



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF ONDANGWA

FOR THE FINANCIAL YEARS ENDED 30 JUNE 2007 AND 2008

Published by authority

Price (Vat excluded) N\$ 33.03
Report no: 730

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 Ondangwa for the financial years ended 30 June 2007 and 2008, 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 2009

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE TOWN COUNCIL OF ONDANGWA
FOR THE FINANCIAL YEARS ENDED
30 JUNE 2007 AND 2008**

1. INTRODUCTION

The above accounts of the Town Council for Ondangwa for the years ended 30 June 2007 and 2008 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 Spencer Steward Namibia of Windhoek 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 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 finalised on 14 October 2008 and 07 December 2008 respectively whereas the Act only allows for a period of three months after the end of the financial year.** The audited financial statements are in agreement with the general ledger and are filed in his Office. The abridged balance sheets at Annexure A are a true reflection of the original. The following annexures are also attached to this report:

Annexure B:	Abridged income statements
Annexure C:	Cash flow statements
Annexure D:	Notes to the financial statements

3. SCOPE OF THE AUDIT

The Accounting Officer of the Council is responsible for the preparation of the financial statements and for ensuring the regularity of the financial transactions. 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 audit as carried out by the said firm, included:

- (a) examination on a test basis of the evidence relevant to the amounts, disclosure and regularity of financial transactions included in the financial statements;
- (b) assessment of the significant estimates and judgements made by the Accounting Officer of the Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed; and
- (c) evaluation of the overall adequacy of the presentation of information in the financial statements.

The audit was planned and performed so as to obtain all the information and explanations considered necessary to provide sufficient evidence to give reasonable assurance that:

- the financial statements are free from material misstatement, whether caused by error, fraud or other irregularity;
- in all material respects, the expenditure and income have been applied to the purposes intended; and
- the financial transactions conform to the authorities which govern them.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Financial results – 2007 & 2008

The Town Council made a surplus of N\$ 956 227 - 2008 and N\$ 5 427 814 - 2007 (2006: Deficit of N\$ 3 149 727), before any transfer to funds during the financial year. The deficit after transfer to funds amounted to N\$ 2 209 294 - 2008 and a surplus of N\$ 1 171 616 - 2007 (2006: Deficit of N\$ 3 149 727). The accumulated deficit as at year-end amounted to N\$ 6 495 081 - 2008 and N\$ 6 537 535 - 2007 (2006: N\$ 6 869 674).

4.2 Bad and doubtful debts – 2007 & 2008

The Council's policy is to provide for balances which are older than 120 days. However, auditors' test on the debtors ageing analysis showed that the ageing is not correct as all receipts are classified under "current". Based on the audit procedures, it was concluded that the provision for bad debts is overstated by N\$ 477 595 - 2008 and N\$ 1 860 400 - 2007 (2006: 1 860 400).

4.3 Existence of property, plant and equipment – 2007 & 2008

The descriptions of assets per the asset register are not adequate to enable identification of the assets. As a result the auditors could not verify existence of the selected assets. This also shows that Council does not have adequate control over the assets.

4.4 Sale of erven – 2007 & 2008

Management could not provide a listing of erven sold during the year. As a result the auditors could not verify the movement on the Capital Development Fund.

4.5 Inventories – 2007 & 2008

Differences were noted between the quantities per the final stock sheets and the quantities in the book-keeping system called Finstel. This means that inventory and related financial statement areas are misstated.

4.6 Value Added Taxation - 2007 & 2008

The income per VAT returns is less than that per financial statements by N\$ 12 387 188 (2007: N\$ 11 289 277) and this includes vat-able income of N\$ 6 874 299 (2007: N\$ 7 518 232). This means that the Council under declared VAT by an amount of N\$ 1 031 145 (2007: N\$ 1 127 735).

The VAT control account could not be reconciled by N\$ 673 764 (2007: N\$ 2 266 371) and no satisfactory explanation could be obtained from management.

Some expenses were recorded including VAT. The auditors could not establish the amount of VAT not correctly accounted for because there are numerous invoices involved. This means that expenditure is overstated and Council has incurred a financial loss by not claiming the money.

4.7 Investments 2007 & 2008

The Channel Life investment is overstated by N\$ 177 500 (2007: N\$ 499 807) and the related income is understated by N\$ 336 479 (2007: N\$ 372 161). No satisfactory explanation could be given to the auditors by management, therefore they could not satisfy themselves regarding the accuracy, existence and valuation of investments and investment income.

2008

Investment	Per confirmation	Per Ledger	Variance
Channel Life	N\$ 1 325 256	N\$ 1 502 756	N\$ (177 500)

2007

Investment	Per confirmation	Per Ledger	Variance
Channel Life	N\$ 776 190	N\$ 1 275 997	N\$ (499 807)

4.8 External loans - 2008

The Council capitalized finance charges which have not yet been incurred and this resulted in an overstatement of external loans of N\$ 257 894 and an overstatement of the loan assets with the same amount.

4.9 Build Together Loans – 2007 & 2008

Council could not provide the auditors with a register for build together loans amounting to N\$ 3 512 559 (2007: N\$ 2 840 786). If adequate records are not maintained on the loans advanced, Council might not be able to collect the amounts from the debtors.

4.10 Accounts payable - 2008

Differences were noted between creditors listing and amounts per general ledger amounting to N\$ 119 240. This means that the general ledger is overstated by the amount. The auditors also found variances between the general ledger balances and amounts per supplier statements of N\$ 335 361.

4.11 Consumer deposits – 2007 & 2008

The Council has not been charging consumer deposits on the majority of its customers. Some of these customers have very high consumption bills per month, but no deposits were charged to minimise losses in case of customer defaults.

The water purchases per the Namwater statements for the 2006/07 financial year are more than the amount in the general ledger by N\$ 522 576. No satisfactory explanation could be obtained from management.

4.12 Unsupported additions to assets – 2007 & 2008

A journal with an amount of N\$ 561 966 (2007: N\$ 1 042 519) was debited to property, plant and equipment and the other leg of the journal could not be traced by management. No supporting documents could be availed by management.

4.13 Provision for leave pay – 2008

The Council has not been updating the leave register with the current year leave records, as a result there were no movements in the provision for leave and the auditors could not perform planned procedures.

4.14 Income – 2008

The Council could not provide the auditors with supporting documentation for income amounting to N\$ 626 133. As a result they could not satisfy themselves regarding the validity and completeness of the income.

4.15 Allocation of interest income – 2008

The investments of the Capital Development Fund represent about 79% of the total investments portfolio. However, no interest income was allocated to the Fund during the period under review.

4.16 Suspense account – 2008

The Council has a suspense account (debit balance) of N\$ 237 389. No supporting documents confirming the balance could be provided to the auditors. As a result they could not establish the validity thereof.

4.17 Cancelled cheque not reversed – 2007

A cheque of N\$ 742 384 was written for the purchase of motor vehicles. The order was subsequently cancelled, however, the posting was not reversed in the accounting records. The cheque is appearing as part of uncleared cheques and also as an addition to property, plant and equipment. This means that property, plant and equipment is overstated and bank and cash is understated by the amount.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

The results of the various operations and transactions on the Revenue Account for the year are as follows:
2008

	Revenue	Expenditure	Surplus/(Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit 01/07/2007				(6 537 535)
General accounts				
Non-profitable services	8 925 780	6 524 464	2 401 316	
Self-supporting services	3 805 437	1 599 265	2 206 172	
Rate and General	2 989 369	7 005 349	(4 015 980)	
Trade accounts				
Electricity	1 410 233	3 426 217	(2 015 984)	
Water	5 867 441	6 652 259	(784 818)	
	22 998 260	25 207 554	(2 209 294)	
Surplus/(deficit) for the year				(2 209 294)
Adjustments and appropriations (Note 10, Annexure D)				2 251 748
Accumulated deficit 30/06/2008				(6 495 081)

2007

	Revenue	Expenditure	Surplus/(Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit 01/07/2006				(6 869 674)
General accounts				
Non-profitable services	10 491 986	7 996 209	2 495 777	
Self-supporting services	3 405 169	2 174 121	1 231 048	
Rate and General	3 400 820	7 374 357	(3 973 537)	
Trade accounts				
Electricity	1 059 836	1 388 698	(328 862)	
Water	7 028 850	5 281 660	1 747 190	
	25 386 661	24 215 045	1 171 616	
Surplus for the year				1 171 616
Adjustments and appropriations (Note 10, Annexure D)				(839 477)
Accumulated deficit 30/06/2007				(6 537 535)

7. CURRENT BANK ACCOUNT

The favourable bank statement balance on the current bank account amounted to N\$ 1 196 131 - 2008 and N\$ 2 648 258 - 2007 (2006: N\$ 552 156) and the cash-book reflected a favourable balance of N\$ 865 257 - 2008 and N\$ 909 804 - 2007 (N\$ 150 915 - 2006). Outstanding cheques at 30 June 2008 amounted to N\$ 435 315 and at 30 June 2007 to N\$ 2 431 005 (N\$ 401 240 - 2006).

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2008 and the interest thereon were as follows:

Institution	2008		2007	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	14 357 337	1 162 556	13 666 055	814 426
Insurance companies	1 502 756	-	1 275 997	201 956
	15 860 093	1 162 556	14 942 052	1 016 382
Distribution				
Capital Development Fund	12 521 252	-	11 495 470	908 685
Build Together Fund	3 338 841	162 856	3 446 582	107 697
Revenue	-	999 700	-	-
	15 860 093	1 162 556	14 942 052	1 016 382

Investments as at 30 June 2007 and interest thereon were as follows:

Institution	2007		2006	
	Investment	Interest	Investment	Interest
Invested at:	N\$	N\$	N\$	N\$
Commercial banks	13 666 055	814 426	11 218 802	563 709
Insurance companies	1 275 997	201 956	861 453	-
	14 942 052	1 016 382	12 080 255	563 709
Distribution				
Capital Development Fund	11 495 470	908 685	9 457 087	504 286
Built Together Fund	3 446 582	107 697	2 623 168	59 423
Revenue	-	-	-	-
	14 942 052	1 016 382	12 080 255	563 709

9. FUND ACCOUNTS

The position of internal Funds and Reserves is shown in note 7 at annexure D.

Temporary advances totalling N\$ 10 216 828 - 2008 and N\$ 8 672 545 - 2007 (N\$ 7 942 051 - 2006) were transferred to revenue from the Capital Development Fund to finance operating costs of the Council. The Council should indicate how it is going to reverse the situation.

10. TRADE ACCOUNTS

10.1 Operating results

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

2008

	Electricity		Water	
	2008	2007	2008	2007
	N\$	N\$	N\$	N\$
Royalties/Sales	1 410 233	1 059 336	5 502 550	6 644 978
Bulk purchases	-	-	(5 729 292)	(4 068 960)
Gross profit/(loss)	1 410 233	1 059 336	(226 742)	2 576 018
Other income/ (expenses)	(3 426 217)	(1 388 198)	(558 076)	(828 829)
NET PROFIT/(LOSS)	(2 015 984)	(328 862)	(784 818)	1 747 189
Gross profit/(loss) on bulk purchases	-	-	(4%)	63%
Net profit/(loss) percentage on bulk purchases	-	-	(13.7%)	43%

The loss on electricity for the 2008 financial year is mainly as a result of capital expenditure to the amount of N\$ 2 409 487. The remainder of the expenses are departmental that should have been allocated to the different other votes which then should reflect a surplus for the vote. The Council does no longer sell electricity. The electricity income relates to surcharges which are levied from NORED.

Council should investigate the causes for the negative result for water. The total turnaround from a profit of N\$ 1 747 189 to a loss of N\$ 784 818 is of grave concern.

2007

	Electricity		Water	
	2007	2006	2007	2006
	N\$	N\$	N\$	N\$
Royalties/Sales	1 059 336	1 305 161	6 644 978	5 817 392
Cost of sales	-	-	(4 068 960)	(5 069 070)
Gross profit	1 059 336	1 305 161	2 576 018	748 322
Other income/ (expenses)	(1 388 198)	(1 602 843)	(828 829)	(611 644)
NET PROFIT	(328 862)	(297 682)	1 747 189	136 678
Gross profit on cost of sales	-	-	63%	15%
Net profit percentage on cost of sales	-	-	43%	3%

The loss on electricity for the 2007 financial year is mainly as a result of capital expenditure to the amount of N\$ 2 529 343. The remainder of the expenses are departmental that should have been allocated to the different other votes which then should reflect a surplus for the vote. The Council does no longer sell electricity. The electricity income relates to surcharges which are levied from NORED.

The result for water is distorted by the fact that some water purchases were not recorded as reported in paragraph 4.11 in this report.

10.2 Distribution losses

The auditors could not perform distribution analyses on water due to the unavailability of information for the years under review.

11. SELF-SUPPORTING SERVICES

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

2008

	Revenue	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2008	2008	2008	2007
	N\$	N\$	N\$	N\$
Civic buildings	490 018	258 462	231 556	122 034
Cleaning services	1 785 740	881 149	904 591	846 274
Sewerage	1 529 679	459 654	1 070 025	272 739
Total	3 805 437	1 599 265	2 206 172	1 231 047

2007

	Revenue	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2007	2007	2007	2006
	N\$	N\$	N\$	N\$
Civic buildings	422 685	310 651	122 034	57 642
Cleaning services	1 626 616	780 342	846 274	614 516
Sewerage	1 355 868	1 083 129	272 739	576 210
Total	3 405 169	2 174 122	1 231 047	1 248 368

The self-supporting votes continue to be profitable as evidenced by the surpluses.

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed.

13. SUSPENSE ACCOUNTS

The Council has a suspense account with a debit balance of N\$ 237 939 - 2008 and N\$ 33 266 - 2007. The account has long outstanding transactions and there are no sufficient supporting documents to validate balances.

14. IRREGULARITIES AND LOSSES

14.1 No irregularities by employees were reported for the years under review.

14.2 No losses were reported for the years under review.

15. CAPITAL PROJECTS

Capital expenditure for the 2008 financial year amounted to N\$ 7 711 213 and N\$ 9 409 876 - 2007 (N\$ 6 845 968 - 2006) and comprise of the following:

2008

	Financed by			2008	2007
	Capital account	Loan account	Revenue account	Total	Total
	N\$	N\$	N\$	N\$	N\$
Council' General Expenses	-	-	-	-	993 352
Town Clerk	-	-	1 550	1550	24 780
Town Treasurer	-	-	215	215	17 305
Town Engineer	-	-	-	-	2 457
Town Planning & Development	-	-	2 821 365	2 821 365	3 649 118
Streets and Storm Water	-	-	1 233 329	1 233 329	2 078 624
Sewerage Services	-	-	-	-	589 189
Electricity Services	-	-	2 529 344	2 529 344	754 128
Civic Building & Housing	-	-	23 545	23 545	77 576
Stores & Procurement	-	-	-	-	36 409
Health	-	-	-	-	744 612
Workshop (External loans)	-	1 001 299	-	1 001 299	25 068
Water Supply	--	-	100 567	100 567	417 258
	-	1 001 299	6 709 915	7 711 214	9 409 876

	Financed by			2007	2006
	Capital account	Loan account	Revenue account	Total	Total
	N\$	N\$	N\$		N\$
Council' General Expenses	-	-	993 352	993 352	176 476
Town Clerk	-	-	24 780	24 780	21 596
Town Treasurer	-	-	17 305	17 305	174 737
Town Engineer	-	-	2 457	2 457	1 251 463
Town Planning & Development	-	-	3 649 118	3 649 118	2 826 380
Streets and Storm Water	-	-	2 078 624	2 078 624	-
Sewerage Services	-	-	589 189	589 189	-
Electricity Services	-	-	754 128	754 128	1 069 531
Civic Building & Housing	-	-	77 576	77 576	345 764
Stores & Procurement	-	-	36 409	36 409	8 583
Health	-	-	744 612	744 612	583 793
Workshop	-	-	25 068	25 068	5 217
Cemeteries and Parks	-	-	-	-	3 298
Street Roads and Sidewalk	-	-	-	-	379 130
Water Supply	-	-	417 258	417 258	-
	-	-	9 409 876	9 409 876	6 845 968

16. STUDY LOANS/BURSARIES

There were no study loans or bursaries for the years under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

The following financial assistance was rendered during the years:

Year	Nature of gift	Value
		N\$
2008	Student subsidies	7 540
2007	Student subsidies	10 170

18. COMPENSATION PAYMENTS

No compensation payments were made during the years under review.

19. VISITS TO FOREIGN COUNTRIES

There were no visits to foreign countries by Council officials during the financial periods under review.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received for the years under review.

21. GIFTS AND DONATIONS BY THE LOCAL AUTHORITY

The Council made the following gifts/donations:

2008

Nature of gifts/donation	Value	Beneficiary
	N\$	
Donation	1 000	Cosdec
Donation	500	Private person
Donation	3 000	Ondangwa Trade Fair
Donation	500	Oshikoto Bursary Fund
	5 000	

2007

Nature of gifts/donation	Value	Beneficiary
	N\$	
Donation	500	Private person
Donation	300	Private person
Donation	250	Private person
Donation	2800	M & N Cater Services
Donation	3600	Chris & Osho Portraits
Donation	7500	Ondangwa Trade Fair
	14 950	

22. TRANSFER OF PROPERTY TO/FROM THE GOVERNMENT

No property was transferred to/or from the Government during the years under review.

23. DEBTORS/CREDITORS

23.1 Debtors on 30 June comprise the following:

	2008	2007	2006
	N\$	N\$	N\$
Consumers	9 054 059	7 407 866	5 624 743
Salaries suspense account	-	-	195 444
Inland Revenue	328 680	-	-
Suspense account	237 939	33 266	-
VAT receivable	-	-	26 656
Commercial bank	-	6 893	-
Build Together Advances	3 512 559	2 840 786	2 176 878
	13 133 237	10 288 811	8 022 721
Less: Provision for bad debts	(4 823 543)	(4 823 543)	(3 249 258)
	8 309 694	5 465 268	4 773 463
Analysis of services and general debtors:			
Average monthly levy	1 464 046	1 481 608	1 578 759
Debtors	9 054 059	7 407 866	4 773 463
Average credit terms in days	188 days	152 days	92 days

The debtors' collection period has worsened from 5 months in 2007 to 6 months in 2008, which implies that the Council is taking longer to collect from debtors than was the case in the previous year. The normal standard collection period should be 30 days. The Council is advised to apply more pressure on its residents so that they pay on time. As was highlighted in the prior year, the increase in debtors' collection days is a matter of concern, the analysis above shows that more and more of the Council's resources are locked in none paying debtors.

23.2 Creditors on 30 June comprise the following:

	2008	2007	2006
	N\$	N\$	N\$
Trade creditors	851 799	110 010	1 087 067
Leave pay provisions	347 555	347 555	287 632
Other creditors	555 640	-	244 234
Payments received in advance	-	191 627	91 686
Provision for consultant fees	-	37 200	42 000
Provision for audit fees	-	90 000	70 000
Regional Council	-	109 092	18 715
Consumer deposits	808 672	604 836	487 521
Value Added Taxation	-	561 046	-
	2 563 666	2 051 366	2 328 855

24. ASSESSMENT RATES

Net proceeds from assessment rates amounted to N\$ 5 658 745 - 2008 and N\$ 5 971 309 - 2007 (N\$ 4 802 634 - 2006), of which an amount of N\$ 623 096 - 2008 and N\$ 314 136 - 2007 (N\$ 252 770 - 2006) was paid to the Regional Council.

The gazetted tariffs were as follows for both financial years under review:

(a) Private properties

0.04087 per dollar on land value
0.00915095 per dollar on improvements

(b) Business properties

0.0974251 per dollar on land value.
0.01017 per dollar on improvements

25. LOANS

25.1 External loan balances, due by the Council totalled N\$ 1 052 881 at 30 June 2008 and N\$ 111 956 - 30 June 2007 (N\$ 200 065 - 2006). (See Note 8 Annexure D). The balances agree with amortisation tables. Loan assets have been capitalised and no loan assets were disposed of before the loan was redeemed. Loan monies were used for the purpose they were obtained for.

26. SALE OF ERVEN

The proceeds of erven and plots sold, which were accounted to the Capital Development Fund, were:

	2008	2007	2006
	N\$	N\$	N\$
Erven sold	2 570 064	1 860 193	3 059 273

The Council could not avail the total number of erven sold for the years under review.

27. PROPERTY SOLD ON AN INSTALMENT BASIS

No erven were sold on an instalment basis for the years under review.

28. TARIFF ADJUSTMENTS

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

29. APPROVALS

29.1 Revenue written off

No revenue was written off during the years under review.

29.2 Excess on approved budget

2008	Budgeted expenditure	Actual expenditure	Excess expenditure
	N\$	N\$	N\$
Town Secretary	934 550	1 026 655	(92 105)
Town Engineer	703 250	748 253	(45 003)

2007	Budgeted expenditure	Actual expenditure	Excess expenditure
	N\$	N\$	N\$
Town Secretary	846 029	849 468	(3 439)
Town Engineer	597 244	687 119	(89 875)
Civic buildings	247 629	310 650	(63 021)

It is recommended that Council approval should be obtained before any excess expenditure is incurred.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles

2008	Sedan vehicles		LDV and kombi's		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value	Number	Value
On hand 01/07/2007	3	N\$ 3	7	N\$ 877 417	13	N\$ 1 361 920
On hand 30/06/2008	3	3	7	877 417	13	1 361 920
Kilometres travelled						
Fuel Consumption						

2007	Sedan vehicles		LDV and kombi's		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value	Number	Value
On hand 01/07/2006	3	N\$ 3	7	N\$ 877 417	12	N\$ 309 039
On hand 30/06/2007	3	3	7	877 417	12	309 039
Kilometres travelled						
Fuel Consumption						

The correctness of the number and value of vehicles could not be verified because no proper fleet management system existed during the years under review.

30.2 Inventory

The Council has not been updating its books with the physical stock counts and as a result there are discrepancies between the physical count and quantity of stocks per system.

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.

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:

- Bad and doubtful debts;
- Value Added Taxation
- Inventories
- Investments
- Sale of erven
- Consumer deposits
- Build together loans
- Unsupported additions to assets
- Understatement of water purchases
- Existence of fixed assets
- Suspense account
- External loans
- Accounts payable
- Leave pay provision
- Income
- Allocation of interest income
- Cancelled cheques

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Ondangwa for the financial years ended 30 June 2007 and 2008, summarized in Annexures 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 shortcomings:

- ✦ Provision for bad debts is overstated
- ✦ Due to the non-existence of an asset register, the existence of assets could not be verified.
- ✦ The auditors were unable to get a list of erven sold and therefore the movement in the Capital Development Fund could not be verified.
- ✦ Due to a lack of internal controls the auditors were unable to determine the value of the inventories.
- ✦ The VAT control account could not be reconciled.
- ✦ An investment at an insurance company is illegal and overstated.
- ✦ Finance charges were capitalized which have not been incurred. Therefore the external loans and assets for the 2007/08 financial year are overstated by N\$ 257 894.
- ✦ Build Together loans advanced could not be confirmed due to a lack of internal controls.
- ✦ Accounts payable could not be reconciled with the General Ledger and is overstated for the 2007/08 financial year by N\$ 119 240.
- ✦ Assets were capitalized by way of journals but the credit leg of these journals could not be traced and no supporting documents could be submitted.
- ✦ The leave register is not updated, therefore the correctness of the provision for leave could not be determined.
- ✦ Supporting documents related to income valued at N\$ 626 133 could not be provided by the Council.
- ✦ Suspense accounts with a debit balance of N\$ 237 389 could not be reconciled or explained by Council.
- ✦ A cheque amounting to N\$ 742 384 was written out to purchase a vehicle. The order was cancelled but the accounting records have not been rectified. As a result, property, plant and equipment are overstated and the bank balance understated with the said amount.

Except for the above-mentioned shortcomings, in my opinion, these financial statements fairly present the financial position of the Town Council at 30 June 2007 and 2008, and the result of operations and cash flows for the years then ended in accordance with generally accepted accounting practice.

WINDHOEK, July 2009

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

TOWN COUNCIL OF ONDANGWA

BALANCE SHEETS AS AT 30 JUNE

	Notes	2008 N\$	2007 N\$	2006 N\$
ASSETS				
Non-current assets				
Property, plant and equipment	2	40 539 180	35 995 149	29 983 257
Investments	3	15 860 093	14 942 052	12 080 255
Current assets				
Inventory	4	653 987	647 467	649 941
Accounts receivable	5	8 309 693	5 465 268	4 773 463
Cash and cash equivalents	6	865 717	914 426	154 707
TOTAL ASSETS				
		66 228 670	57 964 362	47 641 623
EQUITY AND LIABILITIES				
Equity				
Funds	7	69 107 203	62 338 576	51 982 377
Accumulated deficit	7	(6 495 081)	(6 537 535)	(6 869 674)
Non-current liabilities				
Interest bearing borrowings	8	870 528	50 995	52 369
Current liabilities				
Accounts payable	9	2 563 666	2 051 366	2 328 855
Short term portion of interest bearing borrowings	8	182 353	60 960	147 696
TOTAL EQUITY AND LIABILITIES				
		66 228 670	57 964 362	47 641 623

TOWN COUNCIL OF ONDANGWA

INCOME STATEMENTS FOR THE YEARS ENDED 30 JUNE

	Note	2008	2007	2006
		N\$	N\$	N\$
INCOME		25 108 966	30 288 266	18 381 400
EXPENDITURE		<u>(25 315 295)</u>	<u>(25 877 137)</u>	<u>(22 094 836)</u>
NET OPERATING (LOSS)/INCOME		(206 329)	4 411 129	(3 713 436)
INTEREST EARNED		<u>1 162 556</u>	<u>1 016 686</u>	<u>563 709</u>
NET INCOME FOR THE YEAR		956 227	5 427 815	(3 149 727)
Less : Transfer to funds and reserves		<u>(3 165 522)</u>	<u>(4 256 199)</u>	-
NET (LOSS)/INCOME FOR THE YEAR		(2 209 295)	1 171 616	(3 149 727)
Add/(Less) : Appropriation and adjustments	9	<u>2 251 749</u>	<u>(839 477)</u>	<u>(120 048)</u>
RETAINED INCOME FOR THE YEAR		42 454	332 139	(3 269 775)
30 June 2007		<u>(6 537 535)</u>	<u>(6 869 674)</u>	<u>(3 599 899)</u>
30 June 2008		<u>(6 495 081)</u>	<u>(6 537 535)</u>	<u>(6 869 674)</u>

TOWN COUNCIL OF ONDANGWA

CASH FLOW STATEMENTS FOR THE YEARS ENDED 30 JUNE

	Note	2008 N\$	2007 N\$	2006 N\$
Cash flow from operating activities				
Cash generated from operations	11	6 477 065	12 102 816	(3 889 596)
Interest on investments		1 162 556	1 016 686	563 709
Net cash generated from operating activities		7 639 621	13 119 502	(3 325 887)
Cash flow from investing activities				
Purchases of property, plant & equipment		(7 711 214)	(9 409 876)	(4 205 936)
(Increase) in investments		(918 041)	(2 861 797)	(3 854 561)
Net cash utilised in investing activities		(8 629 255)	(12 271 673)	(8 060 497)
Cash flow from financing activities				
Increase in Revenue Fund		-	-	8 916 715
Movement on long term liabilities		940 926	(88 110)	(16 553)
Net cash generated/(utilised) in financing activities		940 925	(88 110)	8 900 162
Net (decrease)/increase in cash and cash equivalents		(48 709)	759 719	(2 486 222)
Cash and cash equivalents at the beginning of the year		914 426	154 707	2 640 929
Cash and cash equivalents at the end of the year		865 717	914 426	154 707

TOWN COUNCIL OF ONDANGWA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 30 JUNE

1. ACCOUNTING POLICIES

The 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 previous year:

1.1 Property, plant and equipment

Property, plant and equipment acquired with loan funds are stated at cost and no depreciation is provided thereon until the loan is fully redeemed. All other items of property, plant and equipment are stated at cost or valuation, and except fixed property, the cost or valuation of these items of property, plant and equipment is depreciated on the reducing-balance basis over their expected useful lives.

1.2 Fund accounts

The following Funds were maintained:

Capital Development Fund

Proceeds from the sale of land developed by the Council as well as interest earned on investments accumulate in this Fund. Costs incurred on the development of land are charged to this account.

Build Together Fund

The purpose of this Fund is to provide for housing loan assistance to low income earners in the society. The low income earners are expected to provide their house plans and are vetted for qualification before the funds are disbursed. This is a revolving fund, the low income earners are expected to repay these loans on a monthly basis for a period of up to twenty years, at an interest rate of five percent per annum. Income for the Fund is derived from interest earned on secured housing loans and investments.

Revenue account

All monies received by and accrued to and expenses paid, except for allocations to other Funds, are reflected in this account, and are kept in compliance with Section 86(1)(b) of the Act.

1.3 Capital redemption on loans

Capital redemption on external loans is charged against income. A similar amount is credited to the Loan Redemption account for the duration of the loans. As and when the loan is fully redeemed, the loan amount is to be transferred to the Revenue Contribution Capital Account.

1.4 Inventory

Consumables are valued at the average landed costs.

TOWN COUNCIL OF ONDANGWA

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

	2008	2007	2006
	N\$	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT			
Consists of :			
Property, plant and equipment	40 539 180	35 995 149	29 983 257
Financed by :			
Revenue account	36 119 364	31 980 252	25 372 230
General capital	3 168 689	3 765 069	4 216 898
Loans assets	1 251 127	249 828	394 129
	40 539 180	35 995 149	29 983 257
3. INVESTMENTS			
Allocated to:			
Commercial banks	14 357 336	13 666 055	11 218 802
Insurance companies	1 502 756	1 275 997	861 453
	15 860 093	14 942 052	12 080 255
4. INVENTORY			
Inventories consist of :			
Operational and stationery stocks	653 987	647 467	649 941
	653 987	647 467	649 941
5. ACCOUNTS RECEIVABLE			
Trade debtors	9 054 059	7 407 866	5 624 743
Inland Revenue	328 680	-	25 656
Build Together - Advances	3 512 559	2 840 786	2 176 878
Nedbank	-	6 893	-
Suspense account	237 938	33 266	195 444
	13 133 236	10 288 811	8 022 721
Less :			
Provision for doubtful debts	(4 823 543)	(4 823 543)	(3 249 258)
	8 309 693	5 465 268	4 773 463
6. CASH AND CASH EQUIVALENTS			
Current account	856 257	909 803	150 916
Petty cash	460	4 623	3 791
	865 717	914 426	154 707

TOWN COUNCIL OF ONDANGWA

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

	2008	2007	2006
	N\$	N\$	N\$
7. FUNDS AND ACCOUNTS			
7.1 INTERNAL FUNDS	69 107 203	62 338 576	51 982 377
Contribution ex Revenue	36 119 364	31 980 252	25 372 230
Contribution ex Grants	3 168 689	3 765 069	4 216 898
Build Together Fund	6 882 825	6 287 368	4 800 047
Long-term loans redeemed	198 246	137 871	194 064
Capital Development Fund	22 738 079	20 168 016	17 399 138
7.2 UNAPPROPRIATED SURPLUS/(DEFICIT)			
Accumulated funds	(6 495 081)	(6 537 535)	(6 869 674)
Total	62 612 122	55 801 041	45 112 703
8. INTEREST BEARING BORROWINGS			
Long-term liabilities	1 052 881	111 955	200 065
Less: Short-term portion	(182 353)	(60 960)	(147 696)
	870 528	50 995	52 369
9. ACCOUNTS PAYABLE			
Trade payables	851 799	110 010	1 087 067
Consumer deposits	808 672	604 836	487 522
Debtors with credit balances	-	191 627	91 685
Suspense account – Debtors	-	-	244 234
Provision for leave pay	347 555	347 555	287 632
Other creditors	555 640	-	-
Provision for audit fees	-	90 000	70 000
Provision for consulting fees	-	37 200	42 000
Regional Council	-	109 092	18 715
Value added taxation	-	561 046	-
	2 563 666	2 051 366	2 328 855

TOWN COUNCIL OF ONDANGWA

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

	2008	2007	2006
	N\$	N\$	N\$
10. ADJUSTMENTS AND APPROPRIATIONS			
Previous year adjustments	794 022	-	(455 012)
Previous year adjustments	(7 120)	-	-
Creditors previous year	-	39 374	-
Creditor adjustments	110 010	-	(9 942)
Audit adjustments	-	(17 220)	58 175
Stale cheques	-	9 822	3 552
Stores adjustment	(5 422)	80 587	-
Consumer deposits	26 506	-	-
Direct deposits	664 116	-	-
Vat control	669 636	-	-
Debts recovered	-	-	252 607
Debtors adjustments	-	622 246	30 572
Provision for bad debts	-	(1 574 285)	-
	2 251 748	(839 477)	(120 048)
11. CASH UTILISED IN OPERATIONS			
Net operating surplus/(deficit)	(206 329)	4 411 129	(3 149 727)
Adjustments (appropriations)	2 251 749	(839 477)	(120 049)
External loans redeemed	60 375	88 109	-
Fixed assets financed ex revenue	6 709 915	9 409 876	-
Investment income	-	-	(563 709)
OPERATIONAL INCOME BEFORE CHANGE IN WORKING CAPITAL	8 815 710	13 069 637	(3 833 485)
GENERATION OF WORKING CAPITAL			
(Increase)/decrease in inventory	(6 520)	2 474	75 046
(Increase) in accounts receivable	(2 844 425)	(691 806)	(1 077 437)
Increase/(decrease) in accounts payable	512 300	(277 489)	946 279
	6 477 065	12 102 816	(3 889 596)