



REPUBLIC OF NAMIBIA



AUDIT REPORT ON THE ACCOUNTS OF THE

TOWN COUNCIL OF ONDANGWA

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

Published by authority

Price (Vat excluded) N\$ 29.74
Report no 38/2014

REPUBLIC OF NAMIBIA



TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY

I have the honour to submit herewith my report on the accounts of the Town Council of Ondangwa for the financial year ended 30 June 2013, in terms of Article 127(2) of the Namibian Constitution. The report is transmitted to the Honourable Minister of Finance in terms of Section 27(1) of the State Finance Act, 1991, (Act 31 of 1991) to be laid upon the Table of the National Assembly in terms of Section 27(4) of the Act.

WINDHOEK, May 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
THE TOWN COUNCIL OF ONDANGWA
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013**

1. INTRODUCTION

The accounts of the Town Council of Ondangwa for the year ended 30 June 2013 are being reported on in accordance with the provisions set out in the State Finance Act, 1991 (Act 31 of 1991) and the Local Authorities Act, 1992 (Act 23 of 1992).

The firm Mostert Landgrebe 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 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 at Annexure A is a true reflection of the original signed by the Accounting Officer.

The financial statements also include:

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 these financial statements and for ensuring the regularity of the financial transactions. This responsibility includes designing, implementing and maintaining internal control 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 comply with ethical requirements and plan and perform 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 judgment, 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 control 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 control. 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 OBSERVATION AND COMMENTS

4.1 Recoverability of debtors – Bad and doubtful debts

The average collection period of trade receivables, before taking the provision for bad debts into account, is 137,9 days (2012: 133,6 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 50,3 days (2012: 59,7 days). The Council should attend to the arrears as a matter of urgency. The auditors are of the opinion that the provision for bad debts are over stated.

4.2 Inventories

The auditors did not observe the counting of the inventories on 30 June 2013. There were no alternative practical audit procedures that they could perform to confirm the existence of the inventories on hand at year-end.

4.3 Property, plant and equipment

No physical inspection of the fixed assets could be done as there is no registration numbers on the fixed assets register.

4.4 Capital statements

The income statement reflects an amount of N\$ 36 614 514 for capital projects. The purchases according to the capital statements is N\$ 26 999 907. The difference of N\$ 9 614 608 could not be explained by the Town Council.

4.5 Consumer deposits

The consumer deposits is not sufficient to cover one month's service charges.

4.6 Bank reconciliations

The bank reconciliation could not be verified as there are outstanding cheques made out before year-end that were cashed after year-end, that were not reflected on the bank reconciliation.

4.7 Provision for leave

The provision for leave calculation was incorrectly calculated and therefore the provision for leave is overstated.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

The results of the operations of, and transactions on the Revenue account for the year were as follows:

	Revenue	Expenditure	Deficit	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit on 01/07/2012				(3 852 388)
General accounts				
- Rates and general	10 647 495	4 947 806	5 699 689	
- Non-profitable	48 678 666	57 645 778	(8 967 112)	
- Self supporting	5 367 166	5 632 477	(265 311)	
Trade accounts				
- Electricity	2 426 336	5 790 306	(3 363 970)	
- Water	21 512 937	14 024 976	7 487 961	
	88 632 600	88 041 343	591 257	591 257
Deficit for the year				(3 261 131)
Adjustments and utilisations (See Note 10, Annexure D)				(560 086)
Accumulated deficit on 30/06/2013				(3 821 217)

7. CURRENT BANK ACCOUNT

	2013	2012
	N\$	N\$
Cash-book balance at 30 June	8 407 832	1 487 068
Outstanding cheques	1 710 974	2 997 745
Outstanding deposits	2 209 257	(563 735)
Difference	(1 443)	-
Balance as per bank statement	12 326 620	3 921 078

8. INVESTMENTS

The investments as at 30 June were as follows:

Institution	2013		2012	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Commercial banks	28 462 022	1 451 196	32 755 437	1 706 763
Total	28 462 022	1 451 196	32 755 437	1 706 763

The investments were allocated as follows:

Allocation	2013	2012
	N\$	N\$
Capital Development Fund	22 950 136	28 586 896
Build Together Fund	5 511 886	4 168 541
	28 462 022	32 755 437

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in note 9 in Annexure D.

10. TRADE ACCOUNT

10.1 The results of water operations were as follows:

	Water	
	2013	2012
	N\$	N\$
Sales	21 512 937	17 786 958
Cost of sales	(10 066 068)	(9 291 747)
Gross surplus	11 446 869	8 495 211
Other income/(expenses)	(3 958 908)	(1 553 266)
Net (deficit)/surplus	7 487 961	6 941 945
Gross surplus percentages on purchases	113.7%	91.4%
Net surplus percentage on purchases	74.4%	74.7%
Gross surplus percentages on sales	53.2%	47.8%
Net surplus percentage on sales	34.8%	39.0%

10.2 Water distribution results, in cubic meters

	Water	
	2013	2012
	Units	Units
Sales	1 169 312	-
Purchases	1 061 518	-
Profit	107 794	-
Percentage profit on purchases	10.2%	-

The distribution profit on water is due to a system error on 3 accounts, which could not be corrected.

11. SELF-SUPPORTING SERVICES

11.1 The result for the year under review is as follows:

Service	Income 2013	Expenses 2013	Surplus/ (deficit) 2013	Surplus/ (deficit) 2012
	N\$	N\$	N\$	N\$
Civic buildings	243 286	1 443 884	(1 200 598)	1 287 427
Cleansing services	2 549 237	1 383 580	1 165 657	566 784
Sewerage	5 955 856	4 864 641	1 091 215	466 986
Assessment rates	-	-	-	12 030 392
	8 748 379	7 692 105	1 056 274	14 351 589

Council should put measures in place to make the civic buildings self-supporting.

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorized or avoidable expenditure was incurred during the year under review.

13. SUSPENSE ACCOUNTS

These accounts are properly maintained, controlled and reconciled on a regular basis.

14. IRREGULARITIES AND LOSSES

No irregularities and losses took place during the year under review.

15. CAPITAL PROJECTS

The following were spend on capital projects:

Nature of projects/acquisitions	Financed by		Total expenditure 2013	Total expenditure 2012
	Revenue account	External loans		
	N\$	N\$	N\$	N\$
Town administration	17 590	-	17 590	1 165 291
Town treasurer	7 939	-	7 939	26 232
Town clerk	13 515	-	13 515	-
Streets	8 498 966	-	8 498 966	5 714 981
Electricity	-	-	-	2 215 942
Council general expenses	599 072	-	599 072	3 843
Town engineer	11 727	-	11 727	5 013
Town planning	15 713 065	-	15 713 065	11 496 337
Health services	18 217	-	18 217	249 634
Cleansing services	866 086	-	866 086	312 207
Corporate services	1 153 717	-	1 153 717	583 461
Civic buildings	46 012	-	46 012	-
Water	54 000	-	54 000	-
Loan assets	-	395 137	395 137	-
	26 999 906	395 137	27 395 043	21 772 941

The income statement reflects an amount of N\$ 9 614 608 more on the capital projects than the additions on the fixed assets register

16. BURSARIES

No bursaries were granted during the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants or financial aid were granted during the year under review.

18. COMPENSATION PAYMENTS

No compensation payments were made during the year under review.

19. VISITS TO FOREIGN COUNTRIES

No visits to foreign countries were undertaken during the year under review.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

There were no claims against the local authority during the year under review.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

There were no donations made by the Council during the year under review.

22. TRANSFER OF PROPERTY

No properties were transferred to/from the Government during the year under review.

23. TRADE AND OTHER RECEIVABLES

23.1 Trade and other receivables at 30 June were:

	2013	2012
	N\$	N\$
Trade receivables	15 742 811	14 436 733
VAT Provision	-	2 358 699
Sundry debtors	712 544	704 515
	16 455 355	17 499 947
Provision for bad debts	(9 997 684)	(7 989 457)
Total	6 457 671	9 510 490
Analysis of services and general debtors:		
Average monthly levy	3 471 530	3 285 741
Debtors	15 742 811	14 436 733
Average credit terms in days	138	134
Consumer deposits	1 470 963	1 290 638
Percentage of deposits in relation to debtors	9.3%	8.9%

23.2 Trade and other payables at 30 June were:

	2013	2012
	N\$	N\$
Trade payables	1 315 194	1 737 242
Provision for leave pay	1 803 322	1 638 207
Consumer deposits	1 470 963	1 290 638
Land compensation	-	4 338 552
Sundry Creditors	2 975	-
Totals	4 592 454	9 004 639

24. ASSESSMENT RATES

	2013	2012
	N\$	N\$
The proceeds from assessment rates were	9 507 822	12 531 403
Tariffs per N\$1 valuation per annum - Site valuation	0.0350	0.0409
Tariffs per N\$1 valuation per annum - Improvements	0.0090	0.0092

25. LOANS

25.1 External loans

The balances due to the Government of Namibia were as follows:

	2013	2012
	N\$	N\$
External loans	2 553 771	2 679 275

25.2 Internal loans

There are no internal loans.

25.3 Due to the Town Council

	2013	2012
	N\$	N\$
Build Together advances	2 848 382	2 329 522

26. SALE OF ERVEN

During the current financial year, cash proceeds to the value of N\$ 4 531 144 (2012: N\$ 2 587 164) were received for erven sold.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

No erven were sold on an instalment basis for the year under review. The Council's policy is to sell all erven on a cash basis.

28. TARIFF ADJUSTMENTS

Tariff adjustments were duly approved and promulgated in the Government Gazette.

29. APPROVALS

29.1 Excess on approved budget

All budget excesses were approved.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles and values thereof:

	Sedan		LDV's, 4x4's and Combi's		Other	
	Number	Value	Number	Value	Number	Value
Balance - 01/07/2012	1	N\$ 1	7	N\$ 1 443 830	10	N\$ 4 587 738
Correction	-	-	-	-	-	-
Additions	1	395 138	-	-	-	-
Sub-total	2	395 139	7	1 443 830	10	4 587 738
Depreciation	-	-	-	-	-	(227 463)
Balance - 30/06/2013	2	395 139	7	1 443 830	10	4 360 275

30.2 Inventory

Stock comprising of stationery and consumables amounted to N\$ 675 326 (2012: N\$ 678 833). Stock taking is conducted and physical stock on hand was balanced to the records at the end of the financial year under review.

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 satisfactory.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 Informal queries

Consumer deposits - The consumer deposits is not sufficient to cover one month's service charges.

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Ondangwa for the financial year ended 30 June 2013, summarised in Annexures A to D, were audited by me in terms 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:

Trade and other receivables

The average collection period of trade receivables, before taking the provision for bad debts into account, is 137,9 days (2012: 133,6 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 50,3 days (2012: 59,7 days). The Council should attend to the arrears as a matter of urgency. Due to this status the auditors are of the opinion that the provision for bad debts are over-stated.

Property, plant and equipment

No physical inspection of the fixed assets could be done as there is no registration numbers on the fixed assets register.

Capital statements

The income statement reflects an amount of N\$ 36 614 514 for capital projects, whilst the purchases according to the capital statements reflects N\$ 26 999 907. The difference of N\$ 9 614 608 could not be explained by the Town Council.

Bank reconciliations

The bank reconciliation could not be verified as there were outstanding cheques made out before year-end that were cashed after year-end, that were not reflected on the bank reconciliation.

Provision for leave

The provision for leave calculation was incorrectly calculated and therefore the provision for leave is over-stated.

Except for the matters raised above, I certify that in my opinion, the financial statements fairly present the financial position of the Town Council at 30 June 2013 and the results of its operations and cash flow for the year then ended.

WINDHOEK, May 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

THE TOWN COUNCIL OF ONDANGWA

BALANCE SHEET as AT 30 JUNE

	Notes	2013 N\$	2012 N\$
ASSETS			
Non-current assets			
		126 596 653	112 872 192
Property, plant and equipment	2	95 286 249	77 787 233
Loans receivable	3	2 848 382	2 329 522
Investments	4	28 462 022	32 755 437
Current assets			
		15 541 290	11 676 851
Trade and other receivables	5	6 457 671	9 510 490
Inventories	6	675 326	678 833
Bank and cash	7	8 408 293	1 487 528
TOTAL ASSETS		142 137 943	124 549 043
FUNDS AND LIABILITIES			
Funds and reserves			
		134 734 883	112 865 129
Capital outlay	8	92 732 478	75 107 958
Funds and accounts	9	42 002 405	37 757 171
Non-current liabilities			
Long-term liabilities	10	2 553 771	2 679 275
Current liabilities			
Trade and other payables	11	4 849 289	9 004 639
TOTAL FUNDS AND LIABILITIES		142 137 943	124 549 043

THE TOWN COUNCIL OF ONDANGWA

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2013</u>	<u>2012</u>
		N\$	N\$
INCOME		85 485 460	50 227 309
EXPENDITURE		88 041 343	50 260 638
NET OPERATING SURPLUS		(2 555 883)	(33 329)
INTEREST RECEIVED		3 147 140	-
NET SURPLUS AFTER INTEREST		591 257	(33 329)
APPROPRIATION ACCOUNT	12	(560 086)	5 437 743
NET SURPLUS AFTER APPROPRIATIONS		31 171	5 404 414
REVENUE ACCOUNT - Beginning of year		(3 852 388)	(9 256 802)
REVENUE ACCOUNT - End of year		<u>(3 821 217)</u>	<u>(3 852 388)</u>

THE TOWN COUNCIL OF ONDANGWA

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2013 N\$	2012 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		85 485 460	50 227 309
Cash paid to suppliers		(80 563 641)	(37 342 337)
Cash generated by operations	13	4 921 819	12 884 972
Interest received		3 147 140	-
Increase in Fund accounts		4 214 063	7 486 977
Increase/(decrease) in Capital outlay		17 624 520	15 991 851
Net cash flow from operating activities		29 907 542	36 363 800
CASH FLOW FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		(26 635 828)	(15 799 402)
Decrease/(increase) in loans receivable		(518 860)	234 539
Decrease/(increase) in investments		4 293 415	(12 018 563)
		(22 861 273)	(27 583 426)
CASH FLOW FROM FINANCING ACTIVITIES			
Decrease in long-term liabilities		(125 504)	(192 449)
NET INCREASE IN CASH AND CASH EQUIVALENTS		6 920 765	8 587 925
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		1 487 528	(7 100 397)
CASH AND CASH EQUIVALENTS - END OF YEAR		8 408 293	1 487 528

THE TOWN COUNCIL OF ONDANGWA

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

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements are compiled in accordance with the historical convention modified by the restatement of the financial statements to fair value, except where otherwise stated.

The principal accounting policies of the Town Council, which are set out below, had been consistent and comply with Namibian Statements of Generally Accepted Accounting Practices. The financial statements have been prepared in accordance with the requirements of the Namibian Local Authorities Act, 1992 (Act 23 of 1992), as amended.

1.2 Property, plant and equipment

Property, plant and equipment are stated at cost or valuation where assets have been acquired by grant or by donation. Assets are depreciated over their estimated useful life's.

Fixed assets are stated at cost or at valuation where assets have been acquired by grant or donation, less depreciation written off over the expected useful lives as determined by the Council from time to time. Fixed assets acquired with loan funds are depreciated until the loan is repaid, unless the expected lifetime of the asset is less than the repayment period of the loan in which case the depreciation is calculated on the shortfall.

1.3 Inventory

Inventories are measured at lower cost and net realizable value. The cost of inventories should comprise all cost of purchases, cost on conversions and other cost incurred in bringing the inventories to their present location and condition.

1.4 Capital Development Fund

Revenue generated from the sale of erven was originally deposited into this Fund. The purpose of this Fund is to finance capital projects by means of internal loans or appropriation.

	<u>2013</u>	<u>2012</u>
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Income assets	88 113 922	69 795 668
General capital assets	2 559 808	1 960 616
Loan assets	4 612 519	6 030 949
	<u>95 286 249</u>	<u>77 787 233</u>
3. LOANS RECEIVABLE		
These loans were granted from the Build Together Fund to residents of Ondangwa	2 848 382	2 329 522
	<u>2 848 382</u>	<u>2 329 522</u>

THE TOWN COUNCIL OF ONDANGWA

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

	<u>2013</u>	<u>2012</u>
	N\$	N\$
4. INVESTMENTS		
INVESTMENTS		
Commercial banks	28 462 022	32 755 437
	28 462 022	32 755 437
ALLOCATED AS FOLLOWS		
Capital Development Fund	22 950 136	28 586 896
Build Together Fund	5 511 886	4 168 541
	28 462 022	32 755 437
5. TRADE AND OTHER RECEIVABLES		
Trade receivables	15 742 811	14 436 733
VAT Provision	-	2 358 699
Sundry debtors	712 544	704 515
	16 455 355	17 499 947
Provision for bad debts	(9 997 684)	(7 989 457)
	6 457 671	9 510 490
6. INVENTORIES		
Stores	675 326	678 833
	675 326	678 833
7. BANK AND CASH		
Current account	8 407 833	1 487 528
Petty cash	460	-
	8 408 293	1 487 528

THE TOWN COUNCIL OF ONDANGWA

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

	<u>2013</u>	<u>2012</u>
	N\$	N\$
8. CAPITAL OUTLAY		
Revenue contributions	88 113 818	69 795 668
General Capital contributions	2 559 813	1 960 616
Loans redeemed	2 058 847	3 351 674
	<u>92 732 478</u>	<u>75 107 958</u>
9. FUNDS, ACCOUNTS AND RESERVES		
Capital Development Fund	33 886 944	31 147 131
Build Together Fund	11 936 678	10 462 428
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(3 821 217)	(3 852 388)
	<u>42 002 405</u>	<u>37 757 171</u>
10. LONG-TERM LIABILITIES		
External loans	2 553 771	2 679 275
	<u>2 553 771</u>	<u>2 679 275</u>
11. TRADE AND OTHER PAYABLES		
Trade payables	1 315 194	1 737 242
VAT control	256 835	-
Provisions	1 803 322	1 638 207
Consumer deposits	1 470 963	1 290 638
Sundry creditors	2 975	4 338 552
	<u>4 849 289</u>	<u>9 004 639</u>
12. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Accrued leave adjustment	-	(324 309)
Audit adjustments	-	(166 039)
Provision for bad debts	(2 008 227)	(978 992)
VAT refund	-	3 943 698
Unknown income	-	2 963 385
Creditors written back	1 613 572	-
Provision for personal benefits	(16 115)	-
Unexplained difference	(149 316)	-
	<u>(560 086)</u>	<u>5 437 743</u>

THE TOWN COUNCIL OF ONDANGWA

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

	<u>2013</u>	<u>2012</u>
	N\$	N\$
13. CASH GENERATED BY OPERATIONS		
Net operating (deficit) before interest and transfers	(2 555 883)	(33 329)
Adjustments for:		
- Adjustments to appropriation account	(560 086)	5 371 086
- Depreciation	9 136 812	-
- Assets written-off	-	-
- Unknown adjustment	-	66 658
	<hr/>	<hr/>
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	6 020 843	5 404 415
	<hr/>	<hr/>
CHANGES IN WORKING CAPITAL		
(Increase)/decrease in trade and other receivables	3 052 819	983 155
(Decrease)/increase in inventories	3 507	67 992
Increase in trade and other payables	(4 155 350)	6 429 410
	<hr/>	<hr/>
	(1 099 024)	7 480 557
	<hr/>	<hr/>
CASH GENERATED BY OPERATIONS	<u>4 921 819</u>	<u>12 884 972</u>