



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF OMUTHIYA

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Published by authority

Price (Vat excluded) N\$ 24.39

Report no 862

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 Omuthiya 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, July 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

1. INTRODUCTION

The accounts of Town Council of Omuthiya 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 EPA 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, **except that they were only submitted on 17 December 2009 instead of three months after year-end as required by the Act.** 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 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 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

4.1 Financial reporting system

The Town Council had finstel financial reporting system in place but all the Town Council transactions were recorded manually in excel during the period under review. The Council could not provide the auditors with the trial balance for the audit and the auditors had to use the Town Council Financial Statements. The Financial Statements were not reliable as the consultant who compiled them had to continuously update the Council upon inquiry from the auditors.

4.2 Value Added Tax

Although the council was registered for VAT with the Ministry of Finance in November 2008, VAT returns were only submitted from July 2009. In addition, auditor's verification procedures revealed that transactions were recorded VAT inclusive. The late submission of VAT returns coupled with incorrect accounting treatment rendered that the financial statements could be materially misstated.

4.3 Approved budget

The Town Council could not provide the auditors with the approved budget for the year under view. Consequently, the auditors were not able to indicate if the Town Council exceeded the budgeted or not.

4.5 Stock

As the auditors were not involved in the stock count, and no alternative procedures could be performed to confirm the completeness and existence of stock items.

4.6 Water sales

There were differences observed between the recalculated water charges when using the approved tariffs and the actual charges levied to consumers. No satisfactory explanation could be provided for these differences.

4.7 Investments

Council could not give reasonable assurance as to ownership of the amount invested, enquiries to the bank revealed that the Government of Namibia is the custodian of the investments of N\$ 3 018 607 which are disclosed in the accounts of the Council.

4.8 Creditors

The auditors could not verify the Road Fund Administration provision nor the creditors of N\$ 336 750 due to lack of supporting documentation or explanation from management. The Council has not made a provision for leave pay in the accounts of the Council.

5. ACKNOWLEDGEMENT

The assistance and co-operation given by the staff of the Town Council during the audit is appreciated.

6. FINANCIAL STATEMENTS

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				-
General accounts				
Non-profitable	4 487 291	2 087 365	2 399 926	
Self-supporting	622 576	285 186	337 390	
Trade accounts				
Electricity	-	-	-	
Water	238 377	-	238 377	
	5 348 244	2 372 551	2 975 693	
Total surplus for the year				2 975 693
Accumulated surplus 30/06/2009				2 975 693

7. CURRENT BANK ACCOUNT

The bank statement reflected a favourable balance of N\$ 260 375. Cheques totaling N\$ 36 793 were outstanding at year-end. The cash-book reflected a favourable balance of N\$ 223 582 on 30 June 2009.

8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June 2009 there was N\$ 3 018 607 invested at financial institutions, as follows:

	2009	
	Investment	Interest
	N\$	N\$
Commercial banks	3 018 607	218 343
	3 018 607	218 343

The investments and interest earned were allocated as follows:

	2009	
	Investment	Interest
	N\$	N\$
Revenue	3 018 607	218 343
	3 018 607	218 343

9. FUND ACCOUNTS

The position of the fund accounts at the end of the year is as shown in Note 2 in Annexure D.

10.1 The results of operations were as follows:

	Water
	2009
	N\$
Sales	9 994
Cost of bulk purchases	* -
Gross profit	9 994
Net income/(expenditure)	228 383
Net surplus/ (deficit)	238 377
Gross profit on bulk purchases	N/A
Net surplus/(deficit) on bulk purchases	N/A

* It is not clear why no bulk purchases were recorded.

There is no provision for supply of electricity in the accounts of the Council because Nored is responsible for the electricity distribution.

10.2 Water distribution results were:

Council could not provide the auditors with statistics for the water distribution results for the year as there were virtually no water sales during the period under review.

No electricity statistics for the year was available as Nored is responsible for the electricity distribution.

11. SELF SUPPORTING SERVICES

The net results of the following operations were as follows:

	2009
	N\$
Cleansing	177 395
Sewerage	159 995
	337 390

Sewerage and cleansing are operating on a self sustaining basis this year.

No fruitless, unauthorized or avoidable expenditure was revealed during the year.

13. SUSPENSE ACCOUNTS

There was no suspense account at year-end.

14. IRREGULARITIES AND LOSSES

No irregularities or losses due to theft, fire or accidents were revealed during the year.

15. CAPITAL PROJECTS

The following expenditure was incurred during the year for capital projects or acquisitions according to a statement submitted to the auditors:

Nature of capital expenditure	Total expenditure 2009	Revenue	General capital
General administration	N\$ 10 991 655	N\$ 284 671	N\$ 10 706 984
Chief Executive Officer	34 933	34 933	-
Finance	87 819	87 819	-
Technical services	689 879	689 879	-
	11 804 286	1 097 302	10 706 984

The above figure agrees with the fixed asset register of the Council as well as the Capital statement expenditure. The individual votes however differs with N\$ 257 427 and adds up to N\$ 1 354 729.

16. BURSARIES

No bursaries were granted during the year.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions were made or received during the year.

18. COMPENSATION PAYMENTS

No compensation payments were made during the year.

19. VISITS TO FOREIGN COUNTRIES

There were no visits to foreign countries during the year.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims were accrued and paid as a result of accidents.

21. GIFTS / DONATIONS BY THE LOCAL AUTHORITY

There were no donations made during the year.

22. TRANSFER OF PROPERTY

The following asset were transferred from Central Government

	2009
Buildings	N\$ 10 706 985

23. DEBTORS / CREDITORS

23.1 Debtors

	2009
	N\$
Consumers, combined billing	7 799
VAT Control account	68 529
	76 328

Refer to 4.1 regarding recoverability.

23.2 Creditors

	2009
	N\$
Trade creditors	4 974
Accruals	336 750
Other payables	1 100
	342 824

24. ASSESSMENT RATES

There were no proceeds from assessment rates. The tariffs for private and business property were N\$0.0459 per dollar per year of the site valuations plus N\$ 0.00916 per dollar per year of the valuations of improvements. The Council is urged to levy assessment rates as approved.

25. LOANS

25.1 External loans

There were no external loans raised during the year.

25.2 Internal loans

There were no internal loans raised during the year.

26. SALE OF ERVEN

There were no sales of erven during the year.

27. PROPERTIES SOLD ON AN INSTALMENT BASIS

No properties were sold on installment basis during the year.

28. TARIFF ADJUSTMENTS

Tariffs were all in accordance with the relevant Official Government notice.

29. APPROVALS

29.1 Revenue written off

No revenue was written off during the year.

29.2 Excess on approved budget

The Town Council could not provide the auditors with the approved budget for the year.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles

	LDV's		Heavy vehicles	
	Number	Value	Number	Value
		N\$		N\$
Balance - 01/07/2008	-	-	-	-
Plus: Additions	2	424 550	1	550 000
Sub-total	2	424 550	1	550 000
Less: Depreciation		(84 910)		(110 000)
Balance - 30/06/2009	2	339 640	1	440 000

The distance traveled and fuel consumed could not be availed for disclosure in this report.

30.2 Inventory

No inventory was recorded in the accounts.

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year under review.

32. GENERAL

The accounting and internal controls applied by the Council are not sufficient.

33. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report.

Informal queries addressed to the Chief Executive Officer were the following:

- Accounting system not in use.
- VAT related issues.
- Approved budget not submitted.
- Unexplained difference in the financial statements of the Council.
- Auditors not involved in stock taking.
- Differences in water sales.
- Ownership of investments.
- Creditors and accruals could not be confirmed.
- Lack of contracts for contract workers.

Council should address the above areas of concern as a matter of urgency.

34. QUALIFIED AUDIT OPINION

The accounts of the Omuthiya Town Council for the financial year ended 30 June 2009, 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.

The audit opinion has been qualified due to the following reasons:

- Council could not provide a trial balance.
- VAT returns not submitted as well as incorrect treatment of VAT.
- Stock taking not attended by auditors.
- Differences on water sale charges.
- Ownership of investments.
- No supporting documents for creditors.

Except for the above-mentioned remarks, in my opinion the financial statements fairly present the financial position of the Town Council at 30 June 2009 and the results of its operations and cash flow for the year then ended.

WINDHOEK, July 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

TOWN COUNCIL OF OMUTHIYA

BALANCE SHEET AS AT 30 JUNE

ASSETS	Notes	2009
		N\$
Non-current assets		10 976 150
Property, plant and equipment	2	10 976 150
Current assets		3 318 517
Trade and other receivables	3	76 328
Investments	4	3 018 607
Cash and cash equivalents		223 582
TOTAL ASSETS		14 294 667
EQUITY AND LIABILITIES		
Equity		13 951 843
Capital outlay	5.1	10 976 150
Fund accounts and reserves	5.2	2 975 693
Current liabilities		342 824
Trade and other payables	7	342 824
TOTAL EQUITY AND LIABILITIES		14 294 667

ANNEXURE B

TOWN COUNCIL OF OMUTHIYA

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	2009
	N\$
INCOME	5 348 244
EXPENDITURE	<u>(2 372 551)</u>
RETAINED SURPLUS FOR THE YEAR	<u>2 975 693</u>

TOWN COUNCIL OF OMUTHIYA

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2009</u>
		N\$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from Government and customers		5 348 244
Cash paid to suppliers		(2 106 055)
Cash generated from operations	9	3 242 189
Investment income		-
<i>Net cash (utilised)/generated by operating activities</i>		3 242 189
CASH GENERATED BY INVESTING ACTIVITIES		
		(3 018 607)
Purchase of property, plant and equipment		(10 976 150)
Increase in capital outlay		10 976 150
Increase in investments		(3 018 607)
Net (decrease)/increase in cash and cash equivalents		223 582
Cash and cash equivalents at the beginning of the year		-
Cash and cash equivalents at the end of the year		223 582

OMUTHIYA TOWN COUNCIL

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

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements set out in Annexure A to C were prepared on the historical cost basis and incorporate the following principal accounting policies.

1.2 Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Cost includes all costs directly attributable to bringing the assets to working condition for their intended use. All other plant and equipment are stated at historical cost or valuation where applicable.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

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 with banks.

1.4 Revenue account

All monies received by and accrued to and expenses paid are reflected in this account and are kept in compliance with Section 86(1)(b) of the Local Authorities Act of 1992.

	2009
	N\$
2. PROPERTY, PLANT AND EQUIPMENT	
Consists of :	
Property, plant and equipment	10 976 150
Financed by :	
Revenue account	876 650
General capital - Government	10 099 500
	10 976 150

TOWN COUNCIL OF OMUTHIYA

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

	2009
	N\$
3. ACCOUNTS RECEIVABLE	
Trade debtors	7 799
Value Added Taxation	68 529
	76 328
<i>Less :</i>	
Provision for doubtful debts	-
	76 328
4. INVESTMENTS	
Allocated to:	
Revenue	3 018 607
	3 018 607
5. FUNDS AND ACCOUNTS	
5.1 Capital outlay	10 976 150
Contribution ex Revenue	876 650
Contribution ex General Capital	10 099 500
5.2 Funds, accounts and reserves	2 975 693
Accumulated Funds: Revenue section	2 975 693
6. CASH UTILISED IN OPERATIONS	
Net operating surplus	2 975 693
OPERATIONAL INCOME BEFORE CHANGE IN WORKING CAPITAL	2 975 693
GENERATION OF WORKING CAPITAL	
(Increase) in accounts receivable	(76 328)
Increase in accounts payable	342 824
Cash generated from operations	3 242 189