



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF OSHIKUKU

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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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 2014, 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, December 2014

**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 2014**

1. INTRODUCTION

The accounts of the Town Council of Oshikuku for the year ended 30 June 2014 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 Trade receivables

The average collection period of trade receivables, before taking the provision for bad debts into account, is 331 days (2013: 141 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 286 days (2013: 21 days). The Council should attend to the arrears as a matter of urgency. Due to this statistics, the auditors are of the opinion that the provision for bad debts is under stated by N\$ 313 237.

4.2 Bank reconciliation

There is a difference on the bank reconciliation of N\$ 495 754, which could not be explained by the Town Council.

4.3 Trade and other payables

The auditors could not verify trade and other payables or unrecorded liabilities to their satisfaction as no sufficient documentation could be provided, and due to the difference on the bank reconciliation where the reconciling items could not be verified.

4.4 Property, plant and equipment

The auditors could not verify property, plant and equipment to their satisfaction as no proper fixed assets register was available for audit purposes.

4.5 VAT

The balance sheet reflects an amount of N\$ 479 368 for VAT owed to the Town Council by the Ministry of Finance for which no reconciliation could be provided. Not all VAT returns were submitted on time and no provision for penalties and interest have been made.

4.6 Inventories

The auditors did not observe the counting of the inventories on 30 June 2014. There were no alternative practical audit procedures that they could perform to confirm the existence of the inventories on hand at year-end.

4.7 Consumer deposits

Consumer deposits are not in line with monthly charges and the auditors are of the opinion that the deposits are not adequate to cover one month's consumer services.

4.8 Insurance of assets

The auditors are of the opinion that the assets are not adequately insured.

4.9 Property, plant and equipment

There is a difference between the fixed assets register and the financial statement of N\$ 240 095, which could not be explained by the Town Council.

4.10 Income

Rates and taxes is under charged by the Town Council, as it was not charged according to the Government Gazette, therefore it is a loss of income.

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Oshikuku 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	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus on 01/07/2013				(769 101)
General accounts				
- Non-profitable	13 514 099	14 195 772	(681 673)	
- Self-supporting	888 857	243 359	645 498	
Trade account				
- Electricity	604 553	244 312	360 241	
- Water	2 239 359	1 235 268	1 004 091	
Suprlus for the year	17 246 868	15 918 711	1 328 157	1 328 157
				559 056
Adjustments and utilisations on note 10 of annexure D				(4 426 336)
Accumulated (deficit) on 30/06/2014				(3 867 280)

7. CURRENT BANK ACCOUNT

	2014	2013
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	(934 539)	(1 635 998)
Unknown difference	307 459	-
Outstanding payments	912 579	1 694 384
Balance as per bank statement	285 499	58 386

8. INVESTMENTS

The investments as at 30 June were as follows:

Institution	2014	2013
	N\$	N\$
Commercial banks	5 196 998	13 643 371

The investments were allocated as follows:

Allocation	2014	2013
	N\$	N\$
Salary Reserve Fund	-	411 885
Build Together Fund	1 733 853	1 600 111
Capital Reserve Fund	3 463 145	5 784 102
Revenue	-	5 847 273
	5 196 998	13 643 371

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in Note 8 in Annexure D.

10. TRADE ACCOUNTS

10.1 The results of trade accounts were as follows:

	Electricity		Water	
	2014	2013	2014	2013
	N\$	N\$	N\$	N\$
Surcharges/Sales	477 630	581 951	2 170 262	2 110 956
Cost of sales	(244 312)	(100 000)	(1 235 268)	(1 400 825)
Gross loss	233 318	481 951	934 994	710 131
Other income	126 923	114 231	-	-
Net profit	360 241	596 182	934 994	710 131
Gross profit/(loss) percentages on sales	48.8%	82.8%	43.1%	33.6%
Net profit/(loss) percentage on sales	75.4%	102.4%	43.1%	33.6%

10.2 Water distribution results, in cubic meters

	2014	2013
	Units	Units
Sales	-	166 978
Purchases	-	162 915
Profit	-	4 063
Percentage loss in units	-	2.4%

No distribution results were available.

11. SELF-SUPPORTING SERVICES

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

	Income	Expenses	Surplus	Surplus
	2014	2014	2014	2013
	N\$	N\$	N\$	N\$
Cleansing	432 889	243 358	189 531	278 158
Sewerage	455 967	-	455 967	391 890
	888 856	243 358	645 498	670 048

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

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

13. SUSPENSE ACCOUNTS

Suspense accounts are cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

No irregularities or losses due to theft, fire and accidents were revealed during the year under review.

15. CAPITAL PROJECTS

Nature of projects/acquisitions	Financed by	Total	Total
	Revenue account	expenditure 2014	expenditure 2013
	N\$	N\$	N\$
General Administration	193 977	193 977	9 450 582
Town Planning	1 250 674	1 250 674	-
Roads and streets	2 665 055	2 665 055	-
Environment	55 380	55 380	-
Sewerage	2 413 005	2 413 005	-
Water	477 136	477 136	-
Electricity	3 530 156	3 530 156	-
	10 585 383	10 585 383	9 450 582

The income statement reflects an amount of N\$ 6 537 626 for capital projects. The difference of N\$ 4 047 758 could not be explained by the Town Council.

16. BURSARIES

No bursaries were granted during the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID.

	2014	2013
	N\$	N\$
Contribution from Government	7 666 817	6 382 000

18. COMPENSATION PAYMENTS

No compensation payments were made during the year under review.

19. VISITS TO FOREIGN COUNTRIES

There were no such expenses.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

There were no claims against the Local Authority.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

There were no such expenses.

22. TRANSFER OF PROPERTY

22.1 There were no transfers of property to the Local Authority.

22.2 There were no transfer of property by the Local Authority to others.

23. TRADE AND OTHER RECEIVABLES/ PAYABLES

23.1 Trade and other receivables at 30 June were:

	2014	2013
	N\$	N\$
Services, rates and taxes	4 039 903	1 970 265
VAT	479 368	2 647 101
Build Together debtors	16 313	16 313
	4 535 584	4 633 679
Provision for bad debts	(2 994 155)	(1 669 152)
Total	1 541 429	2 964 527

The average collection period of trade receivables, before taking the provision for bad debts into account, is 331 days (2013: 141 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 286 days (2013: 21 days). The Council should attend to the arrears as a matter of urgency. Due to this statistics, the auditors are of the opinion that the provision for bad debts is under stated by N\$ 313 237.

23.2 Trade and other payables at 30 June were:

	2014	2013
	N\$	N\$
Trade payables	216 327	214 352
Provisions	39 500	39 500
Consumer deposits	85 293	69 598
Land compensation	-	7 660 349
Sundry creditors	1 286 695	60 790
Reconciling items per bank reconciliation	-	1 694 384
Totals	3 322 199	9 738 973

24. ASSESSMENT RATES

	2014	2013
	N\$	N\$
The proceeds from assessment rates were	1 105 567	1 065 587
Tariffs per N\$1 valuation per annum - Land	0.03000	0.03000
Tariffs per N\$1 valuation per annum - Improvements	0.01000	0.01000
Tariffs per N\$1 valuation per annum - Unimproved land	0.08000	0.07000

25. LOANS

25.1 External loans

There are no external loans.

25.2 Due to the Town Council

None

25.3 Loans written off

No loans were written off by the Council.

26. SALE OF ERVEN

The income credited to the income statement amounted to N\$ 3 992 739 (2013: N\$ 843 391).

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

None

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.

29.2 Internal loans

There were no internal loans.

29.3 Revenue written off

None

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 - 01/07/2013	1	N\$ 64 943	5	N\$ 352 813	1	N\$ 2 200 000
Additions	-	-	1	8 916	-	-
Sub-total	1	64 943	6	361 729	1	2 200 000
Depreciation	-	(32 472)	-	(130 977)	-	(200 000)
Balance - 30/06/2014	1	32 471	6	230 752	1	2 000 000

30.2 Inventory

Inventories as disclosed in the financial statements of the Council amount to N\$ 126 860 (2013: N\$ 115 526)

31. SPECIAL INVESTIGATIONS

All special investigations were completed and reported upon.

32. GENERAL

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

33. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report. Informal queries were raised with the Town Clerk. Audit differences and other comments are addressed in paragraph 4 of this report.

34. DISCLAIMED AUDIT OPINION

The accounts of the Town Council of Oshikuku for the financial year ended 30 June 2014, 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.

I am unable to form and audit opinion due to the following:

Trade receivables

The auditors are of the opinion that the provision for bad debts is under stated by N\$ 313 237.

Bank reconciliations

There is a difference on the bank reconciliation of N\$ 495 754, which could not be explained by the Town Council.

Trade and other payables

The auditors could not verify trade and other payables or unrecorded liabilities to their satisfaction as no sufficient documentation could be provided, and due to the difference on the bank reconciliation where the reconciling items could not be verified.

Property, plant and equipment

The auditors could not verify property, plant and equipment to their satisfaction as no proper fixed assets register was available for audit purposes.

VAT

The balance sheet reflects an amount of N\$ 479 368 for VAT owed to the Town Council by the Ministry of Finance for which no reconciliation could be provided. Not all VAT returns was submitted on time and no provision for penalties and interest has been made.

Property, plant and equipment

There is a difference between the fixed assist register and the financial statements of N\$ 240 096, which could not be explained by the Town Council.

Income

Rates and taxes is under charged by the Town Council, as it was not charged according to the Government Gazette, therefore it is a loss of income.

WINDHOEK, December 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

TOWN COUNCIL OF OSHIKUKU

BALANCE SHEET AT 30 JUNE

	Note	2014 N\$	2013 N\$
ASSETS			
NON-CURRENT ASSETS			
		43 405 055	45 506 183
Property, plant and equipment	2	38 208 057	31 862 812
Investments	3	5 196 998	13 643 371
CURRENT ASSETS			
		760 222	3 138 911
Inventories	4	126 860	115 526
Trade and other receivables	5	1 563 929	2 964 527
Bank and cash	6	(930 567)	58 858
TOTAL ASSETS		44 165 277	48 645 094
FUNDS AND LIABILITIES			
FUNDS AND RESERVES			
		42 537 462	38 906 121
Capital outlay	7	38 208 057	31 862 812
Funds and accounts	8	4 329 405	7 043 309
CURRENT LIABILITIES			
Trade and other payables	9	1 627 815	9 738 973
TOTAL FUNDS AND LIABILITIES		44 165 277	48 645 094

TOWN COUNCIL OF OSHIKUKU

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2014	2013
		N\$	N\$
INCOME		17 246 752	8 355 635
EXPENDITURE		<u>(15 918 711)</u>	<u>(10 032 395)</u>
NET OPERATING LOSS		1 328 041	(1 676 760)
INTEREST ON INVESTMENTS		<u>115</u>	<u>403 084</u>
		1 328 156	(1 273 676)
APPROPRIATION ACCOUNT	10	<u>(4 426 336)</u>	<u>(571 152)</u>
		(3 098 180)	(1 844 828)
REVENUE ACCOUNT - Beginning of year		<u>(769 101)</u>	<u>1 075 727</u>
REVENUE ACCOUNT - End of year		<u>(3 867 281)</u>	<u>(769 101)</u>

TOWN COUNCIL OF OSHIKUKU

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2014</u> N\$	<u>2013</u> N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		17 246 752	8 355 635
Cash paid to suppliers		<u>(27 066 941)</u>	<u>(3 326 911)</u>
Cash (utilised)/generated by operations	11	(9 820 189)	5 028 724
Interest on investments		115	403 084
Increase/(decrease) in Fund accounts		384 276	(3 499 771)
Increase in Capital outlay		<u>6 345 245</u>	<u>6 513 860</u>
Net cash flow from operating activities		(3 090 553)	8 445 897
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital expenditure		(6 345 245)	(6 513 860)
(Increase)/decrease in investments		<u>8 446 373</u>	<u>(1 101 915)</u>
		<u>2 101 128</u>	<u>(7 615 775)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(989 425)	830 122
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		<u>58 858</u>	<u>(771 264)</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	6	<u>(930 567)</u>	<u>58 858</u>

TOWN COUNCIL OF OSHIKUKU

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

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements set out in Annexures A to D were prepared on the historical cost basis and incorporate the following principal accounting policies, which are consistent in all material aspects with those applied in the previous year.

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.

1.3 Internal Funds

The following Funds were created by the Town Council:

1.3.1 Salary Reserve Fund

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

1.3.2 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.

	2014	2013
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Income assets	34 888 057	22 064 310
General capital assets	3 320 000	9 798 502
	38 208 057	31 862 812

3. INVESTMENTS

INVESTMENTS

Commercial Banks	5 196 998	13 643 371
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ALLOCATED AS FOLLOWS

Salary Reserve Fund	-	411 885
Build Together Fund	1 733 853	1 600 111
Capital Reserve Fund	3 463 145	5 784 102
Revenue	-	5 847 273
	5 196 998	13 643 371

TOWN COUNCIL OF OSHIKUKU

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

	2014	2013
	N\$	N\$
4. INVENTORIES		
Consumable goods in store	126 860	115 526
5. TRADE AND OTHER RECEIVABLES		
Services, rates and taxes	4 039 903	1 970 265
Inland revenue - VAT	479 368	2 647 101
Build together debtors	16 313	16 313
Sundry debtors	22 500	-
	4 558 084	4 633 679
Provision for bad debts	(2 994 155)	(1 669 152)
	1 563 929	2 964 527
6. CASH AND BANK BALANCES		
Cash-book balance at 30 June - Balance sheet	(934 539)	(1 635 998)
Reconciling items - Moved to trade payables (Note 9)	-	1 694 384
Petty cash	3 972	472
	(930 567)	58 858
7. CAPITAL OUTLAY		
Revenue contributions	34 888 057	28 169 777
General Capital contributions	3 320 000	3 693 035
	38 208 057	31 862 812
8. FUNDS AND ACCOUNTS		
Salary Reserve Fund	645 267	411 885
Build Together Fund	1 750 165	1 616 423
Capital Reserve Fund	5 801 254	5 784 102
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(3 867 281)	(769 101)
	4 329 405	7 043 309

TOWN COUNCIL OF OSHIKUKU

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

	2014	2013
	N\$	N\$
9. TRADE AND OTHER PAYABLES		
Trade payables	216 327	214 352
Provisions	39 500	39 500
Consumer deposits	85 293	69 598
Land compensation	-	7 660 349
Sundry creditors	1 286 695	60 790
Reconciling items per bank reconciliation	-	1 694 384
	1 627 815	9 738 973
10. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Expenses	(4 556 360)	(616 458)
Income	130 024	102 358
Unexplained difference	-	(57 052)
	(4 426 336)	(571 152)
11. CASH (UTILISED)/GENERATED BY OPERATIONS		
Net operating loss before interest	1 328 041	(1 676 760)
Adjustments for:		
- Adjustments to appropriation account	(4 426 336)	(571 152)
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	(3 098 295)	(2 247 912)
CHANGES IN WORKING CAPITAL		
(Increase)/decrease in inventories	(11 334)	(88 679)
Increase/(decrease) in trade and other receivables	1 400 598	(1 097 073)
(Decrease)/increase in trade and other payables	(8 111 158)	8 462 388
	(6 721 894)	7 276 636
CASH (UTILISED)/GENERATED BY OPERATIONS	(9 820 189)	5 028 724