



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF OTAVI

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

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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 Otavi for the financial year ended 30 June 2012 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, August 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF OTAVI
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012**

1. INTRODUCTION

The accounts of the Town Council of Otavi for the year ended 30 June 2012 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 Municipality'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 misstatements, 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 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 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 Loans in arrears

External Government loans are, as in previous years, not repaid but the repayments are provided for as arrear loan instalments. The total instalments in arrears amount to N\$ 3 949 456 (2011: N\$ 3 821 699).

No interest on overdue amounts due to Government has been provided for.

4.2 Trade and other receivables - Provision for bad debts

The average collection period of trade receivables is 299 days (2011: 397 days). As previously reported, the Council should attend to the arrears as a matter of urgency. Based upon an average collection period of 60 days the auditors are of the opinion that the provision for bad debts is overstated by N\$ 2 321 024 (2011: N\$ 2 086 272).

4.3 Value Added Tax

The general ledger balance could not be reconciled to the VAT returns.

4.4 Cash and bank

The reconciling items to the bank reconciliation seem to be invalid.

4.5 Housing Fund debtors

The Council could not provide the auditors with a list of housing fund debtors and the housing fund debtor files were incomplete. It could thus not be ascertained whether the balance is fairly stated in the annual financial statements for the year under review.

4.6 Property, plant and equipment

The asset register reflect an amount of N\$ 274 641 (2011: N\$ 317 911) more than the financial statements.

No proper physical inspection of fixed assets could be done due to a lack of proper identification of fixed assets.

4.7 Consumer deposits

No consumer deposits are reflected in the financial statements.

4.8 Accounts payables

No trade creditors listing could be provided by the Council and thus the auditors were unable to verify the fair presentation of the balance as per the annual financial statements.

The Council has recorded amounts received from Government as a trade payable instead of recognising the amount in funds. The total amount received was an amount of N\$ 3 143 136 (2011: N\$ 1 644 000).

4.9 Inventories

No physical stock taking was done at year-end. No stock records are maintained and all purchases of items are expensed. No stock balance is thus accounted for in the Council records.

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the 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 deficit on 01/07/2011				(9 846 553)
General accounts				
- Non-profitable services	4 949 861	7 960 875	(3 011 014)	
- Self-supporting services	2 211 148	1 350 435	860 713	
Trade accounts				
- Electricity	413 537	427 977	(14 440)	
- Water	2 631 580	2 617 347	14 233	
Deficit for the year	10 206 126	12 356 634	(2 150 508)	(2 150 508)
Adjustments and utilisations (See note 11, Annexure D)				(11 997 061) (329 575)
Accumulated deficit on 30/06/2012				(12 326 636)

7. CURRENT BANK ACCOUNT

	2012	2011
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	(1 025 519)	705 988
Reconciling items - Seem to be invalid	760 701	(702 734)
Balance as per bank statement	(264 818)	3 254

The reconciling items to the bank reconciliation seem to be invalid.

8. INVESTMENTS

The investments as at 30 June were as follows:

Institution	2012	2011
	Investment	Investment
	N\$	N\$
Commercial banks	27 021 971	3 115 357
CENORED Equity	5 313 439	5 313 439
	32 335 410	8 428 796
Distribution		
Build Together Fund	9 677 096	104 360
Capital	2 031 738	2 031 738
Revenue	5 313 439	5 313 439
Capital Reserve Fund	13 594 354	979 259
Renewal Fund	61 832	-
Endowment Fund	32 840	-
Fixed Property Fund	1 589 287	-
Housing Fund	34 824	-
	32 335 410	8 428 796

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 water operations were as follows:

	Electricity		Water	
	2012	2011	2012	2011
	N\$	N\$	N\$	N\$
Surcharge/sales	320 000	538 048	2 609 906	1 868 664
Cost of sales	-	-	(2 275 188)	(1 521 828)
Gross surplus	320 000	538 048	334 718	346 836
Other expenses	(334 440)	(82 011)	(320 485)	(35 526)
Net surplus	(14 440)	456 037	14 233	311 310
Net surplus percentage on sales	(4.5%)	84.8%	0.5%	16.7%

10.2 Distribution results were as follows:

No distribution results were available.

11. SELF-SUPPORTING SERVICES

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

Service	Income	Expenses	Surplus/ (deficit)	Surplus/ (deficit)
	2012	2012	2012	2011
	N\$	N\$	N\$	N\$
Sanitation	2 211 148	1 350 435	860 713	4 907

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

There were no such expenses.

13. SUSPENSE ACCOUNTS

Suspense accounts are cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

There were no irregularities or losses during the period under review.

15. CAPITAL PROJECTS

The following were spend on capital projects:

Nature of projects/acquisitions	Financial by		Total expenditure 2012	Total expenditure 2011
	Revenue	General capital		
	N\$	N\$	N\$	N\$
General administration	2 034 315	-	2 034 315	8 889
Sanitation	-	-	-	420 664
Streets and roads	8 841 862	-	8 841 862	675 863
Civic buildings	-	-	-	210 000
Parks and recreation	37 840	-	37 840	-
Cleansing services	1 290 146	-	1 290 146	-
Fire brigade	-	2 326 885	2 326 885	-
	12 204 163	2 326 885	14 531 048	1 315 416

The capital statement for revenue assets purchased reflects an amount of N\$ 9 535 430 more than the income statements.

16. STUDY LOANS/BURSARIES

No bursaries were granted during the year.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID.

	2012	2011
	N\$	N\$
Contribution from Government	2 323 026	2 284 265

18. COMPENSATION PAYMENTS

No compensation payments were made during the year under review.

19. VISITS TO FOREIGN COUNTRIES

No amount was incurred on visits to other countries during the year under review.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

There were no claims against the Local Authority.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

There were no gifts/ donations by the Town Council.

22. TRANSFER OF PROPERTY

No transfer of property has been made to/from Government for the period under review.

23. TRADE AND OTHER RECEIVABLES/PAYABLES

23.1 Trade and other receivables at 30 June were:

	2012	2011
	N\$	N\$
Consumers	4 949 042	4 017 489
Single quarters	-	955 800
VAT receivable	31 816	25 726
Sundries	177 479	-
	5 158 337	4 999 015
Provision for bad debts	(6 275 355)	(5 942 750)
Total	(1 117 018)	(943 735)

23.2 Trade and other payables at 30 June were:

	2012	2011
	N\$	N\$
Trade payables	6 532 449	5 899 457
Provisions	979 024	887 714
Loan instalments in arrears	3 949 456	3 821 699
Single quarters	3 143 136	1 644 000
Sundry payables	27 563	-
Totals	14 631 628	12 252 870

24. ASSESSMENT RATES

	2012	2011
	N\$	N\$
The net proceeds from assessment rates were	1 826 221	928 858
Tariffs per N\$1 valuation per month (Residential)		
- Land	0.05739	0.04782
- Improvements	0.01390	0.01159
Tariffs per N\$1 valuation per month (Business)		
- Land	0.05976	0.04782
- Improvements	0.01458	0.01159

25. LOANS

25.1 External loans

	2012	2011
	N\$	N\$
External loans - Government	826 563	860 568
Housing Fund/Build Together Fund	34 824	34 824
	861 387	895 392

25.2 Internal loans

There are no internal loans.

26. SALE OF ERVEN

During the current financial year, cash proceeds to the value of N\$ 623 363 were received for erven sold which were fully allocated to the revenue account.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

No properties were sold on instalment basis during the years under review.

28. TARIFF ADJUSTMENTS

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

29. APPROVALS

All overspending were approved by the Council.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles and values thereof

The auditors could not obtain satisfactory information regarding the movement of motor vehicles.

30.2 Inventory

No inventories are accounted for in the financial statements.

31. SPECIAL INVESTIGATIONS

There were no special investigations during the period under review.

32. GENERAL

The accounting and internal controls are not satisfactory, except where indicated otherwise in this report. Proper segregation of duties does exist. While increased management involvement does reduce risks, the risk arises that management and Council override existing controls, a potentially dangerous practice which the Town Council should vigilantly guard against. The integrity of staff in appropriate positions should however, be reviewed to ensure that qualified personnel are employed in respective positions.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 Informal queries were discussed with the Town Council.

34. DISCLAIMED AUDIT OPINION

The accounts of the Town Council of Otavi for the financial year ended 30 June 2012, 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 express an audit opinion due to the following reasons:

Loans in arrears

External Government loans are, as in previous years, not repaid but the repayments are provided for as arrear loan instalments. The total instalments in arrears amount to N\$ 3 949 456 (2011: N\$ 3 821 699).

No interest on overdue amounts due to Government has been provided for.

Trade and other receivables- Provision for bad debts

Based upon an average collection period of 60 days the auditors are of the opinion that the provision for bad debts is overstated by N\$ 2 321 024 (2011: N\$ 2 086 272).

Value Added Tax

The general ledger balance could not be reconciled to the VAT returns.

Cash and bank

The reconciling items to the bank reconciliation seem to be invalid.

Housing Fund debtors

The Council could not provide the auditors with a list of housing fund debtors.

Property, plant and equipment

The asset register reflects an amount of N\$ 274 641 (2011: N\$ 317 911) more than the financial statements.

No proper physical inspection of fixed assets could be done due to a lack of proper identification of fixed assets.

Accounts payables

No trade creditors listing could be provided by the Council and thus the auditors were unable to verify the fair presentation of the balance as per the annual financial statements.

The Council has recorded amounts received from Government as a trade payable instead of recognising the amount in funds. The total amount received was an amount of N\$ 3 143 136 (2011: N\$ 1 644 000).

WINDHOEK, August 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

TOWN COUNCIL OF OTAVI
BALANCE SHEET AT 30 JUNE

	Notes	2012 N\$	2011 N\$
ASSETS			
Non-current assets		57 725 016	22 129 091
Property, plant and equipment	2	23 393 029	11 714 752
Investments	3	32 335 410	8 428 796
Loans receivable	4	1 996 577	1 985 543
Current assets		(1 117 018)	(237 747)
Trade and other receivables	5	(1 117 018)	(943 735)
Bank and cash	6	-	705 988
TOTAL ASSETS		56 607 998	21 891 344
FUNDS AND LIABILITIES			
Funds and reserves		40 089 464	8 743 082
Capital outlay	7	24 598 204	12 885 923
Funds and accounts	8	15 491 260	(4 142 841)
Non-current liabilities			
Long-term loans	9	861 387	895 392
Current liabilities		15 657 147	12 252 870
Trade and other payables	10	14 631 628	12 252 870
Bank overdraft	6	1 025 519	-
TOTAL FUNDS AND LIABILITIES		56 607 998	21 891 344

TOWN COUNCIL OF OTAVI

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2012</u>	<u>2011</u>
		N\$	N\$
INCOME		10 206 126	7 899 019
EXPENDITURE		<u>12 356 634</u>	<u>8 536 116</u>
NET OPERATING DEFICIT		(2 150 508)	(637 097)
APPROPRIATION ACCOUNT	11	<u>(329 575)</u>	<u>(2 543 508)</u>
NET DEFICIT AFTER APPROPRIATIONS		(2 480 083)	(3 180 605)
REVENUE ACCOUNT - Beginning of year		<u>(9 846 553)</u>	<u>(6 665 948)</u>
REVENUE ACCOUNT - End of year		<u>(12 326 636)</u>	<u>(9 846 553)</u>

TOWN COUNCIL OF OTAVI

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2012 N\$	2011 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		10 206 126	7 899 019
Cash paid to suppliers		(10 134 168)	(6 233 501)
Cash generated by operations	12	71 958	1 665 518
Movement in Fund accounts			
Fund accounts		22 114 184	219 204
Capital outlay		11 712 281	(648 879)
Net cash flow from operating activities		33 898 423	1 235 843
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital (expenditure)/revenue		(11 678 277)	682 621
Increase in investments		(23 906 614)	(981 810)
Increase in loans receivable		(11 034)	-
		(35 595 925)	(299 189)
CASH FLOW FROM FINANCING ACTIVITIES			
Decrease in long-term liabilities		(34 005)	(33 742)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1 731 507)	902 912
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		705 988	(196 924)
CASH AND CASH EQUIVALENTS - END OF YEAR		(1 025 519)	705 988

TOWN COUNCIL OF OTAVI

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 through purchases by grant or by 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 the depreciation is calculated on the shortfall.

1.3 Fund accounts

The following Funds were maintained by the Council in terms of Section 58(1) and 80(4) of the Local Authorities Act, 1992 (Act 31 of 1992):

1.3.1 Housing Fund

The purpose of this Fund is to provide for housing loans. Income for the Fund is derived from interest earned on secured housing loans and investments as well as from profits made on the resale of Housing Scheme houses. Interest paid on external housing loans is charged to this Fund.

1.3.2 Capital Reserve Fund

The purpose of this Fund is to build up a general capital reserve to ensure a stable financial position. Income from this Fund is derived from general revenue contributions and interest earned on internal loans and investments.

1.3.3 Fixed Property Fund

Proceeds from the sale of land that has been developed by the Council accumulate in this Fund. Costs incurred on the development of land are charged to this Fund.

1.3.4 Renewal Fund

The purpose of the Fund is to provide for future replacement of assets and for additional depreciation on assets which have permanently declined in value. Income for this Fund is derived from general revenue contributions as well as interest on investments.

1.3.5 Build Together Fund

The purpose of this Fund is to provide loans to applicants who want to build or purchase houses with the help of the community. The instalments received for payment of these loans are reinvested in this Fund.

1.3.6 Endowment Fund

The purpose of the Fund is to provide for future sub-division of erven. Income is derived from the proceeds of sub-division of erven as well as interest earned on investments and internal loans.

TOWN COUNCIL OF OTAVI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	2012	2011
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Total	23 393 029	11 714 752
3. INVESTMENTS		
INVESTMENTS		
Commercial banks	27 021 971	3 115 357
CENORED Equity	5 313 439	5 313 439
	32 335 410	8 428 796
ALLOCATED AS FOLLOWS		
Build Together Fund	9 677 096	104 360
Capital	2 031 738	2 031 738
Revenue	5 313 439	5 313 439
Capital Reserve Fund	13 594 354	979 259
Renewal Fund	61 832	-
Endowment Fund	32 840	-
Fixed Property Fund	1 589 287	-
Housing Fund	34 824	-
	32 335 410	8 428 796
4. LOANS RECEIVABLE		
Housing Fund/Build Together Fund	1 996 577	1 985 543
Secured by mortgage bonds against the properties.		
5. TRADE AND OTHER RECEIVABLES		
Consumers	4 949 042	4 017 489
Single quarters	-	955 800
VAT receivable	31 816	25 726
Sundries	177 479	-
	5 158 337	4 999 015
Provision for bad debts	(6 275 355)	(5 942 750)
	(1 117 018)	(943 735)
6. BANK AND CASH		
Current account - Municipality operating account	(1 025 519)	705 988

TOWN COUNCIL OF OTAVI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	<u>2012</u>	<u>2011</u>
	N\$	N\$
7. CAPITAL OUTLAY		
Loans redeemed	2 395 782	2 361 777
Revenue contributions	12 806 014	2 232 200
General capital contributions	9 396 408	8 291 946
	<u>24 598 204</u>	<u>12 885 923</u>
8. FUNDS, ACCOUNTS AND RESERVES		
Fixed Property Fund	1 589 286	1 589 286
Capital Reserve Fund	13 594 354	1 044 907
Renewal Fund	817 715	817 715
Endowment Fund	32 840	32 840
Build Together Fund	11 783 701	2 218 964
Revenue account kept in compliance with Section 86(1) of the Local Authority Act, 1992.	(12 326 636)	(9 846 553)
	<u>15 491 260</u>	<u>(4 142 841)</u>
9. LONG-TERM LIABILITIES		
External loans - Government	826 563	860 568
Housing Fund/Build Together Fund	34 824	34 824
	<u>861 387</u>	<u>895 392</u>
10. TRADE AND OTHER PAYABLES		
Trade payables	6 532 449	5 899 457
Provisions	979 024	887 714
Loan instalments in arrears	3 949 456	3 821 699
Single quarters	3 143 136	1 644 000
Sundry payables	27 563	-
	<u>14 631 628</u>	<u>12 252 870</u>
11. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Revenue adjustments	-	325 018
	<u>(329 575)</u>	<u>(2 543 508)</u>

TOWN COUNCIL OF OTAVI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	<u>2012</u>	<u>2011</u>
	N\$	N\$
12. CASH GENERATED BY OPERATIONS		
Net operating surplus before interest and transfers	(2 150 508)	(637 097)
Adjustments for:		
- Adjustments to appropriation account	(329 575)	(2 543 508)
OPERATING SURPLUS BEFORE CHANGES IN WORKING CAPITAL	<u>(2 480 083)</u>	<u>(3 180 605)</u>
CHANGES IN WORKING CAPITAL		
Decrease in trade and other receivables	173 283	2 023 413
Increase in trade and other payables	2 378 758	2 822 710
	<u>2 552 041</u>	<u>4 846 123</u>
CASH GENERATED BY OPERATIONS	<u>71 958</u>	<u>1 665 518</u>