



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF OMUTHIYA

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 Omuthiya 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, January 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE OMUTHIYA TOWN COUNCIL
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2012**

1. INTRODUCTION

The accounts of the Omuthiya Town Council 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 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 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 his Office. 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, 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 Stock Control (*)

The auditors were not re-appointed at the time of the stock count and they thus did not attend the stock count as at year end. The Council's records did not permit the performing of alternative audit procedures to ascertain the existence and completeness of stock. Furthermore supporting documentation to ascertain the accuracy and valuation was not available.

4.2 Value Added Tax (*)

The auditors observed that the Council does not indicate the exempt and zero rated portion of the income on the VAT returns and the output VAT per the returns and financial statements does not appear reasonable as there is a material difference.

Proof of submission of the 05/2012 period return could not be traced in the Council's file and the Receiver of Revenue could also not provide us with a copy. This period is not assessed yet and Council should investigate this matter.

The VAT balance receivable as at year end amounts to N\$ 1 041 681. VAT refunds should be followed up immediately and audits need to be done as soon as possible to recover the input VAT claims.

The Council should complete the VAT returns correctly and perform monthly VAT reconciliations.

4.3 Creditors (*)

The Council did not charge deposits for existing accounts and deposits were only charged for new water consumers. The Council should charge deposits on all water consumer accounts.

The unallocated deposits as at year end amounts to N\$ 666 112. The balance consists out of unallocated debtor deposits of N\$ 490 982 and unclear deposits of N\$ 175 130.

Council should reconcile this account and do the necessary allocations to consumer debtor balances. The unallocated deposits result in a misstated debtors balance outstanding as at year end.

4.4 Debtors (*)

The Council did not provide adequately for bad debts. The total debtors outstanding for 60 days and longer amounted to N\$ 1 045 543. The auditors calculation revealed a provision of N\$ 1 573 488 is required. The current provision amounts to N\$ 430 601. The provision is thus under provided. The debtors and appropriation balances are thus overstated.

4.5 Bank Reconciliation

The bank balance (cash book) as per the bank reconciliation did not agree to the balance as per the annual financial statements of N\$ 149 306. Outstanding deposits to the amount of N\$ 130 770 were not accounted for. The bank and debtors balances were thus misstated by this amount.

It is recommended that bank reconciliations are done up to the last day of the month to ensure the recording of all bank transactions.

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 01/07/2011	N\$	N\$	N\$	N\$ 9 187 276
General accounts				
Non-profitable services	9 495 992	10 760 421	(1 264 429)	
Self-supporting services	3 278 530	2 193 751	1 084 779	
Trade accounts				
Water & Electricity	1 883 443	1 630 105	253 338	
	14 657 965	14 584 277	73 688	73 688
Surplus for the year				
Adjustments and appropriations (Note7, Annexure D)				(2 803 774)
Accumulated surplus 30/06/2012				6 457 190

7. CURRENT BANK ACCOUNT

The favourable cash book balance on the current bank account amounted to N\$ 411 899 (2011: favourable N\$ 332 736). Cheques not presented for payment amounted to N\$ 117 899 (2011: N\$ 10 528), resulting in a favourable cashbook balance of N\$ 294 490 (2011: N\$ 343 264). The balance as per the financial statement amounts to N\$ 149 306. The difference is due to unprocessed deposits of the 30th of June 2012. Also refer paragraph 4.5.

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2012 and the interest thereon were as follows:

Institution	2012		2011	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	19 901 736	888 818	10 071 857	281 005
	19 901 736	888 818	10 071 857	281 005
Distribution				
Revenue	6 721 119	466 664	10 071 857	281 005
Capital development Fund	13 180 616	422 154	-	-
	19 901 736	888 818	10 071 857	281 005

9. FUND ACCOUNTS

The position of internal Funds and Reserves is shown in note 5 at annexure D.

10. TRADE ACCOUNTS

10.1 Operating results

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

	Water	
	2012	2011
	N\$	N\$
Sales	1 503 005	1 318 249
Cost of sales	(1 234 405)	(938 338)
Gross (profit)/deficit	268 600	379 911
Other (expenses)/ income	(345 251)	(218 682)
NET (LOSS)/ PROFIT	(76 651)	161 229
Gross profit on cost of sales	21.7%	40.5%
Net (loss)/profit on cost of sales	6.2%	17.2%

The Council moved from a profit of N\$ 161 229 to a loss of N\$ 76 651, causes to the turn around to a loss should be investigated by Council and corrective measures be implemented.

10.2 Distribution gains were as follows:

Water distribution gains, in cubic metres (m³), were as follows:

	Water	
	2012	2011 *
	m ³	m ³
Sold	137 497	-
Bought	147 548	-
Distribution gain	10 051	-
Gain as percentage of units bought	7%	-

* Prior year statistics could not be obtained from the Council.

11. SELF-SUPPORTING EXTERNAL SERVICES

The net result of these services, compared with the previous year, is as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2012	2012	2012	2011
	N\$	N\$	N\$	N\$
Sewerage	1 650 163	1 885 131	(234 968)	30 229
Abattoir	-	-	-	(9 563)
Cleansing	202 306	258 862	(56 556)	(185 242)
Assessment rates	1 426 061	49 757	1 376 304	976 865
	3 278 530	2 193 750	1 084 780	812 289

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed.

13. SUSPENSE ACCOUNTS

The Council has unallocated deposits (credit balance) to the amount of N\$ 666 112. These deposits should be re-allocated to debtors. Also refer to paragraph 4.3.

14. IRREGULARITIES AND LOSSES

14.1 No irregularities by employees were reported.

14.2 No losses were reported.

15. CAPITAL PROJECTS

Capital expenditure for the 2012 financial year amounted to N\$ 9 408 906 (2011: N\$ 22 386 550) and comprises the following:

	Financed by		
	Total 2012	Capital	Revenue
	N\$	N\$	N\$
CEO	56 895	-	56 895
Finance	16 991	-	16 991
Fire Brigade	2 326 885	-	2 326 885
Parks and Recreation	172 571	-	172 571
Health	43 200	-	43 200
Town Planning & Development	4 653 686	-	4 653 686
Technical Services	212 294	-	212 294
Cleansing Services	93 160	-	93 160
Sewerage	1 833 223	-	1 833 223
	9 408 905	-	9 408 905

The fire brigade truck was donated to the Local Authority. This asset was supposed to be allocated to capital assets. The necessary correction should be done in the next financial year.

16. STUDY LOANS/BURSARIES

No study loan /bursaries were awarded during the year.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants and financial aid were made during the year.

18. COMPENSATION PAYMENTS

No Compensation payments were made during the year.

19. VISITS TO FOREIGN COUNTRIES

No visits to foreign countries were undertaken.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

21. GIFTS AND DONATIONS TO THE LOCAL AUTHORITY

Included in fixed assets is an amount of N\$ 2 326 885 relating to a Mercedes Benz Fire Fighter truck that was a donation.

22. TRANSFER OF PROPERTY TO/FROM THE GOVERNMENT

No property was transferred to/or from the Government.

23. DEBTORS/CREDITORS

23.1 Debtors on 30 June 2012 comprise the following:

	2012	2011
	N\$	N\$
Consumers	1 927 023	542 324
Sundry debtors	90 848	50 240
Inland Revenue - VAT	1 041 681	-
	3 059 552	592 564
Less: Provision for bad debts	(430 601)	(241 675)
	2 628 951	350 889

A closer investigation revealed the following:

The consumer debt collection period deteriorated during the year under review as it increased from 78 to 216 days. The increase in the collection period is not commendable. The Town Council need to implement strong measures and policies to decrease the outstanding debtors in future.

23.2 Creditors on 30 June 2012 comprise the following:

	2012	2011
	N\$	N\$
Trade payables	12 528	12 528
Other payables	1 775 980	-
Provisions	1 795 006	1 602 081
VAT	-	98 780
	3 583 514	1 713 389

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 1 426 061 (2011: N\$ 995 148), of which an amount of N\$ 49 758 (2011: N\$ 18 372) was paid to the Regional Council. This relates to prior year liability. No provision to pay in respect of 2012 was made as provided for in section 77(1) of the Local Authorities Act, 1992 as amended.

The gazetted tariffs were as follows:

N\$ 0.0459 (2011: N\$ 0.0459) on the value of the land per year and N\$ 0.00916 (2011: N\$0.00916) on the value of improvements per year.

25. LOANS

25.1 The Council did not have loans.

26. SALE OF ERVEN

The proceeds of erven and plots sold were:

	2012	2011
	N\$	N\$
Ervens sold	3 602 962	3 733 997
Ervens sold (quantity and value information unavailable)	-	-

Sale of business erven amounted to N\$ 873 195 and sale of residential erven amounted to N\$ 2 729 767.

27. PROPERTY SOLD ON AN INSTALMENT BASIS

No information could be obtained with regards to the ervens sold on an instalment basis.

28. TARIFF ADJUSTMENTS

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

29. APPROVALS

There was no over expenditure recorded during the 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 30/06/2011	1	N\$ 98 347	2	N\$ 169 820	4*	N\$ 945 275
Acquisitions	1	249 071	-	-	2	2 418 353
		347 418		169 820		3 363 628
Depreciation		(82 597)		(84 910)		(585 172)
On hand 30/06/2012	2	264 821	2	84 910	6*	2 778 456

The asterisk (*) means included in the number of heavy vehicles is 2 trailers: a 4 wheel 5 ton trailer that was purchased at a cost of N\$ 105 160 and had a net book value of N\$ 42 064 and a multi-tow MT 3000 trailer that was purchased at a cost of N\$ 114 335 and had a net book value of N\$ 68 601 as at year end.

30.2 Inventory

Inventories amount to N\$ 541 328 (2011: N\$ 147 184) which comprises stationery and consumables. The auditors did not attend the stock count and thus could not obtain sufficient evidence with regards to the completeness and existence thereof. The accuracy and valuation could also not be ascertained.

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year.

32. GENERAL

The accounting and internal controls applied by the Council are satisfactory. Proper segregation of duties is hindered by the small number of staff employed.

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:

- Stock
- Value Added Taxation
- Debtors and provision for doubtful debts
- Unexplained audit differences: Surcharges
- Fixed assets – Under insured
- Prepayment – Insurance
- Bank reconciliation

34. QUALIFIED AUDIT OPINION

The accounts of the Omuthiya Town Council 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.

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

- **Cash & Bank** – The bank balance (cash book) as per the bank reconciliation did not agree to the balance as per the annual financial statements of N\$ 149 306. Outstanding deposits to the amount of N\$ 130 770 were not accounted for. The bank and debtors balances were thus misstated by this amount.
- **Value added taxation** – A material difference was found between the output VAT per the returns and the annual financial statements.
- **Unallocated deposits** – Unallocated and unclear deposits resulted in misstated debtors balance.
- **Debtors** – The provision for bad debts is underprovided, the valuation of debtors is thus qualified.

Except for the above mentioned issues, the financial statements fairly present the financial position of the Omuthiya Town Council as at 30 June 2012, and the result of its operations and cash flow for the year then ended and in the manner required by Local Authorities Act, 1992, and the State Finance Act, 1991.

WINDHOEK, January 2013

JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

OMUTHIYA TOWN COUNCIL

BALANCE SHEET AS AT 30 JUNE 2012

	Notes	2012 N\$	2011 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	38 138 217	31 776 412
Investments	3	19 901 736	10 071 857
Current assets			
Accounts receivable	4	2 628 951	350 888
Stock		541 328	145 184
Bank		149 306	332 736
TOTAL ASSETS		61 359 538	42 677 077
EQUITY AND LIABILITIES			
Equity			
Accumulated surplus /(deficit)		6 457 191	9 187 276
Capital outlay	5	51 318 833	31 776 412
Current liabilities			
Accounts payable	6	3 583 514	1 713 389
Bank overdraft		-	-
TOTAL EQUITY AND LIABILITIES		61 359 538	42 677 077

OMUTHIYA TOWN COUNCIL

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

	<u>Note</u>	<u>2012</u>	<u>2011</u>
		N\$	N\$
INCOME		14 191 301	10 970 952
EXPENDITURE		<u>(14 584 277)</u>	<u>(7 809 782)</u>
OPERATING LOSS FOR THE YEAR		(392 976)	3 161 170
Interest earned		466 664	447 089
NET PROFIT FOR THE YEAR		<u>73 688</u>	<u>3 608 259</u>
Add : Appropriation and adjustments	7	<u>(2 803 774)</u>	<u>(65 407)</u>
RETAINED INCOME FOR THE YEAR		(2 730 086)	3 542 852
30 June 2011		<u>9 187 276</u>	<u>5 644 424</u>
30 June 2012		<u>6 457 189</u>	<u>9 187 276</u>

OMUTHIYA TOWN COUNCIL

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 N\$	2011 N\$
Cash flow from operating activities			
Cash receipts from customers		14 191 301	10 970 952
Cash paid to suppliers		(10 190 468)	(6 774 484)
Cash generated from operations	8	(4 000 833)	4 196 468
Investment income		466 664	447 089
Net cash flow from operating activities		(3 534 169)	4 643 557
Cash flow from investing activities			
Purchase/disposal of property, plant and equipment		(6 361 804)	(20 175 922)
Increase in capital outlay		19 542 421	20 175 922
Increase in investment		(9 829 879)	(4 285 256)
Net cash flow from investing activities		3 350 739	(4 285 256)
Net increase/(decrease) in cash and cash equivalents		(183 431)	358 301
Cash and cash equivalents at the beginning of the year		332 735	(25 566)
Cash and cash equivalents at the end of the year		149 304	332 735

TOWN COUNCIL OF OMUTHIYA

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements set out in Annexures A to C were prepared on the historical cost basis and incorporate the following principal accounting policies, which are consistent in all material aspects with those applied in the previous year.

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 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 comprise cash in hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts.

1.4 Revenue account

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

	<u>2012</u>	<u>2011</u>
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Consists of :		
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment	<u>38 138 217</u>	<u>31 776 412</u>
Financed by :		
Capital assets	26 854 975	28 505 597
Revenue account	11 283 242	3 270 815
	<u>38 138 217</u>	<u>31 776 412</u>

TOWN COUNCIL OF OMUTHIYA

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE

	2012	2011
	N\$	N\$
3. INVESTMENTS		
Fixed deposits and money on call	19 901 736	10 071 857
4. TRADE AND OTHER RECEIVABLES		
Consumers	1 927 023	542 324
Sundry debtors	90 848	50 240
Inland Revenue - VAT	1 041 681	-
	3 059 552	592 564
<i>Less :</i>		
Provision for doubtful debts	(430 601)	(241 675)
	2 628 951	350 889
5. FUNDS AND ACCOUNTS		
5.1 Financing of capital		
Capital development Fund	13 180 616	-
Contributions ex revenue	11 283 242	3 270 815
Contributions ex Government	26 854 975	28 505 597
	51 318 833	31 776 412
Accumulated Funds	6 457 191	9 187 276
6. TRADE AND OTHER PAYABLES		
Trade payables	12 528	12 528
Leave accruals	708 348	191 956
Unallocated deposits	666 112	558 447
Provisions	300 000	851 678
VAT	-	98 780
Other payables: Deposits	16 150	-
Retention Funds	51 679	-
Accrual Creditors	1 775 979	-
Land Compensation	52 719	-
	3 583 514	1 713 388

TOWN COUNCIL OF OMUTHIYA

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE

	2012	2011
	N\$	N\$
7. ADJUSTMENTS AND APPROPRIATIONS		
Unutilised funding from prior year	(2 163 077)	-
Adjustment - Provisions for leave and doubtful debts	(509 746)	(211 728)
Adjustment - Stock	251 338	146 321
Other	(10 603)	-
Erf sales in respect of prior years	(371 686)	-
	(2 803 774)	(65 407)
8. CASH UTILISED IN OPERATIONS		
Net operating surplus	(392 976)	3 161 170
Adjustments (appropriations)	(2 803 774)	(65 407)
Operating surplus before changes in working capital	(3 196 750)	3 095 763
Changes in working capital		
Increase/(decrease) in trade and other payables	1 870 125	1 337 830
(Increase)/decrease in stock	(396 144)	(145 184)
(Increase)/decrease in trade and other receivables	(2 278 064)	(91 940)
	(804 083)	1 100 706
	(4 000 833)	4 196 469