterisk (*)

4.1 Value added tax(*)

The Council did not submit correct VAT returns as they have not been recorded zero rated and exempt income and expenditure. According to the Receiver of Revenue the closing balance should be N\$ 731 705 thus the financial statements are overstated by N\$ 54 069.

The auditors concluded that Council has not claimed all of its allowable input VAT.

4.2 Provision for bonuses

No provision for bonuses has been raised. The effect of this non provision could be material.

4.3 Debtors (*)

The council has not provided for bad debts in current year. However, the auditors subsequent payments test revealed that a provision of approximately N\$ 882 194 is in fact required for bad debts.

This results in an overstatement of debtors and overstatement of the net surplus for the year.

An amount of N\$ 257 538 was posted as an expense in the accounts and instead of the credit being posted to the provision for bad debts, it was posted to the appropriation account.

4.4 Lack of supporting documentation

The auditors could not, due to a lack of supporting documentation, satisfy themselves as to the existence and accuracy of the following account balances:

Expenses	N\$
• Homestead compensation	207 822
Income:	
• Royalties and surcharges	235 076
• PTO/Erven	235 775
• Property sales	1 338 179
• Electricity sales	352 878

This could result in the overstatement of income and expenses

4.5 Debtors Ageing (*)

The computer system ageing method is still incorrect. All balances are reflected in the 91 days and above column.

4.6 Stock (*)

The auditors did not attend a stock count and the Council's system did not allow for alternative procedures to be performed. The existence and completeness of stock could thus not be ascertained.

4.7 Interest received on investments (*)

No breakdown of interest received on investments could be obtained and thus it was not possible to ascertain the existence, completeness and accuracy thereof.

4.8 Funds (*)

The Council has not been appropriately disclosing Funds as per the requirements of Section 80(4) of the Local Authorities Act 1992.

As reported in the previous year, Council kept a Capital Reserve Fund and a Housing Fund but are not disclosed in the financial statements of the Council.

4.9 Payroll

A material difference of N\$ 165 166 was found between the payroll as per payroll records and the amount as per the general ledger. The difference was caused by a journal entry posted to the payroll account. The contra entry was posted to a suspense account and there after cleared to the appropriation account.

The current year surplus is thus understated by the amount.

4.10 Adjustment to the appropriation account

An adjustment to the amount of N\$ 6 994 999 was not analysed in detail. This practice is unacceptable and should be avoided in future. (See paragraph 6 and Note 6 Annexure D)

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Town Council of Okahao 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 surplus 01/07/2008				21 611 164
General accounts				
Rates and general	10 784 527	7 505 510	3 279 017	
Trade accounts				
Water	1 987 579	2 280 505	(292 926)	
Electricity	352 878	72 347	280 531	
Surplus for the year	13 124 984	9 858 362	3 266 622	3 266 622
Adjustments and appropriations (Note 6, Annexure D)				6 994 999
Accumulated surplus 30/06/2009				31 872 785

7. CURRENT BANK ACCOUNT

The favorable bank statement balance on the current bank account amounted to N\$ 299 712 and the favorable cash-book balance was N\$ 145 358 (2008: N\$ 14 892 unfavorable). Outstanding cheques at 30 June 2009 amounted to N\$ 154 353.

In the current year the following Build together accounts (BT) have been included under cash and bank; BT disbursement fund N\$ 21 010 (2008: N\$ 1 183); BT Receipt account N\$ 540 213 (2008: N\$ 262 944) and BT Call account N\$ 67 969 (2008: N\$ 1 620 481). In the previous year these accounts were not included in the financial statements.

8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June the investments were as follows:

	2009	2008
	N\$	N\$
Financial institutions	6 495 664	13 105 959
	6 495 664	13 105 959

The previous financial year, the council has included the above balances in the Cash and bank balance.

The investments and interest were not allocated to funds as the Council has not been accounting for funds, please see paragraph 4.

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in note 4 in Annexure D.

10. TRADE ACCOUNTS

10.1 The results of operations were as follows:

	Water		Electricity	
	2009	2008	2009	2008
	N\$	N\$	N\$	N\$
Sales	1 987 579	1 718 101	352 878	-
Cost of bulk purchases	(2 280 505)	(1 123 375)	* (72 347)	(37 101)
Net (deficit)/surplus	(292 926)	594 726	280 531	(37 101)
Net profit/(loss) percentage on bulk purchases	(12.7%)	52.9%	-	-
Net profit/(loss) percentage on sales	(14.7%)	34.6%	-	-

*These expenses are not best of bulk purchases but net expenses.

The gross profit should have been N\$ 143 369. Council should implement measures to operate this service on a profitable basis.

10.2 Distribution results were as follows:

No distribution statistics are being kept by the Council.

11. SELF-SUPPORTING SERVICES

The auditors were unable to determine the net results of self support services, due to the value of the accounting records of the Town Council.

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed during the year under review.

13. SUSPENSE ACCOUNTS

Control accounts were cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

No such items were revealed during the year under review.

15. CAPITAL PROJECTS

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

Nature of projects/acquisitions	Financed by	Total expenditure
	Revenue account	2008
	N\$	N\$
Motor vehicles	146 722	301 126
Capital Infrastructure	*9 229 833	4 724 899
Computer equipment	8 043	70 185
Land	1 307 954	-
Furniture and fittings	86 707	55 538
Work in progress	521 361	
Office equipment	4 259	22 368
Plant and Machinery	1 047 503	1 132 455
	12 352 382	6 306 571

* A difference of N\$ 71 701 between the fixed asset register and the annual financial statements was detected during the audit. Council should investigate and reconcile the auxiliary record with the financial statements.

16. BURSARIES

No bursaries were granted for the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID RECEIVED FROM GOVERNMENT

	2009	2008
	N\$	N\$
Contributions to operating costs by Government	5 466 137	9 500 000
	5 466 137	9 500 000

18. COMPENSATION PAYMENTS

Home stead compensation payments were made during the year under review of N\$ 207 822 (2008:N\$ 42 211)

19. VISITS TO FOREIGN COUNTRIES

No visits to foreign countries were undertaken.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims were lodged against the Local Authority.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

No gifts or donations were given during the year under review.

22. TRANSFER OF PROPERTY

22.1 There were no transfers of property to the Local Authority.

22.2 There were no transfers of property by the Local Authority to others.

23. TRADE AND OTHER RECEIVABLES/PAYABLES

23.1 Trade and other receivables at 30 June were:

	2009	2008
	N\$	N\$
Services, rates and taxes	3 541 385	82 830
VAT refundable	785 774	93 809
Total	4 327 159	176 639
Analysis of services and general debtors:		
Service debtors	3 541 385	82 830
Average credit terms in days	216.6	7.4
Consumer deposits	76 615	16 800

Council should attend to the arrears as a matter of urgency. The provision for bad debts should be determined and provided for during the next financial year. Refer to paragraph 4.3.

23.2 Trade and other payables at 30 June were:

	2009	2008
	N\$	N\$
Consumer deposits	76 615	16 800
Leave pay provision	151 731	-
Housing officer control account	14 797	25 200
Trade Payables	174 219	12 548
Totals	417 362	54 548

24. ASSESSMENT RATES

Proceeds from assessment rates were N\$ 1 622 270 (2008: N\$ 1 054 884). The tariffs determined during the year were N\$ 0.00470 (2008: N\$ 0.0470) per dollar per year on the site valuations plus N\$ 0.0058 (2008: N\$ 0.0058) per dollar per year on the valuation of improvements.

25. LOANS

25.1 External loans

No External loans were entered into during the year.

25.2 Due to the Council

No internal loans were made during the year.

25.3 Loans written off

No loans were written off during the year.

25.4 Housing loans

The amounts advanced in favour of housing loans under the Build Together Housing scheme were N\$ 2 113 306 and is included in the accounts receivables figure. (Refer paragraph 23.1.) The previous year's amount of N\$ 592 593 was not disclosed in the financial statements.

26. SALE OF ERVEN

Council could not provide the auditors with a listing to support the sale of erven in the current year. The total amount received from these sales were N\$ 1 338 179.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

No property was sold on an installment basis during the year.

28. TARIFF ADJUSTMENTS

The tariff adjustments approved by Council during the year are in line with the Government Gazette.

29. APPROVALS

All necessary approvals were obtained.

30. MOTOR VEHICLES AND INVENTORY

30.1 Motor vehicles and values thereof:

	Sedan		LDV's		Heavy Vehicles	
	Number	Value N\$	Number	Value N\$	Number	Value N\$
Balance - 01/07/2008	1	-	3	423 043	2	259 215
Plus: Additions	1	146 723	-	-	-	-
Sub-total	2	146 723	3	423 043	2	259 215
Less: Depreciation		(22 008)		(39 604)		(31 304)
Balance - 30/06/2009	2	124 715	3	383 439	2	227 911

30.2 Inventory

The value of inventory on hand amounted to N\$ 83 489 (2008: N\$ 70 417) at 30 June 2009.

31. SPECIAL INVESTIGATIONS

The audit did not reveal that any special investigation was carried out during the year under review.

32. GENERAL

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

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:

- Bad and doubtful debts;
- VAT accruals;
- Lack of supporting documentation;
- Funds;
- Debtors ageing;
- Insurance cover;
- Misallocation of Provision for bad debts; and
- Investments interest.

34. QUALIFIED AUDIT OPINION

The accounts of the Okahao Town Council for the financial year end 30 June 2009, 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.

A qualified audit opinion is being expressed due to the following reasons:

- VAT receivable is overstated by N\$ 54 069.
- No provision for bonus payments have been raised which is material.
- An amount of N\$ 257 538 was posted as an expense and the credit was posted to the appropriation account instead of provision for bad debts.
- Expenses to the amount of N\$ 207 822 could not be supported by documentation.
- In some cases income could not be supported by appropriated documentation.
- No breakdown of interest received on investments could be obtained.
- The Capital Reserve and Housing Funds are not disclosed in the financial statements of the Council although they are kept.
- A material difference of N\$ 165 166 was found between the payroll and the amount disclosed in the General Ledger of the Council.
- Adjustment to the amount of N\$ 6 994 999 was not analysed.

Except for the effects of any adjustments which might have been necessary as referred to above, in my opinion, these financial statements fairly present the financial position of the Town Council at 30 June 2009, and the results of operations and cash flows for the year then ended in accordance with generally accepted accounting practice.

WINDHOEK, August 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

BALANCE SHEET AS AT 30 JUNE 2009

ASSETS	Notes	2009	2008
		N\$	N\$
Non-current assets		20 610 016	9 137 819
Property, plant and equipment	2	20 610 016	9 137 819
Current assets		11 680 131	12 527 893
Accounts receivable	3	4 327 159	176 639
Investments		6 494 665	-
Inventories		83 490	70 417
Cash and cash equivalents		774 817	12 280 837
TOTAL ASSETS		32 290 147	21 665 712
FUNDS AND LIABILITIES			
FUNDS AND RESERVES		31 872 785	21 611 164
Funds and accounts	4	31 872 785	21 611 164
Current liabilities		417 362	54 548
Accounts payable	5	417 362	54 548
TOTAL EQUITY AND LIABILITIES		32 290 147	21 665 712

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	<u>Note</u>	<u>2009</u>	<u>2008</u>
		N\$	N\$
INCOME		12 185 073	13 934 902
EXPENDITURE		<u>(9 858 362)</u>	<u>(5 435 503)</u>
OPERATING INCOME FOR THE YEAR		2 326 711	8 499 399
INVESTMENT INTEREST EARNED FOR FUND ACCOUNTS		<u>939 911</u>	<u>588 941</u>
NET PROFIT FOR THE YEAR		3 266 622	9 088 340
Add : Appropriation and adjustments	6	<u>6 994 999</u>	<u>9 185 148</u>
RETAINED (LOSS)/PROFIT FOR THE YEAR		10 261 621	18 273 488
30 June 2008		<u>21 611 164</u>	<u>3 337 676</u>
30 June 2009		<u>31 872 785</u>	<u>21 611 164</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	<u>Note</u>	<u>2009</u>	<u>2008</u>
		N\$	N\$
CASH GENERATED BY OPERATING ACTIVITIES			
Cash receipts from customers		12 185 073	13 934 902
Cash paid to suppliers		(13 158 807)	4 273 903
Cash utilized by operations	7	(973 734)	18 2087 805
Investment income		939 911	588 941
Net cash flow from operating activities		(33 823)	18 797 746
CASH FLOW FROM INVESTING ACTIVITIES			
(Increase)/decrease in property, plant and equipment		(11 472 197)	(9 956 306)
Increase/(decrease) in Funds		-	(4 808 613)
NETT MOVEMENT IN CASH AND CASH EQUIVALENTS		(11 506 020)	8 841 440
CASH AND CASH EQUIVALENTS			
- At the beginning of the year		12 280 837	3 439 397
- At the end of the year		774 817	12 280 837

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

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

Fixed assets are stated at cost valuation where assets have been acquired by grant or donation, less depreciation written off over the expected useful lives as determined by the Council from time to time.

1.3 Inventories

Inventories are measured at lower of cost and net realizable value. The cost of inventories should comprise all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to its present location and condition.

	<u>2009</u>	<u>2008</u>
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	20 610 016	9 137 819
3. ACCOUNTS RECEIVABLE		
Service ,rates and taxes	3 541 385	82 830
VAT refundable	785 774	93 809
	4 327 159	176 639
<i>Less :</i>		
Provision for doubtful debts	-	-
	4 327 159	176 639
4. FUNDS AND ACCOUNTS		
Revenue Account kept in compliance with Section 86(1) of the Local Authorities Act, 1992	31 872 785	21 611 164
	31 872 785	21 611 164

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

	2009	2008
	N\$	N\$
5. ACCOUNTS PAYABLE		
Trade payables	174 219	12 548
Leave provision	151 731	
Housing officer control account	14 797	25 200
Consumer deposits	76 615	16 800
	417 362	54 548
6. ADJUSTMENTS AND APPROPRIATIONS		
Adjustments (No breakdown provided)	6 994 999	9 172 967
Other adjustments	-	12 181
	6 994 999	9 185 148
7. CASH UTILISED IN OPERATIONS		
Net operating profit before transfers	3 266 622	9 088 340
Adjustments:		
- Adjustments to the appropriation account	6 994 999	9 185 148
- Investment income	(939 911)	(588 941)
	9 321 710	17 684 547
CHANGE IN WORKING CAPITAL	(10 295 444)	524 258
(Increase)/decrease in trade and other receivables	(4 150 520)	552 308
(Increase)/decrease in inventory	(13 073)	(70 417)
(Increase)/decrease in trade and other payables	362 814	42 367
(Increase)/decrease in investments	(6 494 665)	-
CASH UTILIZED BY OPERATIONS	(973 734)	18 208 805