



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF OKAHAO

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

Published by authority

Price (Vat excluded) N\$ 28.78
Report no 23/2014

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 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, March 2014

**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 2013**

1. INTRODUCTION

The above accounts of the Town Council of Okahao 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 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. Deficits are indicated in brackets.

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

4.1 Unsupported adjustment (*)

There was no supporting documentation for the re-allocation of N\$ 10 099 040 from the Capital Development Fund to accumulated surplus.

4.2 Omission of investment in equity (*)

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

4.3 Understatement of liabilities

There was an understatement of liabilities amounting to N\$ 968 952.

4.4 Understatement of land sales

Revenue on sale of land to the Ministry of Agriculture is understated by N\$ 277 055 (vat inclusive) due to recognition of the amount received instead of the full invoice amount.

4.5 Overstatement of electricity surcharges (*)

The electricity surcharges revenue is overstated by N\$ 315 123.

4.6 Unsupported provision for doubtful debts

Provision for doubtful debts was kept unchanged at N\$ 1 631 087 for the 2012 and 2013 financial years without justification.

4.7 Lack of supporting documents (*)

The Town Council could not provide the agreements for properties being leased out under 'Permission to Occupy'. The auditors were therefore unable to verify the accuracy, completeness and validity of the revenue to the amount of N\$ 395 785.

4.8 Incorrect recognition of revenue relating to a donated asset

The fire engine valued at N\$ 2 535 399 donated by the Ministry in the prior year was incorrectly credited to income for the current year instead of the appropriation account.

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 01/07/2012				11 207 602
General accounts				
Rates and general services	12 068 167	(12 376 184)	(308 017)	
Trade accounts				
Water	2 625 022	(1 597 063)	1 027 959	
Electricity	1 667 551	(993 350)	674 201	
Surplus for the year	16 360 740	(14 966 597)	1 394 143	1 394 143
Adjustments and appropriations (Note 9 of Annexure D)				12 601 745
				10 099 040
Accumulated surplus 30/06/2013				22 700 785

7. CURRENT BANK ACCOUNT

The favourable cash-book balance on the current bank accounts amounted to N\$ 26 742 (2012: N\$ 20 638), refer to Note 4 of Annexure D.

8. INVESTMENTS AND INTEREST PROCEEDS

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

Institution	2013		2012	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	25 305 934	846 564	17 186 056	619 269
	25 305 934	846 564	17 186 056	619 269
Distribution:				
Revenue	871 625	379 091	470 905	176 138
Capital Development Fund	21 991 819	90 054	13 336 445	352 857
Build Together Fund	2 442 490	377 419	3 378 706	90 274
	25 305 934	846 564	17 186 056	619 269

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 are as follows:

	Electricity		Water	
	2013	2012	2013	2012
	N\$	N\$	N\$	N\$
Sales	940 416	913 747	2 625 022	1 606 088
Cost of bulk purchases	(993 350)	(820 970)	(1 597 063)	(1 253 512)
Gross (deficit)/ profit	(52 934)	92 777	1 027 959	352 576
Other income	727 135	-	-	-
NET PROFIT	674 201	92 777	1 027 959	352 576
Gross (loss)/profit on sales	(5.6%)	10.2%	39.2%	22.0%

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.

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 2013	Financed by Revenue 2012
	N\$	N\$
Furniture & fittings	14 008	7 777
Motor vehicles	3 147 399	-
Capital infrastructure	-	5 572 618
Computer equipment	75 203	139 717
Office equipment	-	83 352
Work in progress: Land, buildings and road construction (net of transfers)	11 895 179	708 171
	15 131 789	6 511 635

16. STUDY LOANS/BURSARIES

There were no study loans/bursaries awarded by the Council during the year (2012: N\$ 26 450).

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

Contributions, grants and financial aid granted by the Council during the year amounted to N\$ 7 028 (2012: N\$ nil).

18. COMPENSATION PAYMENTS

Compensation payments amounting to N\$ 1 336 762 (2012: N\$ 1 827 915) were made during the year.

19. VISITS TO FOREIGN COUNTRIES

The cost of visits to foreign countries undertaken during the year under review amounted to N\$ 41 404 (2012: N\$ nil). The trips were approved by the Minister.

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 and 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 AND CREDITORS

23.1 Debtors at 30 June 2013 comprised the following:

	2013	2012
	N\$	N\$
Consumers and Build Together loans	7 687 608	4 684 188
Other debtors	541 739	737 850
Inland Revenue - VAT	676 061	370 799
	8 905 408	5 792 837
Less: Provision for bad debts	(1 631 087)	(1 631 087)
	7 274 321	4 161 750

23.2 Creditors at 30 June 2013 comprised the following:

	2013	2012
	N\$	N\$
Trade payables	2 309 442	841 313
Consumer deposits	229 347	178 757
Leave pay provision	824 615	462 218
Bonus provision	128 671	89 173
Suspense accounts	-	4 178
	3 492 075	1 575 639

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 1 989 532 (2012: N\$ 1 898 150), and there was no contribution paid to the Regional Council (2012: N\$ 80 000).

The gazetted tariffs were as follows:

Business

N\$ 0.0480 (2012: N\$ 0.0480) on the value of the land per year and N\$ 0.0061 (2012: N\$ 0.0061) on the value of improvements per year.

Residential

N\$ 0.0430 (2012: N\$ 0.0430) on the value of the land per year and N\$ 0.0059 (2012: N\$ 0.0059) on the value of improvements per year.

25. LOANS

25.1 External loans

The Council does 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, except for the Build Together loans.

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\$ 3 788 794 (2012: N\$ 2 674 784). These amounts were included under accounts receivable.

26. SALE OF ERVEN

The proceeds of erven and plots sold were:

	2013	2012
	N\$	N\$
Erven sold	3 973 517	1 330 975
Erven sold on credit	2 884 337	501 689

27. PROPERTY SOLD ON AN INSTALMENT BASIS

The erven sold on an instalment basis amounted to N\$ 2 884 337.

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 30/06/2012	-	N\$ -	2	-	3	6 601
Additions	-	-	-	-	2	3 147 399
Depreciation	-	-	2	-	5	3 154 000
	-	-	-	-	-	(638 994)
On hand 30/06/2013	-	-	2	-	5	2 515 006

30.2 Inventories

Inventories amount to N\$ 273 039 (2012: N\$ 473 135).

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 the 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:

- Unexplained difference on the VAT reconciliation;
- Understatement of inventories;
- Slow debt collection;
- Severance pay; and
- Processing of journals.

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Okahao for the financial year ended 30 June 2013, summarised 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:

- Unsupported adjustments of N\$ 10 099 040 to the fund account and the accumulated surplus;
- Omission of investment in equity;
- Understatement of liabilities by N\$ 968 952;
- Understatement of land sales revenue by N\$ 277 055;
- Overstatement of electricity surcharges revenue by N\$ 315 123;
- Unsupported provision for doubtful debts;
- Lack of supporting documents for Permission to Occupy revenue of N\$ 395 785; and
- Incorrect recognition of revenue to the amount of N\$ 2 535 399 relating to a donated asset.

Except for the above mentioned issues, the financial statements fairly present the financial position of the Town Council of Okahao as at 30 June 2013, and the results of its operations and cash flows for the year then ended and in the manner required by Local Authorities Act, 1992, and the State Finance Act, 1991.

WINDHOEK, March 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

BALANCE SHEET AS AT 30 JUNE 2013

ASSETS	Notes	2013	2012
		N\$	N\$
Non-current assets		76 234 305	54 868 818
Property, plant and equipment	2	50 928 371	37 682 762
Investments	3	25 305 934	17 186 056
Current assets		7 574 201	4 655 958
Cash and cash equivalents	4	26 841	21 073
Accounts receivable	6	7 274 321	4 161 750
Inventories	5	273 039	473 135
TOTAL ASSETS		83 808 506	59 524 776
EQUITY AND LIABILITIES			
Funds and reserves		80 316 431	57 949 137
Accumulated surplus		22 700 785	11 207 602
Internal Funds	8	57 615 646	46 741 535
Current liabilities		3 492 075	1 575 639
Accounts payable	7	3 492 075	1 575 639
TOTAL EQUITY AND LIABILITIES		83 808 506	59 524 776

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

	<u>Note</u>	<u>2013</u>	<u>2012</u>
		N\$	N\$
INCOME		15 981 649	10 822 835
EXPENDITURE		<u>(14 966 597)</u>	<u>(12 986 644)</u>
OPERATING SURPLUS /(DEFICIT) FOR THE YEAR		1 015 052	(2 163 809)
Interest earned		379 091	176 138
NET SURPLUS /(DEFICIT) FOR THE YEAR		<u>1 394 143</u>	<u>(1 987 671)</u>
Add : Appropriation and adjustments	9	<u>10 099 040</u>	<u>(30 289 467)</u>
RETAINED SURPLUS/(DEFICIT) FOR THE YEAR		11 493 183	(32 277 138)
30 June 2012		<u>11 207 602</u>	<u>43 484 740</u>
30 June 2013		<u>22 700 785</u>	<u>11 207 602</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

	<u>Note</u>	<u>2013</u>	<u>2012</u>
		N\$	N\$
Cash flows from operating activities			
Cash receipts from customers		15 981 649	10 822 835
Cash paid to suppliers and employees		(5 863 596)	(44 966 123)
Cash generated/(utilised) by operations	10	10 118 053	(34 143 288)
Investment income		379 091	176 138
Net cash flows from operating activities		10 497 144	(33 967 150)
Cash flows from investing activities			
Purchase of property, plant and equipment		(13 245 609)	(4 778 491)
Increase in investments		(8 119 878)	(8 052 170)
Net cash flows from investing activities		(21 365 487)	(12 830 661)
Cash flows from financing activities			
Movement in Internal Funds		10 874 111	46 741 535
Net cash flows from financing activities		10 874 111	46 741 535
Net increase/(decrease) in cash and cash equivalents		5 768	(56 276)
Cash and cash equivalents at the beginning of the year		21 073	77 349
Cash and cash equivalents at the end of the year	4	26 841	21 073

TOWN COUNCIL OF OKAHAO

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements set out in Annexures A to D, 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 2013
(continued)

	2013	2012
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Consists of :		
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment	50 928 371	37 682 762
Represented by :		
Buildings	4 598 867	4 700 410
Motor vehicles	-	6 601
Furniture and fittings	39 497	57 779
Capital infrastructure	21 262 788	21 836 218
Plant and machinery	2 795 216	609 369
Office equipment	75 572	215 965
Computer equipment	141 794	136 962
Work in progress	22 014 637	10 119 458
	50 928 371	37 682 762
3. INVESTMENTS		
Capital project call account	10 855 671	9 609 338
Operational call account	871 625	470 905
Build Together receipts account	1 940 009	1 511 768
Cash Plus account	11 136 148	3 727 107
Build Together call account	502 481	1 866 938
	25 305 934	17 186 056
4. CASH AND CASH EQUIVALENTS		
Bank balances	26 742	20 638
Petty cash	99	435
	26 841	21 073
5. INVENTORY		
Consumables	266 389	373 135
Electricity units for resale	6 650	100 000
	273 039	473 135

TOWN COUNCIL OF OKAHAO

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013
(continued)

	2013	2012
	N\$	N\$
6. TRADE AND OTHER RECEIVABLES		
Consumers	3 898 814	2 009 403
Build Together debtors	3 788 794	2 674 785
Other debtors	413 426	627 096
S&T Advances	19 747	31 143
Accrued income	32 096	-
Top up control account	48 609	55 776
VAT control account	676 061	370 799
Uniform control account	616	616
Collateral deposit control account	12 365	12 365
Building plans control account	5 622	4 226
Collection fees control account	9 258	6 628
	8 905 408	5 792 837
<i>Less :</i>		
Provision for doubtful debts	(1 631 087)	(1 631 087)
	7 274 321	4 161 750
7. TRADE AND OTHER PAYABLES		
Trade payables	2 259 352	841 313
Consumer deposits	229 347	178 757
Provision for leave pay	824 615	462 218
Suspense account	-	2 700
Provision for bonus	128 671	89 173
Salaries control account	-	1 478
Legal cost control account	50 090	-
	3 492 075	1 575 639
8. INTERNAL FUNDS		
Build Together Fund	6 287 792	6 113 743
Capital Development Fund	51 327 854	40 627 792
	57 615 646	46 741 535
9. ADJUSTMENTS AND APPROPRIATIONS		
Reallocation from /(to) Capital Development Fund	10 099 040	(30 629 187)
Reallocation to Build Together Fund	-	(4 248 086)
Adjustment	-	4 503 652
Prior year adjustments	-	84 154
	10 099 040	(30 289 467)

TOWN COUNCIL OF OKAHAO

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013
(continued)

	2013	2012
	N\$	N\$
10. CASH UTILISED IN OPERATIONS		
Net operating surplus/(deficit)	1 394 143	(1 987 671)
Adjustments (appropriations)	10 099 040	(30 289 467)
Investments income	(379 091)	(176 138)
Operating surplus before changes in working capital	11 114 092	(32 453 276)
Changes in working capital		
Increase in trade and other receivables	(3 112 571)	(205 830)
Decrease /(Increase) in inventories	200 096	(355 614)
Increase /(Decrease) in trade and other payables	1 916 436	(1 128 568)
	(996 039)	(1 690 012)
	10 118 053	(34 143 288)