



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF OUTAPI

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 Outapi 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, May 2012

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

1. INTRODUCTION

The above accounts of the Town Council of Outapi 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 BDO 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 on Annexure A, is a true reflection of the original. 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 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 based 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 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 auditors' judgement, including on 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 controls 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 overall presentation of the financial statements.

4. AUDIT OBSERVATIONS AND COMMENTS

Items that were also reported in the previous financial year are indicated by way of an asterisk (*).

4.1 Stock control (*)

A physical stock count was conducted at year-end and the final stock sheets agreed to the financial statements. However, due to the fact that the auditors did not attend the stock count and no alternative procedures could be performed, they could not satisfy themselves as to the completeness and existence of all stock items.

4.2 Recoverability of debtors - Bad and doubtful debts

During the year under review, the Council's debt outstanding has decreased by 7.3% whilst provision for bad debts has decreased by 4%. It is notable that a great portion of the long outstanding debtors have been inherited by the Council during its establishment phase. The Council's effectiveness on debt recovery policies should be reviewed and improved on.

	2011	2010
	N\$	N\$
Consumer accounts debt outstanding	6 083 801	6 561 917
Provision for bad debts	4 732 387	4 934 640
Percentage (decrease) / increase in outstanding debts	(7.3%)	13%
Percentage (decrease) / increase in provision for bad debts	(4)%	11%
Percentage provision vs. Debt	78%	75%

It should be of a concern for the Council that debtors are outstanding for more than 120 days and consisted of 78% (2010: 75%) of total debt. Furthermore 5% of the total debt was outstanding 60 and 90 days. The recoverability of the debtors is thus doubtful. If amounts 60 days and older are provided for, the provision is inadequate by N\$ 289 449.

4.3 Consumer deposits (*)

The consumer deposits balance as stated on 30 June 2011 represents only 6% (2010: 5%) of total debt which should be alarming even though outstanding debts decreased by 7%. In addition, numerous debtors' accounts still reflected deposits of prior years and were not updated to the new rates.

4.4 Setting of income against expenses (*)

Income received from the Road Fund Administration amounting to N\$ 1 860 989 was set-off against expenses amounting to N\$ 1 695 696. This is contrary to Generally Accepted Accounting Practice as income and expenses should be disclosed separately to achieve fair presentation.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

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

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
Accumulated (deficit) 01/07/2010	N\$	N\$	N\$	N\$ (574 558)
General accounts				
Rates and general	414 877	5 572 767	(5 157 889)	
Non-profitable services	12 721 363	3 049 784	9 671 579	
Self-supporting services	3 093 854	3 305 928	(212 074)	
Trade accounts				
Water	2 560 636	1 838 241	722 395	
Electricity	571 779	1 031 036	(459 257)	
	19 362 510	14 797 756	4 564 754	4 564 754
Deficit for the year				3 990 196
Adjustments and appropriations (Note 9, Annexure D)				(263 659)
Accumulated surplus 30/06/2011				3 726 537

7. CURRENT BANK ACCOUNT

The favourable bank statement balance on the current bank account amounted to N\$ 439 036 (2010: N\$ 517 840). Cheques not presented for payment amounted to N\$ 702 719 (2010: N\$ 602 846), resulting in an unfavourable cash-book balance of N\$ 263 683 (2010: N\$ 85 006).

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2011 were as follows:

Institution	Investments		Interest	
	2011	2010	2011	2010
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	8 904 535	4 455 226	108 090	63 834
	8 904 535	4 455 226	108 090	63 834
Distribution				
Capital Reserve Fund	335 140	332 478	62 919	17 556
Shack Dwellers Fund	192 923	-	19 394	-
Build Together Fund	1 432 981	2 639 310	20 347	25 389
Government Contribution Fund	2 247 678	1 483 438	5 430	1 666
Revenue Fund	4 695 813	-	-	19 224
	8 904 535	4 455 226	108 090	63 834

9. FUND ACCOUNTS

The position of internal Funds and Reserves is shown in note 6 at annexure D.

10. TRADE ACCOUNTS

10.1 Operating results

The results for the financial year under review and the previous year were as follows:

	Water	
	2011	2010
	N\$	N\$
Sales	2 467 545	2 340 241
Cost of bulk purchases	(1 439 251)	(1 247 018)
Gross profit	1 028 294	1 093 223
Other income/ (expenses)	(305 899)	(253 854)
NET PROFIT	722 395	839 389
Gross profit on cost of bulk purchases	71.5%	88%
Net profit percentage on cost of bulk purchases	50.2%	67%

10.2 Distribution losses were as follows:

Water distribution losses, in cubic metres (m³), were as follows:

	Water	
	2011	2010
	m ³	m ³
Sold	200 616	206 224
Bought	199 064	179 257
Distribution gain	1 552	26 967
Gain as percentage of units bought	1%	15.04%

11. SELF-SUPPORTING EXTERNAL SERVICES

The net result of these services, compared with the previous year, is as follows:

	Income	Expenses	Surplus/ (deficit)	Surplus/ (deficit)
	2011	2011	2011	2010
			N\$	N\$
Open Market	328 117	1 491 667	(1 163 550)	(443 277)
Licenses and vehicle registration	867 288	655 672	211 616	106 421
Waste management	1 068 932	576 225	492 707	487 399
Sewerage	829 518	582 364	247 154	408 695
	3 093 855	3 305 928	212 073	559 238

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

There was over-expenditure of N\$ 1 143 on Tender Board fees and N\$ 13 466 on stores and procurement. Furthermore, professional fees amounting to N\$ 80 000 and electricity expenses amounting to N\$ 62 112 were posted to the Appropriations account in an attempt to distort the over-expenditure.

13. SUSPENSE ACCOUNTS

The suspense accounts balance amounted to N\$ 505 949 for the year under review. No balance of a long-term nature is included in this account.

14. IRREGULARITIES AND LOSSES

14.1 No irregularities by employees were reported.

14.2 No losses were reported.

15. CAPITAL PROJECTS

Capital expenditure for the 2011 financial year amounted to N\$ 2 858 722 (2010: N\$ 982 536) and comprises the following:

	Revenue account	Total Expenditure 2011	Total Expenditure 2010
	N\$	N\$	N\$
Council – General expenses	5 043	526 057	249 072
Town Clerk	-	-	3 043
Town administration	-	-	5 488
Town Treasurer	11 791	11 791	7 695
Town Engineer	16 195	16 195	-
Stores and procurement	5 078	5 078	-
Local economic and tourism	17 762	11 762	-
Health services	9 555	9 555	16 211
Town planning and development	724 962	724 962	341 313
Electricity services	984 601	984 601	16 705
Street management	-	-	3 442
Open market	1 083 735	1 083 735	339 567
	2 858 722	2 858 722	982 536

16. STUDY LOANS/BURSARIES

No bursaries or loans were granted during the year.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants and financial aid were made during the year.

18. COMPENSATION PAYMENTS

Compensation payments amounting to N\$ 100 000 were made during the year.

19. VISITS TO FOREIGN COUNTRIES

The Council attended a Conference in China on town planning and economic advancement in accordance with the Twining Agreement. The Council spent N\$ 22 403 on this trip.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

21. GIFTS AND DONATIONS BY THE LOCAL AUTHORITY

An amount of N\$ 4 000 (2010: N\$ 1 900) was paid as donations during the year under review.

22. TRANSFER OF PROPERTY TO/FROM THE GOVERNMENT

No property was transferred to/or from the Government.

23. DEBTORS/CREDITORS

23.1 Debtors on 30 June 2011 comprise the following:

	2011	2010
	N\$	N\$
Consumers	6 083 800	6 561 917
Build Together debtors	1 173 583	1 259 725
Shack Dwellers	1 210 026	-
Value added taxation	136 965	290 830
	8 604 374	8 112 471
Less: Provision for bad debts	(4 732 387)	(4 934 640)
	3 871 987	3 177 831

The average collection period of trade receivables, before taking the provision for bad debts into account, is 196 days (2010: 262 days). The Council should attend to the arrears as a matter of urgency.

23.2 Creditors on 30 June 2011 comprise the following:

	2011	2010
	N\$	N\$
Trade creditors and other accruals	471 635	555 027
Provision for leave pay	686 135	560 023
Consumer deposits	358 546	330 421
Sundry receivables	75 734	65 609
Suspense account	505 949	62 848
	2 097 999	1 573 927

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 2 922 517 (2010: N\$ 2 817 719), of which an amount of N\$ 146 126 (2010: N\$ 140 886) was paid to the Regional Council.

The gazetted tariffs were as follows:

N\$ 0.0484 (2010: N\$ 0.0484) per dollar on site values per year and N\$ 0.00601 (2010: N\$0.00601) per dollar on improvements per year.

25. LOANS

25.1 External loan

External loan balances due totalled N\$ 258 756 at 30 June 2011 (2010: N\$ 365 639). Loan monies were used for the purpose for which they were obtained. Redemption payments are up to date. Loan assets were capitalized and no loan assets have been disposed of before the loan was redeemed.

25.2 Internal loans

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

25.3 Housing loans

Housing loans advanced to buyers under the Build Together and the Shack Dwellers Housing Schemes are disclosed as N\$ 1 173 583 (2010: N\$ 1 259 725) and N\$ 1 210 026 (2010: N\$ Nil) respectively in the financial statements.

26. SALE OF ERVEN

During the current financial year, cash proceeds to the value of N\$ 3 870 852 (2010: N\$ 1 532 353) were received for erven sold and allocated to the revenue account.

27. PROPERTY SOLD ON AN INSTALMENT BASIS

During the current financial year, proceeds to the value of N\$ 1 255 994 (2010: N\$ 1 482 397) were received for erven sold on an instalment basis and allocated to the revenue account.

28. TARIFF ADJUSTMENTS

Tariff adjustments were applied in accordance with the relevant Official Government Notices.

29. APPROVALS

Approvals for all over-expenditure were obtained.

30. STOCK AND EQUIPMENT

30.1 Motor vehicles

	Sedan vehicles		LDV and combi's		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value	Number	Value
On hand 01/07/2010	2	N\$ 326 938	3	N\$ 380 896	1	-
Acquisitions	-	-	-	-	-	-
Depreciation		(31 755)		(51 528)		-
On hand 30/06/2011	2	295 183	3	329 368	1	-

Log books were reviewed and were found to be completed accurately and on time.

30.2 Inventory

According to the final stock sheets provided by the Council, stock comprises of stationery and consumables amounted to N\$ 348 011 (2010: N\$ 380 195). The auditors did not attend the stock count, because they were not appointed yet, and thus could not obtain sufficient audit evidence with regard to the completeness and existence thereof.

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year.

32. GENERAL

32.1 Internal controls

The accounting and internal controls applied by the Council are satisfactory, except where indicated in this report. Proper segregation of duties is feasible but is hindered by the small number of staff employed.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 Informal queries addressed to the Chief Executive Officer consist of:

- Over-expenditure
- Various issues on property, plant and equipment
- Unallocated deposits
- Understatement of income
- Misallocations
- Weaknesses in internal controls

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Outapi for the financial year ended 30 June 2011, 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) (b) of the State Finance Act, 1991.

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

- Inventories to the value of N\$ 348 011 could not be verified because the auditors did not attend the stock count, because they were not appointed yet and alternative procedures could not be performed.
- Provision for bad debts is understated by approximately N\$ 289 449.
- Consumer deposits only represent 6% of the total debt and is therefore insufficient
- Income amounting to N\$ 1 860 989 was set-off against expenses amounting to N\$ 1 695 696 thus compromising fair presentation of the financial statements.

Except for the above-mentioned issues, the financial statements fairly present the financial position of the Town Council as at 30 June 2011, and the results of its operations and cash flow for the year then ended and in the manner required by the Local Authorities Act, 1992, and the State Finance Act, 1991.

WINDHOEK, May 2012

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

BALANCE SHEET AS AT 30 JUNE

ASSETS	Notes	2011 N\$	2010 N\$
Non-current assets		24 008 286	17 946 191
Property, plant and equipment	2	15 103 751	13 490 965
Investments	3	8 904 535	4 455 226
Current assets		4 221 498	3 559 526
Accounts receivable	4	3 871 987	3 177 831
Inventories	5	348 011	380 195
Cash and cash equivalents		1 500	1 500
TOTAL ASSETS		28 229 784	21 505 717
EQUITY AND LIABILITIES			
Equity		25 609 346	19 481 145
Funds and accounts	6.1	14 738 443	13 125 326
Accumulated funds	6.2	3 726 537	(574 558)
Internal funds	6.3	7 144 366	6 930 377
Non-current liabilities			
Long-term loan	7	258 756	365 639
Current liabilities		2 361 682	1 658 933
Accounts payable	8	2 097 999	1 573 927
Bank overdraft		263 683	85 006
TOTAL EQUITY AND LIABILITIES		28 229 784	21 505 717

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2011</u>	<u>2010</u>
		N\$	N\$
INCOME		19 314 666	12 870 574
EXPENDITURE		<u>(14 797 756)</u>	<u>(11 309 860)</u>
OPERATING PROFIT FOR THE YEAR		4 516 910	1 560 714
Interest earned		<u>47 844</u>	<u>19 223</u>
NET PROFIT FOR THE YEAR		4 564 754	1 579 937
Add : Appropriation and adjustments	9	<u>(263 659)</u>	<u>(700 053)</u>
RETAINED PROFIT/(LOSS) FOR THE YEAR		4 301 095	879 884
30 June 2010		<u>(574 558)</u>	<u>(1 454 442)</u>
30 June 2011		<u>3 726 537</u>	<u>(574 558)</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2011	2010
		N\$	N\$
Cash flow from operating activities			
Cash receipts from customers		19 314 666	12 870 574
Cash paid to suppliers		(15 199 315)	(11 824 402)
Cash generated from operations	10	4 115 351	1 046 172
Investment income		47 844	19 223
Net cash flow from operating activities		4 163 195	1 065 395
Cash flow from investing activities			
Decrease/(Increase) in property, plant and equipment		(1 612 786)	152 357
(Increase)/Decrease in investment		(4 449 309)	(2 802 101)
Net cash flow from investing activities		(6 062 095)	(2 649 744)
Cash flow from financing activities			
Increase in funds		1 827 106	1 508 752
Increase/(Decrease) in long-term liabilities		(106 883)	163 111
Net cash flow from financing activities		1 720 223	1 671 863
Net increase/(decrease) in cash and cash equivalents		(178 677)	87 514
Cash and cash equivalents at the beginning of the year		(83 506)	(171 020)
Cash and cash equivalents at the end of the year		(262 183)	(83 506)

TOWN COUNCIL OF OUTAPI

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1. ACCOUNTING POLICIES

The annual financial statements are compiled in accordance with the historical convention method 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, has 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 Property, plant and equipment

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 of 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.

2. PROPERTY, PLANT AND EQUIPMENT**Consists of :**

Infrastructure, land and buildings, motor vehicles,
office equipment, furniture and fittings and
computer equipment

Financed by :

General capital

External loans

Loans redeemed

Revenue account

	<u>2011</u>	<u>2010</u>
	N\$	N\$
	15 103 751	13 490 965
	106 552	213 108
	258 756	365 639
	233 722	126 839
	14 504 721	12 785 379
	15 103 751	13 490 965

TOWN COUNCIL OF OUTAPI

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

	2011	2010
	N\$	N\$
3. INVESTMENTS		
Fixed deposits and money on call	8 904 535	4 455 226
Allocated as follows:		
Build Together Housing Fund	1 432 981	2 639 310
Shack Dwellers Fund	192 923	-
Capital Development Fund	335 140	332 478
Government Contribution Fund	2 247 678	1 483 438
Revenue Fund	4 695 813	-
	8 904 535	4 455 226
4. TRADE AND OTHER RECEIVABLES		
Consumers	6 083 800	6 561 917
Value added tax	136 965	290 829
Build Together Fund - Debtors	1 173 583	1 259 725
Shack Dwellers Fund - Debtors	1 210 026	-
	8 604 374	8 112 471
<i>Less :</i>		
Provision for doubtful debts	(4 732 387)	(4 934 640)
	3 871 987	3 177 831
5. INVENTORIES		
Consumable stores	348 011	380 195
	348 011	380 195
6. FUNDS AND ACCOUNTS		
6.1 Financing of capital		
Contribution - General capital	-	213 108
Loans redeemed from revenue	233 722	126 839
Revenue contributions	14 504 721	12 785 379
	14 738 443	13 125 326
6.2 Accumulated Funds	3 726 537	(574 558)
6.3 Internal Funds		
Capital Reverse Fund	335 139	332 478
Government Contributions Fund	2 247 678	2 229 834
Build Together Fund	3 148 616	4 368 065
Shack Dwellers Fund	1 412 933	-
	7 144 366	6 930 377
	25 609 346	19 481 145

TOWN COUNCIL OF OUTAPI

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

	2011	2010
	N\$	N\$
7. LONG TERM LIABILITIES		
External loans: Wesbank	258 756	365 639
	258 756	365 639
8. TRADE AND OTHER PAYABLES		
Suspense account	505 949	62 848
Trade creditors	471 635	555 027
Consumer deposits	358 546	330 421
Provision for leave	686 135	560 023
Other	75 734	65 609
	2 097 999	1 573 928
9. ADJUSTMENTS AND APPROPRIATIONS		
Adjustment of provision for bad debts	202 253	(472 559)
Council approved write-offs	(240 286)	-
Adjustment: provision for personnel benefits	(126 112)	4 766
Unclaimed deposit	-	700
Professional fees	(80 000)	-
Appropriations	(27 816)	(261 611)
Adjustment: Electricity department	(62 112)	-
Stale cheques	1 745	-
Income	68 669	28 651
	(263 659)	(700 053)
10. CASH UTILISED IN OPERATIONS		
Net operating profit	4 516 910	1 560 714
Adjustments (appropriations)	(263 659)	(700 053)
10.1 Operating income before changes in working capital	4 253 251	860 661
Changes in working capital		
Increase in trade and other payables	524 072	412 043
Decrease / (increase) in inventories	32 184	(20 588)
(Increase) in trade and other receivables	(694 156)	(205 844)
	(137 900)	185 611
	4 115 351	1 046 272