



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF OKAHAO
FOR THE FINANCIAL YEAR 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 Town Council of Okahao 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, May 2015

**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 2014**

1. INTRODUCTION

The above accounts of the Town Council of Okahao 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 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 these statements and on the regularity of the financial transactions included in them and 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 Re-allocation of the Capital Development Fund to accumulated surplus (*)

There was no explanation provided for the re-allocation of N\$ 51 327 854 from the Capital Development Fund to accumulated surplus and this is not in accordance with the Section 80(4) of the Local Authorities Act, 1992.

4.2 Omission of the 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\$ 342 722.

4.4 Overstatement of land sales revenue

Instalments (deposits) received on the intended sale of erven amounting to N\$ 3 330 468 were credited to the revenue account instead of the liability (deposits) account resulting in overstatement of revenue and understatement of liabilities.

4.5 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 amounting to N\$ 356 199.

4.6 Overstatement of work-in-progress

The work-in-progress (infrastructure under construction) balance per the fixed assets register did not agree to the financial statements by N\$ 670 610, as a result, the reported work-in-progress balance is overstated.

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 at 01/07/2013				22 700 785
General accounts				
Rates and general services	22 754 166	(14 686 780)	8 067 386	
Trade accounts				
Water	3 024 740	(1 887 922)	1 136 818	
Electricity	1 116 483	(536 750)	579 733	
Surplus for the year	26 895 389	(17 111 452)	9 783 937	9 783 937
Adjustments and appropriations (Note 9 of Annexure D)				32 484 722
				48 842 065
Accumulated surplus at 30/06/2014				81 326 787

7. CURRENT BANK ACCOUNT

The cash-book balances of the current bank accounts amounted to an overdraft of N\$ 5 826 (2013: N\$ 26 742 in credit), 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	2014		2013	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	21 955 849	1 119 276	25 305 934	846 564
	21 955 849	1 119 276	25 305 934	846 564
Distribution:				
Revenue	19 337 454	1 119 276	871 625	379 091
Capital Development Fund	-	-	21 991 819	90 054
Build Together Fund	2 618 395	-	2 442 490	377 419
	21 955 849	1 119 276	25 305 934	846 564

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	
	2014	2013	2014	2013
	N\$	N\$	N\$	N\$
Sales	496 900	940 416	2 862 631	2 625 022
Cost of bulk purchases	(536 750)	(993 350)	(1 877 922)	(1 597 063)
Gross (deficit)/profit	(39 850)	(52 934)	984 709	1 027 959
Other income	619 583	727 135	-	-
NET PROFIT	579 733	674 201	984 709	1 027 959
Gross (loss)/profit on sales	(8.0%)	(5.6%)	34.4%	39.2%

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, 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 2014	Financed by Revenue 2013
	N\$	N\$
Furniture & fittings	29 656	14 008
Motor vehicles	325 337	3 147 399
Computer equipment	20 791	-
Office equipment	52 784	75 203
Capital infrastructure (work-in-progress)	11 591 470	11 895 179
Plant and Machinery	826 480	-
	12 846 518	15 131 789

16. STUDY LOANS/BURSARIES

There were no study loans/bursaries awarded by the Council during the year.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

Contributions, grants and financial aid granted by the Council during the year amounted to N\$ 22 195 (2013: N\$ 7 028).

18. COMPENSATION PAYMENTS

Compensation payments amounting to N\$ 390 925 (2013: N\$ 1 336 762) 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\$ 4 494 (2013: N\$ 41 404). No evidence of approval of the trip by the Minister was made available.

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 2014 comprised the following:

	2014	2013
	N\$	N\$
Consumers	5 356 476	3 898 814
Build Together loans	3 853 697	3 788 794
Other debtors	358 412	541 739
Value Added Tax	483 159	676 061
	10 051 744	8 905 408
Less: Provision for bad debts	(4 123 195)	(1 631 087)
	5 928 549	7 274 321

23.2 Creditors at 30 June 2014 comprised the following:

	2014	2013
	N\$	N\$
Trade payables	1 444 018	2 309 442
Consumer deposits	257 657	229 347
Leave pay provision	1 157 316	824 615
Bonus provision	176 500	128 671
Accrued expenses	90	-
	3 035 581	3 492 075

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 2 003 947 (2013: N\$ 1 989 532), and there was no contribution paid to the Regional Council.

The gazetted tariffs were as follows:

Business

N\$ 0.0480 (2013: N\$ 0.0480) on the value of the land per year and N\$ 0.0061 (2013: N\$ 0.0061) on the value of improvements per year.

Residential

N\$ 0.0430 (2013: N\$ 0.0430) on the value of the land per year and N\$ 0.0059 (2013: 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 loans

Amounts advanced under the Build Together Housing scheme and which were still outstanding at year-end amounted to N\$ 3 853 697 (2013: N\$ 3 788 794). These amounts were included under accounts receivable.

26. SALE OF ERVEN

The proceeds of erven and plots sold are as follows:

	2014	2013
	N\$	N\$
Erven sold	5 237 452	3 973 517
Erven sold on credit	4 408 786	2 884 337

27. PROPERTY SOLD ON AN INSTALMENT BASIS

The erven sold on an instalment basis amounted to N\$ 4 408 786 (2013: 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 busses)	
	Number	Value	Number	Value	Number	Value
On hand 30/06/2013	-	N\$ -	2	-	2	3 147 399
Additions	2	325 337	-	-	1	826 480
Depreciation	2	325 337	2	-	3	3 973 879
	-	(59 645)	-	-	-	(1 367 006)
On hand 30/06/2014	2	265 692	2	-	3	2 606 873

30.2 Inventories

Inventories amount to N\$ 239 229 (2013: N\$ 273 039).

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year.

32. GENERAL

There is no sufficient system of internal controls at the Town Council since 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 were addressed to the Chief Executive Officer.

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Okahao for the financial year ended 30 June 2014, 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 re-allocation of the balance of the Capital Development Fund to accumulated surplus;
- Omission of the investment in equity;
- Understatement of liabilities by N\$ 342 722;
- Overstatement of land sales revenue by N\$ 3 330 468;
- Lack of supporting documents for “Permission to Occupy” revenue amounting to N\$ 356 199; and
- Overstatement of the work-in-progress balance by N\$ 670 610.

Except for the effects of the any adjustment which might have been necessary as referred to in the preceding paragraph, the financial statements fairly present the financial position of the Town Council of Okahao as at 30 June 2014, 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, May 2015

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

BALANCE SHEET AS AT 30 JUNE 2014

ASSETS	Notes	2014	2013
		N\$	N\$
Non-current assets		84 486 708	76 234 305
Property, plant and equipment	2	62 530 859	50 928 371
Investments	3	21 955 849	25 305 934
Current assets		6 163 452	7 574 201
Cash and cash equivalents	4	(4 326)	26 841
Trade and other receivables	6	5 928 549	7 274 321
Inventories	5	239 229	273 039
TOTAL ASSETS		90 650 160	83 808 506
EQUITY AND LIABILITIES			
Funds and reserves		87 614 579	80 316 431
Accumulated surplus		81 326 787	22 700 785
Internal Funds	8	6 287 792	57 615 646
Current liabilities		3 035 581	3 492 075
Trade and other payables	7	3 035 581	3 492 075
TOTAL EQUITY AND LIABILITIES		90 650 160	83 808 506

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	<u>Note</u>	<u>2014</u>	<u>2013</u>
		N\$	N\$
INCOME		25 776 113	15 981 649
EXPENDITURE		<u>(17 111 452)</u>	<u>(14 966 597)</u>
OPERATING SURPLUS FOR THE YEAR		8 664 661	1 015 052
Investments income		1 119 276	379 091
NET SURPLUS FOR THE YEAR		<u>9 783 937</u>	<u>1 394 143</u>
Add : Appropriation and adjustments	9	<u>48 842 065</u>	<u>10 099 040</u>
SURPLUS FOR THE YEAR		58 626 002	11 493 183
ACCUMULATED SURPLUS			
- BEGINNING OF THE YEAR		<u>22 700 785</u>	<u>11 207 602</u>
- END OF THE YEAR		<u>81 326 787</u>	<u>22 700 785</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 N\$	2013 N\$
Cash flows from operating activities			
Cash receipts from customers		25 776 113	15 981 649
Movement in Capital Development Fund		48 842 065	-
Cash paid to suppliers and employees		(16 188 364)	(5 863 596)
Cash generated by operations	10	58 429 814	10 118 053
Investment income		1 119 276	379 091
Net cash flows from operating activities		59 549 090	10 497 144
Cash flows from investing activities			
Movement in property, plant and equipment		(11 602 488)	(13 245 609)
Decrease/(Increase) in investments		3 350 085	(8 119 878)
Net cash flows from investing activities		(8 252 403)	(21 365 487)
Cash flows from financing activities			
Movement in Internal Funds		(51 327 854)	10 874 111
Net cash flows from financing activities		(51 327 854)	10 874 111
Net (decrease)/increase in cash and cash equivalents		(31 167)	5 768
Cash and cash equivalents at the beginning of the year		26 841	21 073
Cash and cash equivalents at the end of the year	4	(4 326)	26 841

TOWN COUNCIL OF OKAHAO

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

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 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 fair value. 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 comprises 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 2014
(continued)

	2014	2013
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Consists of :		
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment, plant and machinery	62 530 859	50 928 371
Represented by :		
Buildings	5 716 727	4 598 867
Motor vehicles	265 697	-
Furniture and fittings	49 298	39 497
Capital infrastructure	49 588 236	21 262 788
Plant and machinery	2 666 247	2 795 216
Office equipment	51 329	75 572
Computer equipment	72 860	141 794
Work-in-progress	4 120 465	22 014 637
	62 530 859	50 928 371
3. INVESTMENTS		
Capital project call account	5 910 958	10 855 671
Operational call account	385 754	871 625
Build Together receipts account	2 316 728	1 940 009
Cash Plus account	13 040 743	11 136 148
Build Together call account	301 666	502 481
	21 955 849	25 305 934
4. CASH AND CASH EQUIVALENTS		
Bank balances	(5 826)	26 742
Petty cash	1 500	99
	(4 326)	26 841
5. INVENTORY		
Consumables	169 329	266 389
Electricity units for resale	69 900	6 650
	239 229	273 039

TOWN COUNCIL OF OKAHAO

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014
(continued)

	2014	2013
	N\$	N\$
6. TRADE AND OTHER RECEIVABLES		
Consumers	5 356 476	3 898 814
Build Together debtors	3 853 697	3 788 794
Other debtors	274 195	413 426
S&T Advances	11 252	19 747
Accrued income	-	32 096
Top-up control account	46 609	48 609
Value Added Tax	483 159	676 061
Uniform control account	-	616
Collateral deposit control account	12 364	12 365
Building plans control account	5 622	5 622
Collection fees control account	8 370	9 258
	10 051 744	8 905 408
<i>Less :</i>		
Provision for doubtful debts	(4 123 195)	(1 631 087)
	5 928 549	7 274 321
7. TRADE AND OTHER PAYABLES		
Trade payables	1 444 018	2 259 352
Consumer deposits	257 657	229 347
Provision for leave pay	1 157 316	824 615
Provision for bonus	176 500	128 671
Legal cost control account	90	50 090
	3 035 581	3 492 075
8. INTERNAL FUNDS		
Build Together Fund	6 287 792	6 287 792
Capital Development Fund	-	51 327 854
	6 287 792	57 615 646
9. ADJUSTMENTS AND APPROPRIATIONS		
Re-allocation from Capital Development Fund	51 327 854	10 099 040
Movement in provision for doubtful debts	(2 492 108)	-
Other	6 319	-
	48 842 065	10 099 040

TOWN COUNCIL OF OKAHAO

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014
(continued)

	2014	2013
	N\$	N\$
10. CASH GENERATED BY OPERATIONS		
Net operating surplus	9 783 937	1 394 143
Appropriations and adjustments	48 842 065	10 099 040
Investments income	(1 119 276)	(379 091)
Operating surplus before changes in working capital	57 506 726	11 114 092
Changes in working capital		
Decrease/(increase) in trade and other receivables	1 345 772	(3 112 571)
Decrease in inventories	33 810	200 096
(Decrease)/increase in trade and other payables	(456 494)	1 916 436
	923 088	(996 039)
	58 429 814	10 118 053