



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

# TOWN COUNCIL OF OPUWO

FOR THE FINANCIAL YEARS ENDED 30 JUNE 2009 AND 2010

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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 Opuwo for the financial years ended 30 June 2009 and 2010, 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, November 2011**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR - GENERAL  
ON THE ACCOUNT OF THE TOWN COUNCIL OF OPUWO  
FOR THE FINANCIAL YEAR ENDED  
30 JUNE 2009 and 2010**

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**1. INTRODUCTION**

The accounts of the Town Council of Opuwo for the years ended 30 June 2009 and 2010 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, (Act 23 of 1992).

The firm EDB & Associates 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.

**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 7 June 2010 – 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, Annexure A, is a true reflection of the originals.

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 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 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 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 OBSERVATIONS AND COMMENTS

##### 4.1 Recoverability of debtors

During the years under review, the Council's debts outstanding increased by 32.7% for 2010, and by 77.4% for 2009 and for 2008: 7.6%.

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Debt outstanding including Namwater debts	4 315 953	3 250 561	1 831 710
Provision for bad debts	(3 793 241)	(813 843)	-
Percentage (decrease)/increase in outstanding debts	32.7%	77.4%	(7.6%)
Percentage (decrease)/increase in provision for bad debts	366%	100%	N/A
Percentage provision against debt outstanding	(88%)	25%	0%

The outstanding debts as 120 days and more were 98% of debt outstanding for 2010 and 106% for 2009. This excludes the Namwater debts of N\$ 1 017 270: 2010 and N\$ 842 432 for 2009. These high percentages can be attributed to the fact that for 2010 the current debtors is having a credit balance of N\$ 485 845 and for 2009 also a credit balance of N\$ 474 959. This is unusual and the Council should investigate the reasons for this.

Debtors were materially understated with N\$ 160 153 for the year ended 30 June 2009.

Road Fund Administration's debt is overstated by N\$ 500 000 for the year ended 30 June 2009 and should be rectified.

Provisions for bad debts of N\$ 3 793 241: 2010 and N\$ 813 843 for 2009 were made by the Council (2008: Nil). According to the calculations of the auditors, these provisions were still understated by N\$ 216 462: 2010 and N\$ 2 436 286 for 2009 when adding the Namwater debts.

Debt outstanding is considerably high and as stated in the prior year it does not appear as if the Council is improving on debtors collections. The significant amount of possible irrecoverable debt is a matter of grave concern as the recovery of long outstanding debtors threatens the future cash flows of the Town Council.

The Council should develop and implement a strict policy of debt collection, and if the amounts outstanding appear to be uncollectible, consideration should be given to write off such debts in order to maintain the integrity of the accounting records of the Town Council.

Due to the significance of this matter, the Auditor-General cannot express an opinion on bad and doubtful debts.

## **4.2 Stock Control**

No physical stocktakings were conducted during the years under review. No stock was recorded in the balance sheet, which means that stock is expensed to different votes at date of purchase.

Whilst this practice is financially prudent, it leads to inadequate accounting control over the items of stock held by the Council. It is recommended that measures should be implemented to keep accurate records of stock on hand.

## **4.3 Consumer deposits - 2009 and 2010**

No consumer deposits are disclosed in the financial statements of the Council.

## **4.4 Source documents**

- \* Numerous important source documents of expenditures incurred by the Town Council could not be found, at the time of the audit. This was mainly attributable to an unorganised filing system and poor recordkeeping by the Council,
- \* This lack of proper record keeping is in contravention of Section 86 of the Local Authorities Act, 1992 (Act 23 of 1992).
- \* Numerous Council expenditure was recorded VAT inclusive in the annual financial statements. The Council should ensure that VAT is correctly treated and declared to the Receiver of Revenue. This resulted in an overstatement of the expenditure and understatement of the surplus for the financial year.

## **4.5 Trade creditors, accrued expenses, provisions and consumers advance and deposits**

No creditors' reconciliations related to trade creditors were performed during the years under review, as the amount remained the same for both years. The auditors were unable to perform their audit tests on Namwater creditors for 2009 and 2010, because no supplier statement could be availed by the Council to prove the outstanding balances.

The auditors detected that no provision to pay for accrued leave days was provided for by the Council for the year ended 30 June 2009. Furthermore personal files were not updated by the Council and therefore the auditors could not determine the amount payable.

A provision of N\$ 200 000 were provided for accrued leave days for the year ended 30 June 2010. According to the auditors this provision is overstated by N\$ 55 055.

During the audit of the sundry creditors balance of N\$ 157 399, the auditors could not find any source documents, breakdown or any evident to substantiate the balance as per annual financial statements for the year ended 30 June 2010.

Due to the significance of this matter, the Auditor-General cannot express an opinion on Accounts Payables.

## **4.6 Fixed assets**

A fixed assets register was maintained by the Town Council for the year ended 30 June 2009, but was incomplete regarding the dates when the asset was purchased and the disposals for the year.

The additions of N\$ 1 741 045 recorded in the fixed asset register and annual financial statements for the year ended 30 June 2009 as was already processed in prior years ended 30 June 2007 and 2008 and should be rectified.

A difference of N\$ 70 777 was found between the balances sheet and the capital statement. No fixed asset register was availed or any supporting document to substantiate the afore-mentioned difference

for the year ended 30 June 2010. Furthermore, expenditure also related to 2010 of N\$ 463 814 were not capitalized.

No depreciation was accounted for the years ended 30 June 2009 and 2010.

Numerous important source documents for additions to fixed assets by the Town Council could not be submitted at the time of the audit. This was mainly attributable to an unorganised filing system and poor recordkeeping by the Council.

Without proper internal control mechanisms, recording and safekeeping of assets, financial as well as physical loss is bound to be suffered by the Town Council.

It is therefore recommended that a complete fixed asset register be re-implemented and updated at the Town Council. The Council should also enquire about the whereabouts of assets taken over from the Ministry of Regional and Local Government, Housing and Rural Development, and then properly account for these items as soon as possible.

Due to the significance of this matter, the Auditor-General cannot express an opinion on fixed assets.

#### **4.7 Payroll**

During the audit, the auditors discovered a material differences for 2010: N\$ 1 136 869 and for 2009: N\$ 468 193 on their payroll reconciliation. No supporting documentation or explanation could be given to substantiate these differences.

It is imperative that the Council should ensure that payroll information is kept and safeguarded at all costs. Payroll information is considered to be sensitive in nature and the inability to trace such records could lead to staff conflicts, and possible legal actions. It is therefore recommended that the Council should implemented necessary measures to ensure that payroll information is kept secure.

Due to the significance of this matter, the Auditor-General cannot express an opinion on payroll.

#### **4.8 Value-Added-Tax**

As reported in prior year, the annual financial statements of the Town Council portray a VAT debt payable to Inland Revenue. Material differences of N\$ 148 394 for 2010 and N\$ 230 936 for 2009 can be attributed to payments that were not made to or refunds that were not received from the Department of Inland Revenue for the years under review.

Due to the significance of this matter, the Auditor-General cannot express an opinion on VAT.

#### **4.9 Build Together Housing Fund**

Special Funds such as the Build Together Programme are administered by the Town Council on behalf of the Ministry of Regional and Local Government, Housing and Rural Development and it should be considered significant if control weaknesses are identified with regards to the administration of the Fund.

This Fund has its own peculiar specifications with respect to the way in which the fund are to be managed and utilized as stipulated by the line Ministry. The following control weaknesses were detected by the auditors:

- \* The Finstel system was not properly updated to reflect the correct loan amount outstanding of beneficiaries as funds were disbursed over the years, but were only recorded on excel as per amortization schedules. Differences of 2010: N\$ 1 179 322 and 2009: N\$ 123 411 were observed between the annual financial statements and the excel working papers provided by the Council.

- \* Poor repayments are made by beneficiaries. The Council should re-define its collection strategies to ensure this trend does not continue.
- \* Numerous supporting documents related to the Build Together inspection sheets for funds disbursed could not be found at the time of the audit.
- \* No splitting of funds sheets were prepared by the Council. The auditors had to prepare their own funds splitting sheets for the years under review.

Due to the significance of this matter, the Auditor-General cannot express an opinion on Build Together Fund.

#### **4.10 Funds – Contribution by Revenue**

The contribution by Revenue to finance capital expenditure may not be a true reflection of the situation at the Council. Material differences of N\$ 70 777 for 2010 and N\$ 1 553 645 for 2009 were found by the auditors. Expenditure to the amount of N\$ 463 814 were not capitalized to this Fund.

The difference of N\$ 1 533 645 related to 2009 can be attributed to the fact that assets to the vale of N\$ 1 741 045 disclosed as purchases for the 2009 financial year was already accounted for during previous financial years. After taking afore-mentioned into account, there is still an unexplained difference of N\$ 207 400. The difference related to 2010 could not be explained.

#### **4.11 Investments**

No investment policies are in place to guide the Council on the placement of reserve funds.

It is as such difficult to ascertain the effectiveness of the Council's management of investments. A material difference of N\$ 678 087 was found between the annual financial statements of 2009 and the bank statements. The auditors analyzed the annual financial statements and could not found an explanation or reason for this difference.

Council should reconcile their financial statements with the bank statements.

The interest received on investments of N\$ 275 331 for 2010 and N\$ 389 904 for 2009 was not posted to the income statement but was only reconciled in the capital statement account. The auditors could not trace this income to the annual financial statements or journal or any account in which it was accounted for the years under review.

It was also noted by the auditors that most funds are invested with one financial institution instead of spreading the Council's investments risk basket.

Due to the significance of this matter, the Auditor-General cannot express an opinion on Funds and Investments.

#### **4.12 Bank Reconciliations**

No evidence could be found that bank reconciliation were conducted on a monthly or regular basis. As a result of the non-performance of such a critical control tool, the Council is not in a position to make proper investment decisions.

The auditors' re-performed bank reconciliation for 30 June 2009 revealed a difference of N\$ 37 916. Due to afore-mentioned, the auditors were unable to satisfy themselves to the completeness and accuracy of the bank as no journal entries or any other supporting documents could be provided to substantiate the difference.

#### **4.13 Income**

##### **Sundry income**

The auditors revealed that no supporting document, to substantiate this revenue as disclosed in the financial statements, could be provided by the Town Council during the time of the audit and therefore no audit procedures were performed.

##### **Nored income**

A material difference of N\$ 67 078 for 2010 and N\$ 170 496 for 2009 were found for the years under review. One of the main reasons is that the income is accounted VAT inclusive. It was also recognized that during 2009 the revenue was wrongly allocated to sundry income.

##### **Rental income**

Gazetted rates for house rentals were not updated for the year ended 30 June 2010.

##### **Sale of erven**

No lists of erven sold were provided by the Town Council for the years under review.

##### **NATIS**

Natis income were understated by N\$ 29 041 for 2010 and N\$ 30 360 for 2009. The claims related to 2009 were only received during 2011. According to the ledger of the Council, Natis was not billed for the 2010 financial year.

##### **Road Fund Administration income**

Road Fund Administration income was understated by N\$ 19 222 for 2009.

##### **Water**

A substantial amount of consumers still does not have water meters and therefore water consumption is only estimated. These estimates were done in 2005, and was not yet been updated.

#### **4.14 General**

There was no sufficient system of internal control at the Town Council for the years under review. Proper segregation of duties is not possible due to the small number of staff employed. While increased management involvement does reduce risks, it causes the risk that management and the Council could override existing controls, a potential dangerous practice, which the Council should vigilantly guard against.

Incorrect recording and improper filing of minutes for both years occurred and the auditors had difficulty to ascertain if minutes were a true reflection of the meeting since certain minutes were not found and/or not signed.

The auditors noted that numerous balances and transactions on the Fintel trial balances did not agree with those stated in the annual financial statements for the years ended 2009 and 2010.

#### **4.15 Non-compliance with recommendations**

Many of the above-mentioned problem areas have already been highlighted in previous audit reports and were again highlighted when finalising the audit. However none or only a few of the recommendations have been implemented.



**5. ACKNOWLEDGEMENT**

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

**6. FINANCIAL RESULTS**

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

	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>	<b>Balance</b>
	N\$	N\$	N\$	N\$
Accumulated (deficit) as at 01/07/2009				(4 926 118)
<b>General accounts</b>				
Non-profitable	3 340 705	3 263 626	77 079	
Self-supporting	1 246 416	896 824	349 592	
<b>Trade accounts</b>				
Water supply	2 312 891	2 934 669	(621 778)	
(Deficit) for the year	6 900 012	7 095 119	(195 107)	(195 107)
Adjustments and utilizations (See Note 7, Annexure D)				(5 121 225)
				*(3 859 623)
Accumulated (deficit) 30/06/2010				<b>(8 980 848)</b>

	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>	<b>Balance</b>
	N\$	N\$	N\$	N\$
Accumulated (deficit) as at 01/07/2008				(7 020 370)
<b>General accounts</b>				
Non-profitable	2 941 563	2 917 557	24 006	
Self-supporting	881 106	401 140	479 966	
<b>Trade accounts</b>				
Water supply	1 918 718	2 396 301	(477 583)	
Surplus for the year	5 741 387	5 714 998	26 389	26 389
Adjustments and utilizations (See Note 7, Annexure D)				(6 993 981)
				*2 067 863
Accumulated (deficit) 30/06/2009				<b>(4 926 118)</b>

\* It was noticed that material amounts were passed through the appropriation account as “adjustments prior year – unexplained”. This is not acceptable for this Office and Council should properly analyze these adjustments and report back to the Auditor-General’s Office

## 7. CURRENT BANK ACCOUNT

The balance sheet reflected a favourable cash-book balance for 2010: N\$ 144 009, for 2009: a unfavourable N\$ 538 502 and for 2008: a favourable N\$ 400 942, which is also the reconciled balance. The bank statements reflected a favourable balances for 2010: N\$ 2 147 088 and for 2009: N\$ 1 286 074 (2008: N\$ 462 083), the differences are mainly due to outstanding cheques at year-end.

## 8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June 2009 and 2010 there was investments invested at financial institutions, as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Fixed Property Fund	1 314 468	1 196 120	1 028 240
Housing Fund	2 265 273	3 003 352	2 701 102
Revenue	1 222 477	1 868 854	719 409
	<b>4 802 218</b>	<b>6 068 326</b>	<b>4 448 751</b>

A difference occurred between the investments as per bank statements and the financial statements for 2009 to the amount of N\$ 678 087.

Interest received on investments for 2010 amounted to N\$ 275 331 and for 2009: N\$ 389 904. According to the auditors these amounts were not posted to the income statements. They are only reconciled in the Capital statements but the auditors could not trace them to the financial statements nor could they found journals which captured and allocated the interest.

## 9. FUND ACCOUNTS

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

## 10. TRADE ACCOUNTS

### 10.1 The results of operations of water were as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Sales	361 374	344 379	582 226
Cost of bulk purchases**	(2 782 597)	(2 243 030)	(1 403 086)
<b>Gross (loss) / profit</b>	<b>(2 421 223)</b>	<b>(1 898 651)</b>	<b>(820 860)</b>
(Expenses)/Revenue (net)	1 799 445	1 421 069	(125 950)
<b>Net deficit</b>	<b>(621 778)</b>	<b>(477 582)</b>	<b>(946 810)</b>
Gross loss % on cost of bulk purchases	(87.01%)	(84.65%)	(58.50%)
Net loss % on cost of bulk purchases	(22.35%)	(21.29%)	(67.48%)

\*\* The amount as per the auditors calculations related to water purchases tested indicated a difference of N\$ 529 062 for 2010 and N\$ 59 093 for 2009. The differences are due to the non-submission of invoices.

### 10.2 The distribution losses for water could not be determined due to inadequate record keeping.

## 11. SELF SUPPORTING SERVICES

The net results of self supporting services were as follows:

	<b>Income 2010</b>	<b>Expenses 2010</b>	<b>Surplus/ (Loss) 2010</b>	<b>Surplus/ (Loss) 2009</b>
	N\$	N\$	N\$	N\$
Cleansing services	754 753	503 692	251 061	69 674
Sewerage	491 663	393 132	98 531	410 292
<b>Total</b>	<b>1 246 416</b>	<b>896 824</b>	<b>349 592</b>	<b>479 966</b>

	<b>Income 2009</b>	<b>Expenses 2009</b>	<b>Surplus/ (Loss) 2009</b>	<b>Surplus/ (Loss) 2008</b>
	N\$	N\$	N\$	N\$
Cleansing services	389 942	320 268	69 674	(27 345)
Sewerage	491 164	80 872	410 292	297 427
<b>Total</b>	<b>881 106</b>	<b>401 140</b>	<b>479 966</b>	<b>270 082</b>

## 12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorized and avoidable expenditures were revealed during the audit.

## 13. SUSPENSE ACCOUNTS

No money was accounted for in suspense accounts during the years under review.

## 14. IRREGULARITIES AND LOSSES

No irregularities and losses were revealed by the audit for the years under review.

## 15. CAPITAL PROJECTS

The following expenditure was incurred during the years for capital projects or acquisitions and was financed by revenue.

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Cultural centre	151 356	187 400	747 681
Leave Payment Reserve Fund	-	*4 384	-
Financial statements	-	113 862	-
Office furniture and equipment	1 800	-	-
Sewerage pond	310 658	-	-
<b>Total</b>	<b>463 814</b>	<b>305 645</b>	<b>747 681</b>

\* It is unclear how a provision for Leave Reserve Fund can be capital expenditure.

The additions for capital outlay for 2009 to the amount of N\$ 1 741 045 as per annual financial statements and the fixed asset register were already accounted for in prior years. (See paragraph 15 of the report for years ended 2007 and 2008.)

The expenditures in the table above related to the 2010 financial year were obtained from expenditure votes. The auditors were of the opinion that these expenses were not capitalized because there are no entries in the Capital statement. Council should rectify this during the next financial year.

**16. BURSARIES**

No bursaries were granted during the years under review.

**17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID**

No contributions or grants were made nor were financial aid provided during the years under review.

**18. COMPENSATION PAYMENTS**

No compensation payments were made during the years under review.

**19. VISITS TO FOREIGN COUNTRIES**

According to the Council no visits to foreign countries were undertaken during the years under review.

**20. CLAIMS AGAINST THE LOCAL AUTHORITY**

No such claims were identified during the years under review.

**21. GIFTS / DONATIONS BY / TO THE LOCAL AUTHORITY**

There were no gifts or donations made or received by the Council during the years under review.

**22. TRANSFER OF PROPERTY TO / FROM GOVERNMENT**

No properties were transferred from the Ministry of Local Government and Housing for the years under review.

**23. DEBTORS AND CREDITORS****23.1 Debtors at 30 June were:**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Service to consumers	3 298 383	2 408 129	1 831 710
Namwater debtor	1 017 570	842 432	-
Debtor - Road Fund Administration	-	500 000	-
- Build Together	3 702 322	1 968 411	1 852 924
Less: Provision for bad debts	(3 793 241)	(813 843)	-
	<b>4 225 034</b>	<b>4 905 129</b>	<b>3 684 634</b>

**23.2 Creditors at 30 June were:**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Trade creditors	1 119	1 119	9 839 498
Sundry creditors	157 399	-	-
Provision - Namwater	9 567 785	8 800 588	-
Provision for leave days	200 000	-	-
Namwater	71 768	-	-
Water payment	170 860	-	-
VAT suspense account	701 114	391 481	132 932
	<b>10 870 045</b>	<b>9 193 188</b>	<b>9 972 430</b>

## **24. ASSESSMENT RATES**

According to the financial statements the net proceeds for rates and taxed were N\$ 642 528 for 2010 and N\$ 630 297 for 2009 (2008: N\$ 90 159). The approved rates were N\$ 0.0126 on improvement value and N\$ 0.001 on site/land value. No payments were made to the Regional Council as required by Section 77(1) of the Local Authorities Act.

## **25. LOANS**

### **25.1 External loans**

No external loans were entered into during the years under review.

### **25.2 Internal loans**

No internal loans were advanced during the years under review.

### **25.3 Housing loans**

According to the financial statements of the Council, an amount of N\$ 1 733 911 related to 2010 and N\$ 115 486 for 2009 was advanced to buyers from the Housing Fund.

## **26. SALE OF ERVEN**

No list of even sales was provided by the Town Council for the years ended 30 June 2009 and 2010.

## **27. PROPERTY SOLD ON INSTALLMENT BASIS**

No details of houses that were sold on an instalment basis during the years under review could be provided.

## **28. TARIFF ADJUSTMENTS**

All tariff adjustments were in accordance with the relevant Official Government Gazette, although some customers rates were not appropriately adjusted.

## **29. APPROVALS**

### **29.1 Approved budgets**

A budget for the 2010 financial year was submitted but the auditors could not determine if it was approved or not due to a lack of the Council's minutes. It is also not clear if the Regional Council was consulted as required by the Act. No budget was submitted for the 2009 financial year.

## **30. STOCK AND EQUIPMENT**

### **30.1 Motor vehicles**

According to the Council they had three (3) light delivery vans and combi's valued at N\$ 618 008 and two (2) heavy vehicles valued at N\$ 1 075 000 at both year ends. According to the Council the heavy vehicles were still owned by Central Government. The fact that no updated fixed asset register could be provided by the Council, the auditors were unable to verify the correctness of afore-mentioned.

## **30.2 Stock and equipment**

As reported in prior years, no stock was accounted for nor disclosed in the financial statements of the Council.

## **31. SPECIAL INVESTIGATIONS**

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

## **32 GENERAL**

### **32.1 Internal controls**

The accounting and internal controls were found to be inadequate. Proper segregation of duties is not feasible due to the small number of staff employed. While increased management involvement reduces risks, the risk arises that management and Council override existing controls.

## **33. FORMAL AND INFORMAL QUERIES**

Formal queries are embodied in this report.

Informal queries addressed to the Town Clerk consist of:

- \* Special funds and capital outlay
- \* Statutory matters:
  - : Annual financial statements
  - : Minutes of meetings
- \* Fixed assets
- \* Liabilities
- \* Inventories
- \* Debtors reconciliations:
  - : Road Fund Administration.
  - : Provision for bad debts
- \* Payroll
- \* Cash and bank
- \* Revenue/income
- \* Expenditure
- \* General
  - : Segregation of duties
  - : Reconciliations

## **34 DISCLAIMED AUDIT OPINION**

The accounts of the Town Council of Opuwo for the financial years ended 30 June 2009 and 2010 summarized in Annexure A to D, were audited by me in terms of provisions of Section 85 of the Local Authorities Act, 1992 read with Section 25(1) of the State Finance Act, 1991.

I am unable to express an audit opinion due to the following reasons:

- \* The provision for bad debt were understated by N\$ 216 462: 2010 and N\$ 2 436 286 for 2009 when adding the Namwater debts.
- \* Debtors were materially understated with N\$ 160 153 for the year ended 30 June 2009.
- \* The Road Fund Administration debt is overstated by N\$ 500 000 for the year ended 30 June 2009.
- \* No physical stocktakings were conducted during the years under review.
- \* Numerous important source documents of expenditures incurred by the Town Council could not

be found, at the time of the audit.

- \* Numerous Council expenditure were recorded VAT inclusive in the annual financial statements. This resulted in an overstatement of the expenditure and understatement of the surplus for the financial year.
- \* No creditors reconciliations related to trade creditors were performed during the years under review, as the amount remained the same for both years. The auditors were also unable to perform audit tests on the credit balances of Namwater for 2009 and 2010, because the supplier statement could not be availed by the Council.
- \* The auditors detected that no provision to pay for accrued leave days was provided for the 2009 year. An overprovision of N\$ 55 055 were found for the year ended 30 June 2010.
- \* The auditors review of sundry creditors balance of N\$ 157 399 for the 2010 financial year could not be confirmed.
- \* The additions of N\$ 1 741 045 processed in the financial statements and fixed asset register for the year ended 30 June 2009 was already processed during the years ended 30 June 2007 and 2008.
- \* No depreciation was accounted for the years ended 30 June 2009 and 2010.
- \* The audit revealed material differences of N\$ 1 136 869 for 2010 and N\$ 468 193 for 2009 when reconciling the payroll.
- \* The annual financial statements of the Town Council portray that VAT are payable to Inland Revenue. Material differences of N\$ 148 394 for 2010 and N\$ 230 936 for 2009 were found.
- \* The Finstel system was not properly updated to reflect the correct loan amount outstanding of beneficiaries of the Build together Housing Scheme. Differences of 2010: N\$ 1 179 322 and 2009: N\$ 123 411 were observed between the annual financial statements and the excel working papers provided by the Council.
- \* A difference of N\$ 70 777 occurred between the balance sheet for 2010 and the capital statement. Furthermore, expenditure to the amount of N\$ 463 814 were not capitalized.
- \* A material difference of N\$ 678 087 related to investments was found between the annual financial statements of 2009 and the bank statements.
- \* The interest received on investments of N\$ 275 331 for 2010 and N\$ 389 904 for 2009 was not recorded in the financial statements.
- \* The auditors re-performed the bank reconciliation for 30 June 2009 which revealed a difference of N\$ 37 916.
- \* Material differences of N\$ 67 078 for 2010 and N\$ 170 496 for 2009 related to Nored income were found for the years under review.
- \* Gazetted rates for house rentals were not updated for the year ended 30 June 2010.
- \* No lists related to the sale of erven were provided by the Town Council for the years ended 30 June 2009 and 2010.

**WINDHOEK, November 2011**

**JUNIAS ETUNA KANDJEKE  
AUDITOR GENERAL**

**TOWN COUNCIL OF OPUWO**  
**BALANCE SHEET ON 30 JUNE**

	<b>Notes</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
		N\$	N\$	N\$
<b>ASSETS</b>				
<b>Non-current assets</b>		11 332 820	12 669 705	9 309 085
Property, Plant and Equipment	3	6 530 602	6 601 379	4 860 334
Investments	4	4 802 218	6 068 326	4 448 751
<b>Current assets</b>		4 369 043	4 905 129	4 085 576
Accounts receivables	5	4 225 034	4 905 129	3 684 634
Cash and cash equivalents	7	144 009	-	400 942
<b>TOTAL ASSETS</b>		<b>15 701 863</b>	<b>17 574 834</b>	<b>13 394 661</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Funds</b>		4 831 818	7 843 144	3 422 231
Funds and accounts	2	13 812 666	12 769 262	10 442 601
Accumulated funds	2	(8 980 848)	(4 926 118)	(7 020 370)
<b>Current Liabilities</b>		10 870 045	9 731 690	9 972 430
Accounts payables	6	10 870 045	9 193 188	9 972 430
Bank overdraft		-	538 502	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>15 701 863</b>	<b>17 574 834</b>	<b>13 394 661</b>



## TOWN COUNCIL OF OPUWO

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<b>Notes</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
		N\$	N\$	N\$
INCOME		6 900 012	5 741 387	3 376 867
EXPENDITURE		(7 095 119)	(5 714 998)	(4 934 496)
NET OPERATING (LOSS) / PROFIT		(195 107)	26 389	(1 557 629)
INVESTMENT INTEREST EARNED		-	-	109 273
NET (LOSS) / INCOME	2	(195 107)	26 389	(1 448 356)
ADJUSTMENTS	9	(3 859 623)	2 067 863	(24 410)
NET (LOSS) / PROFIT for the year		(4 054 730)	2 094 252	(1 472 766)
APPROPRIATION ACCOUNT				
- AT BEGINNING OF THE YEAR		(4 926 118)	(7 020 370)	(5 547 604)
APPROPRIATION ACCOUNT				
- AT END OF THE YEAR		<b>(8 980 848)</b>	<b>(4 926 118)</b>	<b>(7 020 370)</b>

## TOWN COUNCIL OF OPUWO

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Notes	2010 N\$	2009 N\$	2008 N\$
Net operating surplus after adjustments	9.1	(4 054 730)	2 094 252	(1 582 039)
Investment income		-	-	109 273
Net changes in working capital	9.2	2 356 952	(1 999 737)	340 767
<i>Cash (utilised) / generated by operating activities</i>	9	(1 697 778)	94 515	(1 131 999)
<i>Cash generated / (utilized) in investing activities</i>		1 336 885	(3 360 620)	(2 567 663)
(Additions)re-statement to fixed assets		70 777	(1 741 045)	(747 681)
Decrease / (increase) in investments		1 266 108	(1 619 575)	(1 819 982)
<i>Cash generated in financing activities</i>		1 043 404	2 326 661	3 645 458
Increase in funds		1 043 404	2 326 661	3 645 458
(Decrease) / increase in cash and cash equivalents		682 511	(939 444)	(54 204)
Cash and cash equivalents at beginning of year		(538 502)	400 942	455 146
Cash and cash equivalents at end of year		<b>144 009</b>	<b>(538 502)</b>	<b>400 942</b>

## TOWN COUNCIL OF OPUWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE

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**1. ACCOUNTING POLICIES**

The annual financial statements are compiled in accordance with the historical convention modified by the restatement of the financial instruments 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.

**1.1 Fixed assets and depreciation**

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 not 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 depreciation is calculated on the shortfall.

**1.2 Inventories**

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

**1.3 Funds**

The following Funds were created by the Town Council in terms of section 58(1) and section 80(4) of the Local Authorities Act, 1992 (Act 23 of 1992):

**1.3.1 Fixed Property Fund**

Proceeds from the sale of land that has been developed by the Town Council accumulates in this Fund. Cost incurred on the development of land is charged to this Fund.

**1.3.2 Build Together Fund**

The purpose of this Fund is to provide for housing loans. Income to this Fund is mainly contributed by the Government.

## TOWN COUNCIL OF OPUWO

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE

	2010	2009	2008
	N\$	N\$	N\$
<b>2. OWN FUNDS</b>			
<b>2.1 Financing of capital:</b>			
Contribution from:	6 530 602	6 601 379	4 860 334
Contribution from Revenue	6 530 602	6 601 379	4 860 334
<b>2.2 Funds</b>	(1 698 784)	1 241 765	(1 438 103)
Fixed Property Fund	1 314 469	1 196 120	1 028 240
Housing Fund	5 967 595	4 971 763	4 554 027
Accumulated (deficit)	(8 980 848)	(4 926 118)	(7 020 370)
<b>TOTAL FUNDS</b>	<b>4 831 818</b>	<b>7 843 144</b>	<b>3 422 231</b>
<b>3. FIXED ASSETS</b>			
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment and were all financed from Revenue	<b>6 530 602</b>	<b>6 601 379</b>	<b>4 860 334</b>
<b>4. INVESTMENTS</b>			
Fixed deposits and money on call	4 802 218	6 068 326	4 448 751
	<b>4 802 218</b>	<b>6 068 326</b>	<b>4 448 751</b>
Comprising of:			
Housing Fund	2 265 273	3 003 352	2 701 102
Fixed Property Fund	1 314 468	1 196 120	1 028 240
Revenue	1 222 477	1 868 854	719 409
	<b>4 802 218</b>	<b>6 068 326</b>	<b>4 448 751</b>
<b>5. TRADE AND OTHER RECEIVABLES</b>			
Service to consumers	3 298 383	2 408 129	1 831 710
Namwater debtor	1 017 570	842 432	-
Debtor: Road Fund Administration	-	500 000	-
Build Together	3 702 322	1 968 411	1 852 924
Less: Provision for bad debts	(3 793 241)	(813 843)	-
	<b>4 225 034</b>	<b>4 905 129</b>	<b>3 684 634</b>

## TOWN COUNCIL OF OPUWO

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
<b>6. TRADE AND OTHER PAYABLES</b>			
Trade creditors	1 119	1 119	9 839 498
Sundry creditors	157 399	-	-
Provision - Namwater	9 567 785	8 800 588	-
Provision for leave days	200 000	-	-
Namwater	71 768	-	-
Water payment	170 860	-	-
VAT suspense account	701 114	391 481	132 932
<b>7. CASH AND BANK BALANCES</b>			
Current bank account	144 009	-	400 942
Current bank account - bank overdraft	-	(538 502)	-
	<b>144 009</b>	<b>(538 502)</b>	<b>400 942</b>
<b>8. ADJUSTMENTS TO APPROPRIATION ACCOUNT</b>			
Previous year adjustments - unexplained	(3 666 180)	(934 882)	(24 809)
Previous year adjustments	158 860	9 880 745	-
Adjustments	-	-	399
Adjustments - Namwater	(352 303)	(6 878 000)	-
Adjustments	-	-	-
Adjustments - Creditors 2005	-	-	-
Adjustments	-	-	-
	<b>(3 859 623)</b>	<b>2 067 863</b>	<b>(24 410)</b>
<b>9. CASH GENERATED ABSORBED/ (UTILISED) BY OPERATIONS</b>			
<b>Reconciliation of net operating profit to cash utilized in operations</b>			
Net operating surplus before adjustments:	(195 107)	26 389	(1 448 356)
Adjusted for:			
- Appropriation account	(3 859 623)	2 067 863	(24 410)
Net operating surplus after adjustments	9.1 (4 054 730)	2 094 252	(1 472 766)
Decrease / (increase) in accounts receivable	680 094	(1 220 495)	(1 071 808)
Increase / (decrease) in trade and other payables	1 676 857	(779 242)	1 412 575
Net changes in working capital	9.2 2 356 752	(1 999 737)	340 767
Cash (utilised) / generated by operations	<b>(1 697 778)</b>	<b>94 515</b>	<b>(1 131 999)</b>