



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF OSHIKUKU
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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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 Oshikuku for the financial year ended 30 June 2011, 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, September 2012

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF OSHIKUKU
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

1. INTRODUCTION

The accounts of the Town Council of Oshikuku for the year ended 30 June 2011 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 EDB & Associated 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. 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 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 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements in 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 Accounts payable

The auditors detected N\$ 481 819 unrecorded liabilities at financial year end.

The auditors found that consumer deposits are inadequate compared to total debt due.

The Council did not make provision for Regional Council fees of N\$ 10 055 for the year under review.

As a result of the above the Council's liabilities at year-end has been understated.

4.2 Property, plant and equipment

The Council's fixed asset register contain inadequate descriptions of assets especially electronic related.

The auditors detected invoices to the amount of N\$ 573 561 that could not be found. The Council ignored Tender Board regulations on purchases exceeding N\$ 10 000.

There was a prior year Capital expense of N\$ 103 223 (Vat included) recorded in the financial year under review.

Incorrect useful lives were used in the calculation of the depreciation. This resulted in a misstatement of N\$ 45 083.

The fixed asset register of the Council differed by an amount of N\$ 55 267 compared to the amount in the annual financial statements.

The Council amount of capital outlay expenses as per annual financial statements differed with an amount of N\$ 4 870 565 compared to the capital statements. This was due to CAPEX incorrectly posted to the Capital Reserve Fund.

4.3 Investment – NORED

The Council's annual financial statements omitted its investment shareholding in NORED. The finance department should obtain the Council's value of shareholding in NORED and appropriately disclose it in the financial statements.

Investment – Interest income allocated

No investment policy is in place with the Town Council for guidance and transparency purposes. There is room for improvement on reconciliations of investments, with regard to interest calculations and allocations.

4.4 Investments – Account overstatement

The correct closure and transfer of a Build Together Disbursement Fund bank account could not be ascertained by the auditors. The bank statement reflects a zero balance while the financial statements still reflect the balance of N\$ 177 591.

4.5 Funds and reserves

The Council did not reflect in its annual financial statements any balances of the Build Together beneficiaries. A manual list of Build Together debtors were kept, but the detail was also not updated. The auditors could therefore not perform the necessary audit tests to substantiate the amount of N\$ 1 627 presented in the financial statements.

The auditors also noted that the receipts amounting to N\$ 95 995 from Build Together loans were allocated against the Build Together Funds.

4.6 Debtors

Consumer debtors

The age analysis of the Council debtors are inaccurate and disclose a credit balance of N\$ 583 242 under ‘**transactions**’. This indicates that receipts are not correctly allocated against the relevant invoices.

The auditors’ recalculation on the Council age analysis reveal that debtors payments are 3 years behind.

The auditors, recalculated provision for doubtful debts revealed an overstatements of N\$ 327 761.

Vat Control Account

The auditors’ reconciliation of the Council VAT reveal an immaterial difference of N\$ 17 329. The difference could also result from penalties of N\$ 2 800 and input VAT disallowed of N\$ 10 415, which were not accounted for.

4.7 Income

The Council’s filing and record-keeping of sale of erven transactions are inadequate for auditing purpose. A list of erven sold during the year as well as outstanding balances of erven sold on an installment basis could not be provided.

Also, a detailed list on all Permission to Occupy (PTO)/Rental holders could not be availed at the time of the audit.

The auditors’ reconciliation on Nored Surcharges income reveals a difference of N\$ 19 878.21 resulted due to an invoice of December 2010 not found.

4.8 Expenses

The auditors found invoices amounting to N\$ 6 555 which were in respect of prior year.

Invoices amounting to N\$ 15 450 for cheque number 2625, 2744, 2850 and 2820 was not found.

No detailed testing was done on material and stores amounting to N\$ 55 990 as the account could not open on Finstel.

Cheque 3057 which amounted to N\$ 1 304, was wrongly posted to insurance.

A difference of N\$ 85 864 was found on the auditors computation of Namwater invoices. This was due to incorrect treatment of VAT.

4.9 Inventory

The auditors were not present or involved at the Council inventory count at year-end and therefore the Auditor-General is not able to express an opinion of the quantities recorded at 30 June 2011.

Numerous inventory items costing were done on the VAT inclusive price instead of the exclusive amount.

4.10 Distribution losses - Water

The Council did not provide the auditors with updated meter reading cards for water sales. Therefore, the auditors were unable to obtain sufficient assurance to satisfy themselves as to the correctness of the income from water sales.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

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

2011	Revenue	Expenditure	(Deficit)/ Surplus	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus: 01/07/2010				2 696 866
General accounts				
Non-profitable	1 546 279	4 122 712	(2 576 433)	
Self-supporting	543 081	39 600	503 481	
Trade accounts				
Water	1 213 968	848 099	365 869	
Electricity*	280 522	30 000	250 522	
Subtotal	3 583 850	5 040 411	(1 456 561)	
Deficit for the year				(1 456 561)
Adjustments and utilization detailed in Note 10 to the financial statements				1 240 305
				(61 196)
Accumulated surplus: 30/06/2011**				1 179 109

* See paragraph 10.1

** The auditors' recalculation reveals a difference of N\$ 90.00

7. CURRENT BANK ACCOUNT

	2011	2010
	N\$	N\$
Cash-book balance at 30 June – Balance sheet	(165 566)	724 587
Outstanding deposits	(16 187)	(14 241)
Outstanding payments	523 451	278 745
Balance as per bank statement	341 698	989 090

8. INVESTMENTS AND INTEREST PROCEEDS

Institutions	2011	2010
	N\$	N\$
Commercial Banks	9 455 862	5 981 938

The investments were allocated as follows:

Allocations	2011	2010
	N\$	N\$
Salary Reserve Fund	257 244	149 073
Build Together Fund	1 351 574	1 217 090
Capital Reserve Fund	7 041 754	2 102 792
Revenue	805 290	2 512 983
	9 455 862	5 981 938

9. FUND ACCOUNTS

The Council had the following Runds and reserves at the end of the year:

	2011	2010
Funds	N\$	N\$
Salary Reserve Fund	257 244	149 073
Build Together Fund	1 353 202	1 218 717
Capital Reserve Fund	7 041 754	2 102 792
Reserves		
Revenue contributions	15 640 984	11 612 080
General Capital contributions	1 814 053	1 978 553
Revenue Reserve Section 86(1), Local Authorities Act, 1992	1 179 019	2 696 866
	27 286 256	19 758 082

10. TRADE ACCOUNTS

10.1 The results of operations were as follows:

	Electricity		Water	
	2011	2010	2011	2010
	N\$	N\$	N\$	N\$
Surcharges/sales	280 521	521 717	1 194 801	1 804 775
Cost of bulk purchases	(30 000)	-	(848 099)	(1 165 162)
Gross profit	250 521	521 717	346 702	639 613
Other income	-	-	19 167	19 373
NET SURPLUS	250 521	521 717	365 869	658 986
Gross profit % on bulk purchases	835%	N/A	40.88%	54.89%
Net profit % on bulk purchases	835%	N/A	43.14%	56.56%

10.2 Distribution losses were:

	Water	
	2011	2010
	m ³	m ³
Units sold		167 259
Units bought	129 973	169 458
Loss		(2 199)
Percentage loss in units		(1.30%)

See paragraph 4.10.

11. SELF-SUPPORTING SERVICES

The net results were as follows:

	2011	2010
	N\$	N\$
Cleansing income	302 026	264 244
Sewerage income	241 055	210 283
Cleansing expenses	(39 600)	(30 000)
Net surplus	503 481	444 527

12. FRUITLESS/UNAUTHORISED OR AVOIDABLE EXPENDITURE

No fruitless or unauthorized expenditure was revealed during the year.

13. SUSPENSE ACCOUNTS

Suspense accounts are cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

No irregularities or losses were detected during the audit.

15. CAPITAL PROJECTS

The following expenditure was incurred during the year under review for capital projects or acquisitions:

Nature of project/acquisitions	Financed by	Total Expenditure 2010/2011	Total Expenditure 2009/2010
	Revenue Account		
	N\$	N\$	N\$
General administration	5 239 108	5 239 108	4 397 148
	5 239 108	5 239 108	4 397 148

16. BURSARIES

No bursaries were granted during the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

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

18. COMPENSATION PAYMENTS

No compensation payments were made during the year under review.

19. VISITS TO FOREIGN COUNTRIES

Visit to China was evident during the year under review.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year under review.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

There were no such expenses.

22. TRANSFER OF PROPERTY

No property was transferred to or from the Council during the year under review.

23. DEBTORS/CREDITORS

23.1 Debtors at 30 June were:

	2011	2010
	N\$	N\$
Services, rates and taxes	1 599 113	1 533 107
Build Together debtors	1 627	1 627
VAT	610 606	6 273
Sundry debtors	1 500	-
	2 212 846	1 541 007
Less: Provision for doubtful debts	(1 596 954)	(972 240)
	615 892	568 767

23.2 Creditors at 30 June were:

	2011	2010
	N\$	N\$
Trade payables	26 220	1 116 967
Provisions	39 500	39 500
Consumer deposits	38 421	29 038
	104 141	1 185 505

24. ASSESSMENT RATES

Net proceeds from assessment rates were N\$ 213 124 (2010: N\$ 197 997).

The Council provided for the Regional Council levy of N\$ 10 055 (2010: N\$ 9 890), which is payable to the Regional Council in terms of Section 77(1) of the Act.

25. LOANS

25.1 External loans

There were no external loans.

25.2 Internal loans

Staff uniform advances were given to employees, these advances were paid back.

25.3 Loans written off

No loans were written off by the Council.

26. SALE OF ERVEN

Erven were sold for N\$ 475 859 (2010: N\$ 500 341).

27. PROPERTY SOLD ON AN INSTALMENT BASIS

None

28. TARIFF ADJUSTMENTS

Tariff adjustments were all in accordance with the relevant Government notice.

29. APPROVALS

29.1 Revenue written off

No debts were written off during the year.

29.2 Excess on approved budget

All budget excesses were approved.

29.3 Internal loans

All internal loans made during the year were approved.

30. INVENTORY AND EQUIPMENT

30.1 Inventory

Inventories as disclosed in the financial statements of the Council amount to N\$ 27 670 (2010: 77 661).

30.2 Motor Vehicles

	Sedans, LDV's, combi's and trailers		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value
Balance 01/07/2010	2	N\$ 142 567	1	N\$ 129 671
Additions	1	162 358	1	144 478
	3	304 925	2	274 149
Less: Depreciation	-	(58 164)	-	(54 083)
On hand 30/06/2011	3	246 761	2	220 066

31. SPECIAL INVESTIGATIONS FACTUAL FINDINGS

All special investigations were completed and reported upon.

32. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report. The following informal queries were addressed in the report to management of the Council:

- Accounts payable
- Fixed assets
- Investments
- Funds and reserves
- Accounts receivable
- Income
- Expenses
- Payroll
- Inventory

33. GENERAL

There is an insufficient system of internal controls at the Town Council. Proper segregation of duties is not possible due to the small number of staff employed. While increased management involvement does reduce risks partly, it causes the risk that management and Council override existing controls, a potentially dangerous practice, which the Council should vigilantly guard against.

34. QUALIFIED AUDIT OPINION

The accounts of Oshikuku Town Council for the financial year ended 30 June 2011, 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 reasons:

- Accounts payable overstated by N\$ 481 819;
- Depreciation miscalculated by N\$ 45 083;
- Fixed asset as per annual financial statements differed with N\$ 55 267 from Fixed Asset Register;

- Capital outlay expenses as per income statement per annual financial statements differ with N\$ 4 870 565 compared to capital statements;
- Invoices on capital additions amounting to N\$ 573 561.19 that could not be found;
- Prior year capital expense of N\$ 103 223; (VAT included) recorded in current financial year;
- Non-disclosure of the NORED investment;
- The Build Together Disbursement Investment account reflected N\$ 177 592, however the bank statement reflected a zero balance;
- The auditors also noted that the receipts amounting to N\$ 95 995 from Build Together loans were allocated against the Build Together Funds;
- Inventory disclosed with VAT inclusive;
- Provision for doubtful debts overstated by N\$ 327 761;
- Income – Limitations placed to test on sale of erven, PTO/Rental income which were both significant in value; and
- Namwater reconciliation difference of N\$ 85 864 which were due to incorrect treatment of VAT.

Except for the effect of any adjustments which might have been necessary as referred to above, in my opinion, these financial statements fairly present the financial position of the Town Council at 30 June 2011, and the results of operations and cash-flows for the year then ended in accordance with generally accepted accounting practice.

WINDHOEK, September 2012

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

TOWN COUNCIL OF OSHIKUKU

BALANCE SHEET AT 30 JUNE

	Notes	2011 N\$	2010 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	17 455 038	13 590 633
Investments	3	9 455 862	5 981 938
Current assets			
Inventories	4	27 670	77 661
Accounts receivable	5	615 892	568 767
Bank and cash	7	-	724 587
Total assets		27 554 462	20 943 586
EQUITY AND LIABILITIES			
Fund and reserves			
Capital outlay	8	17 455 037	13 590 633
Funds and accounts	9	9 831 219	6 167 448
Current liabilities			
Accounts payable	6	104 140	1 185 505
Bank overdraft	7	164 066	-
Total equity and liabilities		27 554 462	20 943 586

TOWN COUNCIL OF OSHIKUKU

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Notes	2011	2010
		N\$	N\$
INCOME		3 575 448	6 682 711
EXPENDITURE		(5 040 411)	(6 154 673)
NET OPERATING PROFIT/(LOSS)		(1 464 963)	528 038
Investment interest on revenue account		8 402	237 210
NET SURPLUS/(LOSS) for the year		(1 456 561)	765 248
Adjustments to appropriation account	10	(61 196)	(293 975)
Accumulated surplus (deficit) for the year		(1 517 757)	471 273
ACCUMULATED SURPLUS			
– At the beginning of the year		2 696 866	2 225 593
– At the end of the year		1 179 109	2 696 866

TOWN COUNCIL OF OSHIKUKU

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Notes	2011	2010
		N\$	N\$
Cash generated (utilised) by operating activities			
Cash receipts from customers		3 575 447	6 682 711
Cash paid to suppliers		(6 180 196)	(4 354 431)
Cash (utilized) by operating activities	11	(2 604 749)	2 328 280
Interest on investments		8 402	237 210
Increase/(decrease) in Fund Accounts		5 181 618	(1 897 282)
Increase in Capital outlay		3 864 405	3 481 675
Net cash flow from operating activities		6 449 676	4 149 883
Cash effects on investing activities			
Net capital expenditure		(3 864 405)	(3 481 675)
(Increase) in investments		(3 473 924)	(568 077)
		(7 338 329)	(4 049 752)
Net change in cash and cash equivalents		(888 653)	100 131
Cash and cash equivalents at the beginning of the year		724 587	624 456
Cash and cash equivalents at the end of the year		(164 066)	724 587

TOWN COUNCIL OF OSHIKUKU

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

1. ACCOUNTING POLICIES

The financial statements set out in Annexure A to C were 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 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 Council from time to time. Property, plant and equipment 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 Inventory

Inventory is valued using the average cost basis. Obsolete stock is written off.

1.3 Fund accounts**1.3.1 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.

1.3.2 Reserve Funds

The Town Council also maintains the following Funds in terms of the authorisation in Section 80(4) of the Act:

- **Salary Reserve Fund**

The purpose of this Fund is to provide for accrued leave of the Council's staff.

- **Build Together Fund**

The purpose of this Fund is to provide for housing loans. Income to this Fund is transferred from the general income account, external loans from Government and interest on investments and loans.

TOWN COUNCIL OF OSHIKUKU

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

	2011	2010
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Income assets	15 640 984	11 612 080
General capital assets	1 814 053	1 978 553
	17 455 037	13 590 633
3. INVESTMENTS		
Commercial banks	9 455 862	5 981 938
ALLOCATED AS FOLLOWS:		
Salary Reserve Fund	257 244	149 073
Build Together Fund	1 351 574	1 217 090
Capital Reserve Fund	7 041 754	2 102 792
Revenue	805 290	2 512 983
	9 455 862	5 981 938
4. INVENTORIES		
Consumable goods in store	27 670	77 661
5. ACCOUNTS RECEIVABLE		
Services, rates and taxes	1 599 113	1 533 108
Inland revenue – VAT	610 606	6 273
Build together debtors	1 627	1 627
Sundry debtors	1 500	-
	2 212 846	1 541 008
Less: Provision for doubtful debts	(1 596 954)	(972 240)
	615 892	568 767
6. ACCOUNTS PAYABLE		
Creditors	26 220	1 116 967
Provisions	39 500	39 500
Consumer deposits	38 420	29 038
	104 140	1 185 505
7. CASH AND BANK BALANCES		
Cash and bank balance at 30 June	(164 066)	724 587

TOWN COUNCIL OF OSHIKUKU

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

	2011	2010
	N\$	N\$
8. CAPITAL OUTLAY		
Revenue contributions	15 640 984	11 612 080
General capital contributions	1 814 053	1 978 553
	17 455 038	13 590 633
9. FUNDS AND ACCOUNTS		
Salary Reserve Fund	257 244	149 073
Build Together Fund	1 353 202	1 218 717
Capital Reserve Fund	7 041 754	2 102 792
Revenue Account	1 179 019	2 696 866
	9 831 219	6 167 448
10. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Expenses	(782 786)	(373 263)
Income	721 590	79 288
	(61 196)	(293 975)
11. CASH (UTILIZED)/GENERATED BY OPERATIONS		
Operating results before interest and adjustments	(1 464 964)	528 038
- Adjustments and utilizations	(61 196)	(293 975)
- Error on appropriation account	(90)	-
Working capital changes		
Decrease/(increase) in inventories	49 991	(77 661)
Increase/(decrease) in accounts receivable	(47 125)	1 218 846
Decrease/(increase) in accounts payable	(1 081 365)	953 032
	(2 604 749)	2 328 280