



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

# TOWN COUNCIL OF OKAHAO

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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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 2011, 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, February 2012**

**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 2011**

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## **1. INTRODUCTION**

The above accounts of the Town Council of Okahao for the year ended 30 June 2011 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 Namibian 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 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 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 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 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 Annual financial statements**

The annual financial statements do not cast correctly. As a result depreciation and other expenses for the year are understated by N\$ 200 000 and N\$ 85 873 respectively. The overall difference on total expenses amounts to N\$ 9 252. The surplus for the year is thus overstated.

##### **4.2 Funds (\*)**

Council has not appropriately disclosed the Funds as per the requirements of section 80 (4) of the Local Authorities Act 1992.

As reported in the previous years, Council kept a Capital Reserve Fund and a Housing Fund, but again did not disclose them in the financial statements of the Council.

##### **4.3 Stock (\*)**

The auditors did not attend the stock count at year-end and Council could not provide a stock reconciliation showing the movement for the year. Therefore the auditors could not perform any procedures to verify the completeness, existence, accuracy and valuation of stock.

##### **4.4 Contribution from Government**

The auditors could not obtain all the confirmations from the Ministry of Regional and Local Government, Housing and Rural Development to test the completeness of total grants received.

##### **4.5 Compensation payments**

Compensation payment accrued to an individual, amounting to N\$ 342 364, was not included in trade payables for the year. Thus, payables and expenses for the year are understated by this amount.

##### **4.6 Property sales**

All these sales were recorded on a cash basis. The audit also revealed a difference of N\$ 73 120 between the sale of erven list and the general ledger.

#### **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/ (Deficit)	Balance
Accumulated surplus 01/07/2010	N\$	N\$	N\$	N\$ 32 611 779
<b>General accounts</b>				
Rates and general services	16 663 054	10 021 064	6 641 990	
<b>Trade accounts</b>				
Water	1 808 680	1 062 363	746 317	
Electricity	747 802	731 450	16 352	
Surplus for the year	19 219 536	11 814 877	7 404 659	7 404 659
Adjustments and appropriations (Note 6, Annexure D)				40 016 438 3 468 302
Accumulated surplus 30/06/2011				<b>43 484 740</b>

## 7. CURRENT BANK ACCOUNT

The favourable cash-book balance on the current bank account amounted to N\$ 39 069 (2010: favourable N\$ 283 474). The bank statements reflected a favourable balance of N\$ 90 797 (2010: N\$324 300). Outstanding cheques amounted to N\$ 51 728 (2010: N\$ 40 826).

## 8. INVESTMENTS AND INTEREST PROCEEDS

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

Institution	2011		2010	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
<b>Invested at:</b>				
Commercial banks	9 133 886	549 932	9 027 633	565 900
	<b>9 133 886</b>	<b>549 932</b>	<b>9 027 633</b>	<b>939 900</b>
<b>Distribution</b>				
Revenue	9 133 886	549 932	9 027 633	565 900
	<b>9 133 886</b>	<b>549 932</b>	<b>9 027 633</b>	<b>565 900</b>

## 9. FUND ACCOUNTS

Council has not appropriately disclosed funds in the financial statements. (See paragraph 4.2)

## 10. TRADE ACCOUNTS

### 10.1 Operating results

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

	Electricity		Water	
	2011	2010	2011	2010
	N\$	N\$	N\$	N\$
Sales	747 802	421 279	1 808 680	1 788 068
Cost of sales	(731 450)	(399 003)	(1 062 363)	(1 396 476)
Gross profit/(deficit)	16 352	22 276	746 317	391 592
Other income/ (expenses)	-	-	-	-
<b>NET PROFIT</b>	<b>16 352</b>	<b>22 276</b>	<b>746 317</b>	<b>391 592</b>
Gross profit/(deficit) on bulk purchases	2.24%	5.58%	70.25%	28.04%
Net (deficit)/profit on bulk purchases	2.24%	5.58 %	70.25%	21.90%

The Council is supplying the electricity as Nored is not providing the electricity in the Region.

### 10.2 Distribution results

No distribution statistics could be obtained from the Council.

## 11. SELF-SUPPORTING EXTERNAL SERVICES

The auditors were unable to determine the net results of the self-supporting services due to the nature/format of the accounting records of the Town Council.

## 12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed.

## 13. SUSPENSE ACCOUNTS

No suspense accounts.

## 14. IRREGULARITIES AND LOSSES

**14.1** No irregularities by employees were reported or detected during the audit.

**14.2** No losses were reported by the Town Council.

## 15. CAPITAL PROJECTS

The following capital expenditure was incurred during the year:

	<b>Financed by Revenue 2011</b>	<b>Financed by Revenue 2010</b>
	N\$	N\$
Motor vehicles	-	168 731
Furniture & fittings	11 730	40 513
Plant & machinery	-	609 096
Capital infrastructure	3 031 471	56 740
Computer equipment	32 513	108 403
Office equipment	225 975	189 034
Work in progress: Land and road construction	8 957 162	1 358 571
	<b>12 258 851</b>	<b>2 531 088</b>

There were differences between the asset register and the financial statements amounting to N\$ 31 648.

## 16. STUDY LOANS/BURSARIES

No study loan/bursaries were awarded during the year.

## 17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

The Council provided financial assistance towards the Miss Okahao beauty pageant to the value of N\$ 65 994 (2010: N\$ 45 099).

## 18. COMPENSATION PAYMENTS

Compensation payments amounting to N\$ 2 000 000 (2010: N\$ 2 136 971) were made during the year.

## 19. VISITS TO FOREIGN COUNTRIES

The Mayor and the Chief Executive Officer went to Haimen, China during April 2011 to attend the 16<sup>th</sup> China Haimen Golden Flower Festival. Council spend N\$ 21 241 on subsistence allowances and visa fees.

## 20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

## 21. GIFTS AND DONATIONS BY THE LOCAL AUTHORITY

No claims, donations or gifts were received during the year. Gifts and donations amounting to N\$ 2 783 (2010: N\$ 4 953) were provided by the Council during the year under review.

## 22. TRANSFER OF PROPERTY TO/FROM THE GOVERNMENT

Property was transferred to/or from the Government as follows:

<b>PROPERTIES TRANSFERRED FROM GOVERNMENT TO THE TOWN COUNCIL</b>		
<b>Erf Number</b>	<b>Township</b>	<b>Description</b>
38	Okahao property	House
39	Okahao property	House
40	Okahao property	House
41	Okahao property	House
42	Okahao property	House
48	Okahao property	House
15	Okahao property	SWAVEK house
336	Extension 2	House
13	Extension 1	Vacant

<b>PROPERTIES TRANSFERRED FROM TOWN COUNCIL TO THE GOVERNMENT</b>	
<b>Erf Number</b>	<b>Description</b>
12	Shaanika Nashilongo Senior Secondary School
21	Etalaleko Secondary School
52	Nangombe Combined School
29	Okahao District Hospital
1	Airport
16	Namwater
94	Ministry of Education (Circuit Inspector office)
101	Youth centre
30	Tribal office
67	Government house
51	Government house
37	Government house
47	Government house
49	Government house
50	Government house

## 23. DEBTORS

23.1 Debtors on 30 June 2011 comprise the following:

	<b>2011</b>	<b>2010</b>
	N\$	N\$
Consumers and other debtors	4 580 913	3 851 175
Other debtors	78 053	20 234
Inland Revenue - VAT	688 841	347 243
	5 347 807	4 218 652
Less: Provision for bad debts	(1 391 887)	(724 668)
	<b>3 955 920</b>	<b>3 493 984</b>

The consumer debt collection period has deteriorated during the year under review as it increased from 113 days to 140 days. Council should attend to the arrears as a matter of urgency. The provision for doubtful debts is understated by a calculated amount of N\$ 59 255.

**23.2 Creditors** on 30 June 2011 comprise the following:

	<b>2011</b>	<b>2010</b>
	N\$	N\$
Trade payables	1 942 707	841 213
Consumer deposits	123 695	88 925
Housing officer control account	-	14 797
Leave pay provisions	431 606	395 838
Osseg Group control account	-	116 714
Legal cost control account	119 263	-
Bonus provision	75 340	75 444
Suspense account	11 596	203 328
	<b>2 704 207</b>	<b>1 736 259</b>

**24. ASSESSMENT RATES**

Proceeds from assessment rates amounted to N\$ 1 445 654 (2010: N\$ 1 300 442), of which an amount of N\$ 50 000 (2010: N\$ 50 000) was paid to the Regional Council.

The gazetted tariffs were as follows:

N\$ 0.0470 (2010: N\$ 0.0470) on the value of the land per year and N\$ 0.0058 (2010: N\$ 0.0058) on the value of improvements per year.

**25. LOANS**

**25.1 External loans**

According to the financial statements submitted by the Council they do not have any outstanding external loans.

**25.2 Due to the Council**

No outstanding amount, of a long-term nature, was due to the Council.

**25.3 Loans written off**

No loans were written off during the year.

**25.4 Housing loan**

Amounts advanced under the Build Together Housing scheme and which were still outstanding at year-end amounted to N\$ 2 685 634 (2010: N\$ 2 514 043). These amounts were included under accounts receivable.

**26. SALE OF ERVEN**

The proceeds of erven and plots sold were:

	<b>2011</b>	<b>2010</b>
	N\$	N\$
Erven sold	867 091	1 163 324
Erven sold on credit	142 739	-

There was a difference of N\$ 73 121 between the listing provided N\$ 1 009 830 and the financial statements N\$ 1 082 951. An amount of N\$ 867 091 was accounted for in the accounting records based on cash basis, thus the auditors could not establish the extent of the misstatement. (Also see paragraph 4.6)

## 27. PROPERTY SOLD ON AN INSTALMENT BASIS

The ervens sold on an instalment basis amounted to N\$ 142 739.

## 28. TARIFF ADJUSTMENTS

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

## 29. APPROVALS

There was no overspending noted in the current 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 01/07/2010	1	N\$ 96 959	2	N\$ 38 000	3	N\$ 131 407
Acquisitions	-	-	-	-	-	-
Depreciation	1	96 959 (30 934)	2	38 000 (34 833)	3	131 407 (74 724)
On hand 30/06/2011	<b>1</b>	<b>66 025</b>	<b>2</b>	<b>3 167</b>	<b>3</b>	<b>56 683</b>

The table is in agreement with the fixed asset register but differs from the financial statements as follows:

- The table discloses an opening balance to the value of N\$ 266 366 while the previous financial year closed with a balance of N\$ 823 362 resulting in a net difference of N\$ 556 995.
- The table disclose a depreciation charge for the year as N\$ 140 491 while the financial statements disclose a charge of N\$ 183 686 resulting in a difference of N\$ 43 195.
- However, the closing net book value as per this schedule agrees to the financial statements.

### 30.2 Inventories

Inventories amount to N\$ 117 521 (2010: N\$ 141 217).

## 31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year.

## 32. GENERAL

There is not a sufficient system of internal controls at the Town Council. 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 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:

- Annual financial statements
- Unresolved differences on property, plant and equipment
- Provision for doubtful debts may be inadequate
- Various issues on creditors
- Recoverability of Value Added Tax (VAT ) receivable and completion of VAT returns
- Improper accounting
- Surcharge income overstated
- Unexplained differences on payroll reconciliation
- Lack of supporting documents for repairs and maintenance expenses
- Computer review

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

The accounts of the Town Council of Okahao for the financial year ended 30 June 2011, 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.

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

- Annual financial statements do not cast correctly. The net difference amounted to N\$ 9 252.
- Council has not appropriately disclosed the Funds as per the requirements of Section 80(4) of the Local Authorities Act, 1992.
- Auditors did not attend the stock count and no stock reconciliations could be provided to carry out alternative procedures.
- The auditors could not obtain all the confirmations from Government to verify completeness of grants received.
- Compensation payment which accrued to the amount of N\$ 342 364 was not provided for in the financial statements.
- Property sales were recognized on cash basis and not on accrual basis, hence this could result in a material understatement of income and the corresponding debtors. The audit also revealed a difference of N\$ 73 120 between the sale of erven list and the general ledger.

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 as at 30 June 2011 and the results of its operations and cash flow for the year then ended and in the manner required by the Local Authorities Act, 1992 and the State Finance Act, 1991.

**WINDHOEK, February 2012**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

## BALANCE SHEET AS AT 30 JUNE

<b>ASSETS</b>	<b>Notes</b>	<b>2011</b>	<b>2010</b>
		N\$	N\$
<b>Non-current assets</b>		42 038 157	30 412 765
Property, plant and equipment	2	32 904 271	21 385 132
Investments	3	9 133 886	9 027 633
<b>Current assets</b>		4 150 790	3 935 273
Accounts receivable	4	3 955 920	3 493 983
Inventories		117 521	141 217
Bank		77 349	300 073
<b>TOTAL ASSETS</b>		<b>46 188 947</b>	<b>34 348 038</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>		43 484 740	32 611 779
Accumulated surplus		43 484 740	32 611 779
<b>Current liabilities</b>		2 704 207	1 736 259
Accounts payable	5	2 704 207	1 736 259
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>46 188 947</b>	<b>34 348 038</b>

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

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	<u>Note</u>	<u>2011</u>	<u>2010</u>
		N\$	N\$
INCOME		18 669 604	18 481 307
EXPENDITURE		<u>(11 814 877)</u>	<u>(16 969 810)</u>
<b>OPERATING SURPLUS FOR THE YEAR</b>		6 854 727	1 511 497
Interest earned		549 932	565 900
<b>NET SURPLUS FOR THE YEAR</b>		<u>7 404 659</u>	<u>2 077 397</u>
Add : Appropriation and adjustments	6	<u>3 468 302</u>	<u>(1 338 403)</u>
RETAINED LOSS FOR THE YEAR		10 872 961	738 994
30 June 2010		<u>32 611 779</u>	<u>31 872 785</u>
30 June 2011		<u><b>43 484 740</b></u>	<u><b>32 611 779</b></u>

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2011</u>	<u>2010</u>
		N\$	N\$
<b>Cash flow from operating activities</b>			
Cash receipts from customers		18 669 604	18 481 307
Cash paid to suppliers		(7 923 121)	(18 746 835)
<b>Cash generated from operations</b>	7	10 746 483	(265 528)
Investment income		549 932	565 900
<b>Net cash flow from operating activities</b>		11 296 415	300 372
<b>Cash flow from investing activities</b>			
Purchase/disposal of property, plant and equipment		(11 519 139)	(775 116)
<b>Net cash flow from investing activities</b>		(11 519 139)	(775 116)
<b>Net cash flow from financing activities</b>		-	-
Net increase/(decrease) in cash and cash equivalents		(222 724)	(474 744)
Cash and cash equivalents at the beginning of the year		300 073	774 817
<b>Cash and cash equivalents at the end of the year</b>		<b>77 349</b>	<b>300 073</b>

## TOWN COUNCIL OF OKAHAO

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

Omuthiya Namibia

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

The annual financial statements set out in Annexures A, B and C, are prepared on the historical cost basis and incorporate the following principal accounting policies which are consistent with those applied in the prior year:

**1.2 Property, plant and equipment**

Property, plant and equipment acquired are stated at a cost or at valuation where assets have been acquired by grant or by donations, less depreciation written off over the expected useful lives as determined by the Council from time to time.

**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 comprises of cash in hand and deposits held at commercial banks.

**1.4 Inventories**

Inventories are measured at the lower of cost and net realisable 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.

**2. PROPERTY, PLANT AND EQUIPMENT****Consists of :**

Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment

**Represented by :**

	2011 N\$	2010 N\$
	<b>32 904 271</b>	<b>21 385 132</b>
Building	4 361 019	3 894 716
Motor vehicles	125 876	354 801
Furniture and fittings	107 571	176 344
Capital infrastructure	16 649 372	13 921 601
Plant and machinery	969 060	1 368 279
Office equipment	287 353	178 800
Computer equipment	88 287	132 020
Work in progress - Road construction	10 315 733	1 358 571
	<b>32 904 271</b>	<b>21 385 132</b>

## TOWN COUNCIL OF OKAHAO

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

	<b>2011</b>	<b>2010</b>
	N\$	N\$
<b>3. INVESTMENTS</b>		
Capital project call account	5 178 754	4 920 704
Operational call account	337 564	1 774 991
Build Together receipts account	1 150 025	779 437
Cash Plus account	2 146 173	1 028 361
Build Together call account	321 370	524 140
	<b>9 133 886</b>	<b>9 027 633</b>
<b>4. TRADE AND OTHER RECEIVABLES</b>		
Consumers	1 895 279	1 337 131
Build Together debtors	2 685 634	2 514 043
S&T Advance	8 103	5 968
Receiver of Revenue	-	193
Salary control account	270	-
Top up control account	68 253	-
VAT control account	688 841	347 243
Uniform control account	1 427	14 073
	<b>5 347 807</b>	<b>4 218 651</b>
<i>Less :</i>		
Provision for doubtful debts	(1 391 887)	(724 668)
	<b>3 955 920</b>	<b>3 493 983</b>
<b>5. TRADE AND OTHER PAYABLES</b>		
Trade payables	1 942 707	841 213
Consumer deposits	123 695	88 925
Provision for leave days	431 606	395 838
Suspense account	11 595	203 328
Provision for bonus	75 340	75 444
Housing officer control account	-	14 797
Legal cost control account	119 264	-
Osseg Group control account	-	116 714
	<b>2 704 207</b>	<b>1 736 259</b>
<b>6. ADJUSTMENTS AND APPROPRIATIONS</b>		
Adjustments	3 468 302	1 338 403
	<b>3 468 302</b>	<b>1 338 403</b>

## TOWN COUNCIL OF OKAHAO

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

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	<u>2011</u>	<u>2010</u>
	N\$	N\$
<b>7. CASH UTILISED IN OPERATIONS</b>		
Net operating surplus	7 404 659	2 077 397
Adjustments (appropriations)	3 468 302	(1 338 403)
Investment income	(549 932)	(565 900)
<b>Operating surplus before changes in working capital</b>	<b>10 323 029</b>	<b>173 094</b>
<b>Changes in working capital</b>		
(Increase)/decrease in trade and other receivables	(461 937)	833 176
Decrease/(increase) in inventories	23 696	(57 727)
Increase in trade and other payables	967 948	1 318 897
Increase in investments	(106 253)	(2 532 968)
	<b>423 454</b>	<b>(438 622)</b>
	<b>10 746 483</b>	<b>(265 528)</b>