



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

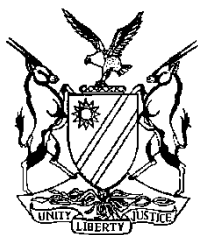
TOWN COUNCIL OF OKAHAO

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

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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 2012, 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, May 2013

**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 2012**

1. INTRODUCTION

The above accounts of the Town Council of Okahao for the year ended 30 June 2012 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.

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 the 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 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 an asterisk (*) were also reported in the prior year.

4.1 Omitted addition to property, plant and equipment

The fire fighting truck donated by the Ministry of Regional Government, National Housing and Rural Development at a value of N\$ 2 535 399 is not included in the fixed assets register as well as in the financial statements.

4.2 Understatement of property, plant and equipment

At year end the Town Council's fixed assets register and general ledger incorrectly reflected disposals of four (4) residential properties (Erf 37, 40, 42 and 336) with a book value of N\$ 386 000. The intended reversal was misposted to the recognised profit/loss account, an expense account. As a result, the fixed assets in the financial statements are understated and the expenditure is overstated by N\$ 386 000.

4.3 Opening Accumulated surplus

There was no documentation to support the reallocation of N\$ 4 503 652 from the Capital Development Fund to accumulated surplus.

4.4 Omitted Investment

The investment in the shares of the Local Authorities Electricity Company (Pty) Limited (shareholder of NORED) is not reflected in the financial statements.

4.5 Inventories (*)

The auditors did not observe the counting of inventories (consumables) at 30 June 2012. There were no alternative practical audit procedures that they could perform to confirm the existence of the inventories on hand at year end.

4.6 Overstatement of liabilities

A service providers' invoices settled in 2009 amounting to N\$ 147 446 were included in the list of accounts payables. As a result liabilities are overstated by the same amount.

4.7 Understatement of accounts receivables

Nored Electricity was not invoiced for surcharges paid amounting to N\$ 344 168 resulting in a credit balance of the same amount included in accounts receivable. As a result the accounts receivable and the related surcharges revenue are understated by N\$ 344 168.

4.8 Permission to Occupy

The Town Council could not provide a list of properties being leased out to individuals and businesses under 'Permission to Occupy'. As a result the auditors were unable to verify the completeness of the related revenue.

4.9 Overstatement of expenditure and understatement of work-in-progress

An accounting entry was incorrectly processed resulting in the overstatement of the expenditure account (maintenance water pipes & meters) and understatement of the work-in-progress account (property, plant and equipment) by N\$ 242 237.

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
	N\$	N\$	N\$	N\$
Accumulated surplus 01/07/2011				43 484 740
General accounts				
Rates and general services	8 479 137	10 912 161	(2 433 024)	
Trade accounts				
Water	1 606 088	1 253 512	352 576	
Electricity	913 747	820 970	92 777	
Surplus for the year	10 998 972	12 986 643	(1 987 671)	(1 987 671)
Adjustments and appropriations (Note 9 of Annexure D)				41 497 069 (30 289 467)
Accumulated surplus 30/06/2012				11 207 602

7. CURRENT BANK ACCOUNT

The favourable cash-book balance on the current bank accounts amounted to N\$ 20 638 (2011: favourable N\$ 77 044), refer to note 4 of Annexure D.

8. INVESTMENTS AND INTEREST PROCEEDS

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

Institution	2012		2011	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	17 186 056	619 269	9 133 886	549 932
	17 186 056	619 269	9 133 886	549 932
Distribution				
Revenue	470 905	176 138	9 133 886	549 932
Capital Development Fund	13 336 445	352 857	-	-
Build Together Fund	3 378 706	90 274	-	-
	17 186 056	619 269	9 133 886	549 923

9. FUND ACCOUNTS

The position of internal Funds and Reserves is shown in note 8 of Annexure D.

10. TRADE ACCOUNTS

10.1 Operating results

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

	Electricity		Water	
	2012	2011	2012	2011
	N\$	N\$	N\$	N\$
Sales	913 747	747 802	1 606 088	1 808 680
Cost of bulk purchases	(820 970)	(731 450)	(1 253 512)	(1 062 363)
Gross profit/(deficit)	92 777	16 352	352 576	746 317
Other income/ (expenses)	-	-	-	-
NET PROFIT	92 777	16 352	352 576	746 317
Gross profit on bulk purchases	11.30%	2.24%	28.13%	70.25%
Net (deficit) on bulk purchases	11.30%	2.24%	28.13%	70.25%

10.2 Distribution results

No reliable water distribution statistics could be obtained from the Town Council.

The Town Council is selling prepaid electricity on behalf of Nored Electricity in its Town therefore distribution losses are not applicable.

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

These accounts are properly maintained, controlled and reconciled on a regular basis.

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:

	Financed by Revenue 2012	Financed by Revenue 2011
	N\$	N\$
Motor vehicles	-	-
Furniture & fittings	7 777	11 730
Plant & machinery	-	-
Capital infrastructure	5 572 618	3 031 471
Computer equipment	139 717	32 513
Office equipment	83 352	225 975
Work in progress: Land, buildings and road construction (net of transfers)	708 171	8 957 162
	6 511 635	12 258 851

A fire fighting truck costing N\$ 2 535 399 is not included in the above (refer to Item 4.1).

16. STUDY LOANS/BURSARIES

Study loans/bursaries awarded by the Council during the year amounted to N\$ 26 450 (2011: N\$ NIL).

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants and financial aid were granted by the Council during the year (2011: N\$ 65 994).

18. COMPENSATION PAYMENTS

Compensation payments amounting to N\$ 1 827 915 (2011: N\$ 2 000 000) were made during the year.

19. VISITS TO FOREIGN COUNTRIES

No visits to foreign countries were undertaken during the year under review, as a result, no expenditure was incurred (2011: N\$ 21 241).

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

21. GIFTS AND DONATIONS RECEIVED BY THE LOCAL AUTHORITY

No gifts or donations were received during the year.

22. TRANSFER OF PROPERTY TO/FROM THE GOVERNMENT

There was no property transferred to/or from the Government during the year.

23. DEBTORS

23.1 Debtors on 30 June 2012 comprise the following:

	2012	2011
	N\$	N\$
Consumers and Build Together loans	4 684 188	4 580 913
Other debtors	737 850	78 053
Inland Revenue - VAT	370 799	688 841
	5 792 837	5 347 807
Less: Provision for bad debts	(1 631 087)	(1 391 887)
	4 161 750	3 955 920

The consumer debt collection period has slightly improved during the year under review as it decreased from 140 days in 2011 to 138 days in 2012. Council should still attend to the arrears as a matter of urgency.

23.2 Creditors on 30 June 2012 comprise the following:

	2012	2011
	N\$	N\$
Trade payables	841 313	1 942 707
Consumer deposits	178 757	123 695
Leave pay provision	462 218	431 606
Legal cost control account	-	119 263
Bonus provision	89 173	75 340
Suspense accounts	4 178	11 596
	1 575 639	2 704 207

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 1 898 150 (2011: N\$ 1 445 654), of which an amount of N\$ 80 000 (2011: N\$ 50 000) was contributed to the Regional Council.

The gazetted tariffs were as follows:

Business

N\$ 0.0480 (2011: N\$ 0.0470) on the value of the land per year and N\$ 0.0061 (2011: N\$ 0.0058) on the value of improvements per year.

Residential

N\$ 0.043 (2011: N\$ 0.0420) on the value of the land per year and N\$ 0.0059 (2011: 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 no outstanding external loans existed.

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\$ 2 674 784 (2011: N\$ 2 685 634). These amounts were included under accounts receivable.

26. SALE OF ERVEN

The proceeds of erven and plots sold were:

	2012	2011
	N\$	N\$
Erven sold	1 330 975	867 091
Erven sold on credit	501 689	142 739

27. PROPERTY SOLD ON AN INSTALMENT BASIS

The ervens sold on an instalment basis amounted to N\$ 501 689.

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 buses)	
	Number	Value	Number	Value	Number	Value
On hand 01/07/2011	1	N\$ 66 025	2	N\$ 3 167	3	N\$ 56 683
Disposals	(1)	(66 025)	-	-	-	-
Depreciation	-	-	2	3 167 (3 167)	3	56 683 (50 053)
On hand 30/06/2012	-	-	2	-	3	6 601

A fire fighting truck costing N\$ 2 535 399 is not included in the above (refer to Item 4.1

30.2 Inventories

Inventories amount to N\$ 473 135 (2011: N\$ 117 521).

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 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 were addressed to the Chief Executive Officer by way of a management letter.

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Okahao for the financial year ended 30 June 2012, 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:

- Omitted addition to property, plant and equipment costing N\$ 2 535 399.
- Understatement of property, plant and equipment by N\$ 386 000.
- Unsupported adjustment of N\$ 4 503 652 to the accumulated surplus and the Capital Development Fund.
- Omitted investment.
- Overstatement of accounts payable by N\$ 147 446.
- Understatement of accounts receivable by N\$ 344 168.
- Lack of documentation to support completeness of 'Permission to Occupy' revenue.

- Overstatement of the expenditure account (maintenance water pipes & meters) and understatement of the related work-in-progress account (fixed assets) by N\$ 242 237.

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 2012 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, May 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

BALANCE SHEET AS AT 30 JUNE

	Note	2012 N\$	2011 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	37 682 762	32 904 271
Investments	3	17 186 056	9 133 886
		4 655 958	4 150 790
Current assets			
Cash and cash equivalents	4	21 073	77 349
Accounts receivable	6	4 161 750	3 955 920
Inventories	5	473 135	117 521
TOTAL ASSETS		59 524 776	46 188 947
EQUITY AND LIABILITIES			
Funds and reserves			
Accumulated surplus		11 207 602	43 484 740
Internal Funds	8	46 741 535	-
		1 575 639	2 704 207
Current liabilities			
Accounts payable	7	1 575 639	2 704 207
TOTAL EQUITY AND LIABILITIES		59 524 776	46 188 947

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2012 N\$	2011 N\$
INCOME		10 822 835	18 669 604
EXPENDITURE		(12 986 644)	(11 814 877)
OPERATING (DEFICIT)/SURPLUS FOR THE YEAR		(2 163 809)	6 854 727
Interest earned		176 138	549 932
NET (DEFICIT)/SURPLUS FOR THE YEAR		(1 987 671)	7 404 659
Add : Appropriation and adjustments	9	(30 289 467)	3 468 302
RETAINED (DEFICIT)/SURPLUS FOR THE YEAR		(32 277 138)	10 872 961
30 June 2011		43 484 740	32 611 779
30 June 2012		11 207 602	43 484 740

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2012</u>	<u>2011</u>
		N\$	N\$
Cash flow from operating activities			
Cash receipts from customers		10 822 835	18 669 604
Cash paid to suppliers and employees		(45 166 123)	(7 923 121)
Cash (utilised)/generated by operations	10	(34 143 288)	10 746 483
Investment income		176 138	549 932
Net cash flow from operating activities		(33 967 150)	11 296 415
Cash flow from investing activities			
Purchase of property, plant and equipment		(4 778 491)	(11 519 139)
Increase in investments		(8 052 170)	-
Net cash flow from investing activities		(12 830 661)	(11 519 139)
Cash flow from financing activities			
Movement in Internal Funds		46 741 535	-
Net cash flow from financing activities		46 741 535	-
Net decrease in cash and cash equivalents		(56 276)	(222 724)
Cash and cash equivalents at the beginning of the year		77 349	300 073
Cash and cash equivalents at the end of the year		21 073	77 349

TOWN COUNCIL OF OKAHAO

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, 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.

1.5 Funds

The following Funds were maintained by the Council in terms of Sections 58(1) and 80(4) of the Local Authorities Act (Act 23 of 1992):

1.5.1 Build Together Fund

The purpose of this Fund is to provide for housing loans. Income for the Fund is derived from interest earned on investments and outstanding Build Together loans as well as government subsidies.

1.5.2 Capital Development Fund

The purpose of this Fund is to make a provision for future capital development projects of the Council. Income for this Fund is derived from government subsidies and interest earned on investments.

TOWN COUNCIL OF OKAHAO

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

	2012	2011
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Consists of :		
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment	37 682 7	32 90
Represented by:		
Buildings	4 700 410	4 361 019
Motor vehicles	6 601	125 876
Furniture and fittings	57 779	107 571
Capital infrastructure	21 836 218	16 649 372
Plant and machinery	609 369	969 060
Office equipment	215 965	287 353
Computer equipment	136 962	88 287
Work in progress	10 119 458	10 315 733
	37 682 762	32 904 271
3. INVESTMENTS		
Capital project call account	9 609 338	5 178 754
Operational call account	470 905	337 564
Build Together receipts account	1 511 768	1 150 025
Cash Plus account	3 727 107	2 146 173
Build Together call account	1 866 938	321 370
	17 186 056	9 133 886
4. CASH AND CASH EQUIVALENTS		
Bank balances	20 638	77 044
Petty cash	435	305
	21 073	77 349
5. INVENTORY		
Consumables	373 135	117 521
Electricity units for resale	100 000	-
	473 135	117 521

TOWN COUNCIL OF OKAHAO

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

	2012	2011
	N\$	N\$
6. TRADE AND OTHER RECEIVABLES		
Consumers	2 009 403	1 895 279
Build Together debtors	2 674 785	2 685 634
Other debtors	627 096	-
S&T Advance	31 143	8 103
Salary control account	-	270
Top up control account	55 776	68 253
VAT control account	370 799	688 841
Uniform control account	616	1 427
Collateral deposit control account	12 365	-
Building plans control account	4 226	-
Collection fees control account	6 628	-
	5 792 837	5 347 807
<i>Less :</i>		
Provision for doubtful debts	(1 631 087)	(1 391 887)
	4 161 750	3 955 920
7. TRADE AND OTHER PAYABLES		
Trade payables	841 313	1 942 707
Consumer deposits	178 757	123 695
Provision for leave pay	462 218	431 606
Suspense account	2 700	11 595
Provision for bonus	89 173	75 340
Salaries control account	1 478	-
Legal cost control account	-	119 264
	1 575 639	2 704 207
8. INTERNAL FUNDS		
Build Together Fund	6 113 743	-
Capital Development Fund	40 627 792	-
	46 741 535	-
9. ADJUSTMENTS AND APPROPRIATIONS		
Reallocation to Capital Development Fund	(30 629 187)	-
Reallocation to Build Together Fund	(4 248 086)	-
Adjustment	4 503 652	-
Prior year adjustments	84 154	3 468 302
	30 289 467	3 468 302

TOWN COUNCIL OF OKAHAO

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

	2012	2011
	N\$	N\$
10. CASH UTILISED IN OPERATIONS		
Net operating (deficit)/surplus	(1 987 671)	7 404 659
Adjustments (appropriations)	(30 289 467)	3 468 302
Investments income	(176 138)	(549 932)
Operating surplus before changes in working capital	(32 453 276)	10 323 029
Changes in working capital		
Increase in trade and other receivables	(205 830)	(461 937)
(Increase)/Decrease in inventories	(355 614)	23 696
(Decrease)/Increase in trade and other payables	(1 128 568)	967 948
Increase in investments	-	(106 253)
	(1 690 012)	423 454
	(34 143 288)	10 746 483