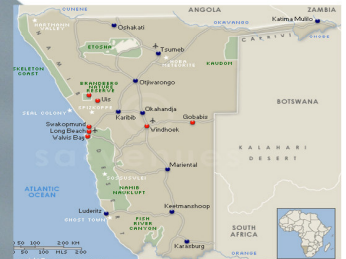
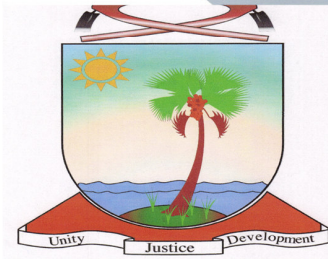




REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF OSHAKATI
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

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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 Oshakati for the financial year ended 30 June 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, February 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL
ON THE ACCOUNT OF THE TOWN COUNCIL OF OSHAKATI
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2008**

1. INTRODUCTION

The accounts of the Town Council of Oshakati for the year ended 30 June 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, (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 Namibian Dollar.

2. FINANCIAL STATEMENTS

The Town Council's financial statements were submitted to the Auditor-General by the Accounting Officer in Compliance with Section 87(1) of the Local Authorities Act, 1992, **except that they were only submitted on 3 February 2009 instead of three months after the 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 original.

The following annexures are also attached to this report:

- Annexure A: Balance sheet
- Annexure B: Abridged income statement
- Annexure C: Cash flow statement
- Annexure D: Notes to the financial statements

3. SCOPE OF THE AUDIT

The Accounting Officer of the Town Council is responsible for the preparation of the financial statements and for ensuring the 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 the financial transactions
- b) assessment of the significant estimates and judgements made by the Accounting Officer of the Town Council in preparation
- 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 irregularities;
- 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 Recoverability of debtors - Bad and doubtful debts

In the year under review, the Council's outstanding debts decreased by 4% while the provision for doubtful debts were also raised by 17%. Also, doubtful debts provision currently represents more than 70% of total debt outstanding as such the auditors can conclude that debt collection strategies and policies implemented are not effective.

	2008	2007
	N\$	N\$
Debt outstanding	10 170 151	10 643 486
Provision for bad debts	7 349 282	6 268 438
Percentage increase in outstanding debts	(4%)	22%
Percentage increase in provision for bad debts	17%	24%
Percentage provision vs. debt	72%	59%

Furthermore the portion of debtors at 120 days to total debts outstanding has shown a constant increase over the past years, raising concern of possible future cash flow difficulties. The auditors recalculation of provision for doubtful debts reveal an under provision of N\$ 294 832.

Although it was evident that credit control policies are in place, the effectiveness of these measures should be reviewed constantly by the management committee and town treasurer department.

Due to the significance of this matter, the Auditor-General has to qualify his opinion on valuation of debtors.

4.2 Unrecorded liabilities

The Council did not provide for creditors amounting to N\$ 305 328 as at 30 June 2008.

Such practice leads to inadequate accounting control over accruals and provisions made by the Council. It is recommended that measures should be implemented to keep accurate creditors reconciliations.

Due to the significance of this matter, the Auditor-General has to qualify his opinion on accounts payable for the year under review.

4.3 Fixed assets

4.3.1 Depreciation

The accounting system, used by the Council was not able to calculate depreciation on a pro-rata basis, on all fixed assets bought during the year. This inability creates an incorrect valuation of fixed assets as stated in the annual financial statements.

4.4 Build Together advances

The auditors reconciliation of the annual financial statements balance to the Council's computerized loan debtors trial balance revealed an unexplained difference of N\$ 188 479.

In addition, a substantial number of beneficiary debts exceeded their original approved loan amount. This is mainly due to arrears and interest charges levied.

4.5 Permission to Occupy income

The Council currently applies rates that are not published in the Government Gazette of 15 July 2007 No. 3661. These rates were inherited from the time when the Council was still under Government control.

All tariffs and rates for services delivered by the Council should be gazetted.

4.6 Stock control

A physical stocktaking was conducted, but the accounting records were not properly updated, therefore the value of stock recorded in the balance sheet does not agree with the values indicated in the actual stock records. In addition, no provision has been made for slow-moving and obsolete stock.

Due to the significance of this matter, the Auditor-General has to qualify his opinion on stock.

5. ACKNOWLEDGEMENT

The assistance and co-operation given by the management and staff of the Town Council during the audit is appreciated. The efforts made by management to implement the previous year recommendations of the auditors are also appreciated.

6. FINANCIAL RESULTS

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

	Revenue	Expenditure	Surplus/ (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus as at 01/07/2007				18 105 020
General services				
Rate and general	2 864 570	7 920 729	(5 056 159)	
Non-profitable	9 305 546	7 035 263	2 270 283	
Self-supporting	5 234 712	3 272 815	1 961 897	
Trade accounts				
Water supply	15 895 342	10 789 980	5 105 362	
Contributions from subsidiary				
Electricity supply	2 110 461	-	2 110 461	
	35 410 631	29 018 787	6 391 844	
Surplus for the year				6 391 844
Unexplained difference (Adjustments and utilizations detailed in Note 9 of the financial statements.)				(10) (1 113 801)
Accumulated surplus as at 30/06/2008				23 383 053

7. CURRENT BANK ACCOUNT

The cashbook balance reflected a favourable balance of N\$ 13 195 742 (2007: N\$ 2 744 358) while the bank statements reflected a favourable balance of N\$ 13 537 762 (2007: N\$ 3 043 330). Cheques not presented for payment totaling N\$ 724 975 (2007: 429 518) and deposits not banked amounting to N\$ 382 955 (2007: N\$ 157 084) were outstanding at year-end.

8. INVESTMENTS AND INTEREST PROCEEDS

At 30 June 2008 there was N\$ 33 314 603 (2007: N\$ 24 412 195) invested at approved financial institutions, as follows:

	Interest allocation	Investments	
	2008	2008	2007
	N\$	N\$	N\$
Banking institutions	2 515 705	33 314 553	24 412 1456
Shares	-	50	50
	2 515 705	33 314 603	24 412 196

Investments and interest were allocated to the following Funds:

	Interest allocation	Investments	
	2008	2008	2007
	N\$	N\$	N\$
Build Together Fund	432 222	5 987 027	5 126 295
Capital Development Fund	982 617	11 788 346	9 095 659
Income	1 100 866	15 539 230	10 190 242
	2 515 705	33 314 603	24 412 196

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:

	2008	2007
	N\$	N\$
Sales	15 469 620	14 267 832
Cost of bulk purchases	(9 122 175)	(8 660 902)
Gross profit	6 347 445	5 606 930
Expenses (net)	(1 242 084)	(1 374 871)
Net Surplus	5 105 361	4 232 059
Gross profit % on bulk purchases	69.58%	64.74%
Net surplus % on bulk purchases	55.97%	48.86%

The trading results showed a increase in profitability compared to the prior year.

10.2 Distribution losses for water were:

	2008	2007
	m³	m³
Units sold for the year	1 198 365	1 101 635
Units purchased during the year	1 326 870	1 259 772
Distribution loss	(128 505)	(158 137)
Distribution loss percentage	(9.7%)	(12.6%)

Council statistics on water distributions reveal decreases in water losses. Council's improvement in this regard should be complimented.

11. SELF-SUPPORTING SERVICES

The net results of self-supporting services were as follows:

	2008	2007
	N\$	N\$
Cleaning services	989 529	802 519
Sewerage	972 370	1 269 225
	1 961 899	2 071 744

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

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

13. SUSPENSE ACCOUNTS

Government contributions of N\$ 10 073 315 (2007: N\$ 776 515) were accounted for in a suspense account during the year under review. However this balance will only be cleared subsequent to expenditure incurred therefrom.

14. IRREGULARITIES AND LOSSES

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

15. CAPITAL PROJECTS

The following expenditure was incurred during the year for capital projects or acquisitions.

		Financed from	Financed from
	2008	2008	2007
	Expenditure	Revenue account	Revenue account
	N\$	N\$	N\$
Town clerk	-	-	40 910
Town secretary	310 573	310 573	8 746
Town treasurer	71 526	71 526	36 000
Town engineer	11 726	11 726	56 614
Health inspector		-	16 532
Town planning	35 038	35 038	460 374
Workshop		-	1 261
Cemetries	47 172	47 172	633 470
Parks and sportgrounds	297 478	297 478	98 964
Civic buildings and housing	116 126	116 126	81 352
Streets, sidewalks and stormwaters	1 530 319	1 530 319	4 078 830
Fire brigade	291 026	291 026	23 712
Cleansing services		-	108 950
Sewerage	174 480	174 480	1 054 328
Water supply	121 311	121 311	541 540
Total	3 006 775	3 006 775	7 241 583

16. BURSARIES

No bursaries were granted during the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

Donations and grants to the amount of N\$ 9 500 (2007: N\$ 5 271) were made by the Council during the year under review.

18. COMPENSATION PAYMENTS

An amount of N\$ 77 946 (2007: N\$ 137 431) as crop fields compensation payments during the year under review.

19. VISITS TO FOREIGN COUNTRIES

Expenditure of N\$ 9 056 (2007: Nil) was incurred on visits to other countries during the year under review.

20. CLAIMS AGAINST THE TOWN COUNCIL

No claims for losses were received during the year.

21. GIFTS / DONATIONS BY / TO THE LOCAL AUTHORITY

No gifts to/by the Town Council were made during the year under review.

22. TRANSFER OF PROPERTY TO / FROM GOVERNMENT

No properties were transferred from the Ministry of Regional and Local Government, Housing and Rural Development.

23. DEBTORS AND CREDITORS

23.1 Debtors at 30 June 2008 were:

	2008	2007
	N\$	N\$
Consumers	10 170 151	10 643 486
Provision for bad debts	(7 349 282)	(6 268 438)
	2 820 869	4 375 048
Value added taxation	311 617	912 841
Other debtors	1 044 938	1 375 486
	4 177 424	6 663 375

For the year under review, a debtors billings system was used of whereby build together accounts, assessment rates, water services and related services, were combined. No split was made between relevant services rendered. However, upon receipt of cash, monies were accounted for in terms of different services rendered.

23.2 Creditors at 30 June 2008 were:

	2008	2007
	N\$	N\$
Trade creditors	3 148 125	4 595 969
Provisions and accruals	1 229 879	959 919
Suspense accounts	10 073 315	776 515
	14 451 319	6 332 403

24. ASSESSMENT RATES

Net proceeds from assessment rates amounted to N\$ 6 867 016 (2007: N\$ 7 069 188). The tariffs for private and business properties of N\$ 0.0441 and 0.0445 per dollar per year on site valuations respectively plus N\$ 0.0182 and N\$ 0.0184 per dollar per year on the valuation of improvements respectively is in line with gazette rates.

25. LOANS

25.1 External loans

The Town Council's shareholders loan in the company Oshakati Premier Electric remained the same as in the prior year, namely at N\$ 4 427 597.

25.2 Internal loans

No internal loans were advanced or received during the year under review.

25.3 Housing loans

The amounts advanced in favour of housing loans under the Build-Together Housing Scheme are disclosed at N\$ 3 970 507 (2007: N\$ 4 268 430) in the financial statements.

26. SALE OF ERVEN

During the current financial year, cash proceeds to the value of N\$ 1 711 164 (2007: N\$ 475 900) were received for erven sold and allocated to the Capital Development Fund.

27. PROPERTY SOLD ON 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

All tariff adjustments were in accordance with the relevant Official Government notice.

29. APPROVALS

29.1 Excess on approved budget

The budget vs actual expenditure revealed on an overall view no excess expenditure from the approved budget. However, it was noted that an underspending of N\$ 14 000 918 (2007: N\$ 16 604 894) was shown which was mainly due to capital projects, which should have been financed from revenue but which were not fully implemented and completed as proposed in the budget.

30. MOTOR VEHICLES

30.1 Motor vehicles and values thereof:

	Sedan vehicles		LDV's		Heavy duty vehicles	
	No	N\$	No	N\$	No	N\$
On hand as at 01/07/06	3	2	16	536 802	16	2 836 239
Additions	2	355 808	2	387 270	-	-
Less: Depreciation	5	355 810	18	924 072	16	2 836 239
	-	(71 162)	-	(124 160)	-	(586 748)
On hand 30/06/07	5	284 648	18	799 912	16	2 249 491

The above information was compiled by the auditors using the Councils fixed asset register as Council was unable to provide these information.

30.2 Stock

According to the Council, stock comprising of stationery and consumables amounted to N\$ 494 248 (2007: N\$ 411 847).

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year.

32. GENERAL

32.1 Internal controls

The accounting and internal controls are satisfactory, except where indicated otherwise in this report. 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:

- * Unrecorded liabilities
- * Leave days provision
- * Long overdue debtors' accounts and monies long outstanding becoming doubtful;
- * Accounting and recording of sale of erven income
- * Incorrect PAYE calculation

34. QUALIFIED AUDIT OPINION

The accounts of the Oshakati Town Council for the financial year ended 30 June 2008, summarized in Annexure A to D, were audited by me in terms of the provisions of Section 85 of the Local Authorities Act, 1992 read with Section 25(1) of the State Finance Act, 1991.

The statements have been prepared on the basis of accounting practices applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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

- The position for doubtful debts is underprovided by N\$ 294 832.
- The Council did not provide for creditors to the amount of N\$ 305 328.
- Fixed assets are not depreciated on a pro-rata basis therefore the assets are overstated.
- Stock as disclosed in the accounts of the Council does not agree with the actual stock because the accounting records were not updated.

Except for the above-mentioned remarks, in my opinion the financial statements fairly present the financial position of the Town Council at 30 June 2008 and the results of its operations and cash flow for the year then ended.

WINDHOEK, February 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR GENERAL**

THE TOWN COUNCIL OF OSHAKATI

BALANCE SHEET ON 30 JUNE

	Notes	2008 N\$	2007 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	3	115 305 306	108 727 645
Loans	6	77 563 106	79 887 852
Investments	4	4 427 597	4 427 597
		33 314 603	24 412 196
Current assets			
Inventory	5	21 838 052	14 088 013
Accounts receivables	7	494 248	411 847
Cash and cash equivalents		8 147 930	10 931 805
		13 195 874	2 744 361
TOTAL ASSETS		137 143 358	122 815 658
FUNDS AND LIABILITIES			
Funds and reserves			
Funds accounts and reserves	2	122 692 039	116 483 256
Capital Development Fund	2	100 946 159	97 992 872
Build Together Fund	2	11 788 346	9 095 659
		9 957 534	9 394 725
Current liabilities			
Accounts payables	8	14 451 319	6 332 402
TOTAL FUNDS AND LIABILITIES		137 143 358	122 815 658

THE TOWN COUNCIL OF OSHAKATI

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2008 N\$	2007 N\$
INCOME		34 309 765	33 477 321
EXPENDITURE		(29 018 787)	(29 889 466)
NET OPERATING SURPLUS		5 290 978	3 587 855
INVESTMENT INTEREST EARNED		1 100 866	1 704 033
NET INCOME FOR THE YEAR		6 391 844	5 291 888
ADJUSTMENTS	9	(1 113 801)	(907 862)
NET SURPLUS / (DEFICIT) FOR THE YEAR		5 278 043	4 384 026
Unexplained difference		(10)	-
APPROPRIATION ACCOUNT			
- AT THE BEGINNING OF THE YEAR		18 105 020	13 720 994
- AT END OF YEAR		23 383 053	18 105 020

THE TOWN COUNCIL OF OSHAKATI

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008	2007
		N\$	N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		34 309 765	33 477 321
Cash paid to suppliers		(13 980 686)	(27 733 266)
Cash (utilised)/generated by operations	10	20 329 079	5 774 055
Interest earned		1 100 866	1 704 033
Movement in Fund accounts			
Fund account		930 750	3 581 776
Net cash flow from operating activities		22 360 695	11 059 864
Cash flow from investing activities			
Net capital expenditure		(3 006 775)	(7 186 330)
(Increase)/decrease in investments		(8 902 407)	(3 283 521)
		(11 909 182)	(10 469 851)
Net movement in cash and cash equivalents		10 451 513	590 013
Cash and cash equivalents at the beginning of the year		2 744 361	2 154 348
Cash and cash equivalents at the end of the year		13 195 874	2 744 361

THE TOWN COUNCIL OF OSHAKATI

NOTES TO THE ANNUAL FINANCIAL STATEMENT AT 30 JUNE 2008

1. ACCOUNTING POLICIES

The annual financial statements are compiled in accordance with the historical convention modified by the restatement of the financial statements for the period ended 30 June 2008.

The principal accounting policies of the Town Council, which are set out below, had been consistent and comply with Namibian Accounting Standards.

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 useful life of the asset. In the case of assets acquired on a loan, 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 costs incurred in bringing the inventories to their present location and condition.

	<u>2008</u>	<u>2007</u>
	N\$	N\$
2. OWN FUNDS		
2.1 Financing of capital:		
Contribution from:	77 563 106	79 887 852
Capital	3 574 489	3 894 181
Revenue	73 988 617	75 993 671
2.2 Funds	45 128 933	36 595 404
Capital Development Fund	11 788 346	9 095 659
Build Together Fund	9 957 534	9 394 725
Accumulated surplus	23 383 053	18 105 020
TOTAL FUNDS	<u>122 692 039</u>	<u>116 483 256</u>

THE TOWN COUNCIL OF OSHAKATI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2008 (continued)

	<u>2008</u>	<u>2007</u>
	N\$	N\$
3. FIXED ASSETS		
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment.	77 563 106	79 887 852
Financed from:		
Capital account	3 574 489	3 894 181
Revenue account	73 988 617	75 993 671
	77 563 106	79 887 852
4. INVESTMENTS		
Commercial banks	33 314 553	24 412 146
Shares - Oshakati Premier Electric (Pty) Ltd	50	50
	33 314 603	24 412 196
Comprising of:		
Build Together Fund	5 987 026	5 126 295
Capital Development Fund	11 788 346	9 095 659
Revenue account	15 539 231	10 190 242
	33 314 603	24 412 196
5. INVENTORY		
Comprising of:		
Consumable stores	494 248	411 847
	494 248	411 847
6. LONG-TERM LOAN RECEIVABLE		
Oshakati Premier Electric (Pty) Ltd	4 427 597	4 427 597
	4 427 597	4 427 597

The shareholders loan is unsecured, bears interest at 22.50% per annum, and has no fixed terms of repayment. The loan is disclosed as a long-term loan since the Town Council had no intention to recall it within the next 12 months.

THE TOWN COUNCIL OF OSHAKATI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2008 (continued)

	2008	2007
	N\$	N\$
7. ACCOUNTS RECEIVABLE		
Consumer debtors	10 170 150	10 643 486
Less: Provision for doubtful debts	(7 349 282)	(6 268 438)
VAT control account	311 617	912 841
Sundry debtors	1 044 938	1 375 486
Build Together advances	3 970 507	4 268 430
	8 147 930	10 931 805
8. ACCOUNTS PAYABLES		
Trade and other payables	1 431 998	2 988 652
Provisions and accruals	1 229 879	959 919
Consumer deposits	1 716 127	1 607 317
Suspense accounts	10 073 315	776 515
	14 451 319	6 332 403
9. ADJUSTMENTS AND UTILIZATIONS		
Correction of prior year creditors	225 439	260 943
Writing back prior year creditors	-	53 539
Road Fund admin fees 2005/2007 refund	-	35 048
Writing back VAT receivable	(379 787)	(6 178)
(Over)/under provision audit fees 2005/2007	12 761	(120)
Unclaimed deposits	1 672	(18 569)
Provision for bad debts	(1 080 844)	(1 232 525)
Revenue adjustments	1 835	-
Stale cheque	478	-
Insurance proceeds - Assets sold	104 645	-
	(1 113 801)	(907 862)

THE TOWN COUNCIL OF OSHAKATI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2008 (continued)

	2008	2007
	N\$	N\$
10. CASH GENERATED BY OPERATIONS		
Net operating surplus/(loss) before transfers	6 391 844	5 291 888
Adjustments:		
- Difference in fixed assets opening balance	-	41 600
- Appropriation account	(1 113 811)	(907 862)
- Interest earned	(1 100 866)	(1 704 033)
- Depreciation	5 331 521	5 202 593
	<u>9 508 688</u>	<u>7 924 186</u>
Changes in working capital		
(Increase)/decrease in inventory	(82 401)	(212 437)
(Increase)/decrease in accounts receivable	2 783 875	(686 632)
Increase/(decrease) in accounts payable	8 118 917	(1 251 062)
	<u>10 820 391</u>	<u>(2 150 131)</u>
Cash generated by operations	<u>20 329 079</u>	<u>5 774 055</u>