



REPUBLIC OF NAMIBIA



AUDIT REPORT ON THE ACCOUNTS OF THE

VILLAGE COUNCIL OF OSHIKUKU

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

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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 Village Council of Oshikuku for the financial year ended 30 June 2009, 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 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
VILLAGE COUNCIL OF OSHIKUKU
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009**

1. INTRODUCTION

The accounts of the Village Council of Oshikuku for the year ended 30 June 2009 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 Village Council on behalf of the Auditor-General and under his supervision.

Figures in the report are rounded off to the nearest Namibian Dollar. Deficits are indicated in brackets.

2. FINANCIAL STATEMENTS

The Village 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 Village 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 controls 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 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 judgement, including the assessment of the risks of material misstatements 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 controls. 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 Trade receivables

The average collection period of trade receivables, before taking the provision for bad debts into account, is 225.2 days (2008: 178,7 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 120.9 days (2008: 131,1 days). 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 understated by N\$ 373 027.

4.2 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.

4.3 P.A.Y.E. returns

P.A.Y.E. returns are not always submitted before the due date. No provision for any penalties or interest on late returns has been made in the financial statements.

4.4 Inventories

The auditors did not observe the counting of the inventories on 30 June 2009, as they were not appointed at that stage. There were no alternative practical audit procedures that they could perform to confirm the existence of the inventories on hand at year-end.

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Village Council of Oshikuku 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 01/07/2008				3 161 653
General accounts				
- Non-profitable	5 469 604	7 337 287	(1 867 683)	
- Self-supporting	339 883	430 000	(90 117)	
Trade accounts				
- Electricity	443 072	-	443 072	
- Water	1 305 759	1 492 293	(186 534)	
Profit for the year	7 558 318	9 259 580	(1 701 262)	(1 701 262)
				1 460 391
Adjustments and utilizations (See Note 9, Annexure D)				765 202
Accumulated surplus on 30/06/2009				2 225 593

7. CURRENT BANK ACCOUNT

	2009	2008
Cash-book balance at 30 June - Balance sheet	N\$ 624 456	N\$ (840 406)
Reconciling items - Moved to trade payables (Note 23.2)	-	1 799 933
Outstanding deposits	(23 183)	-
Outstanding payments	453 662	-
Balance as per bank statement	1 054 935	959 527

8. INVESTMENTS

The investments as at 30 June were as follows:

Institution	2009	2008
	N\$	N\$
Commercial banks	5 413 861	4 880 974

The investments were allocated as follows:

Allocation	2009	2008
	N\$	N\$
Salary Reserve Fund	147 672	147 672
Build Together Fund	1 082 926	946 330
Capital Reserve Fund	4 135 639	972 805
Revenue	47 624	2 814 167
	5 413 861	4 880 974

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in note 7 in Annexure D.

10. TRADE ACCOUNTS

10.1 The results of trade accounts were as follows:

	Electricity		Water	
	2009	2008	2009	2008
	N\$	N\$	N\$	N\$
Surcharges/Sales	443 072	119 426	1 281 374	1 752 520
Cost of bulk purchases	-	-	(1 492 293)	(1 424 447)
Gross loss	443 072	119 426	(210 919)	328 073
Other income	-	-	24 385	8 939
Net deficit	443 072	119 426	(186 534)	337 012
Gross profit/(loss) percentages on bulk purchases	N/A	N/A	(14.13%)	23.03%
Net profit/(loss) percentage on bulk purchases	N/A	N/A	(12.50%)	23.66%

10.2 Water distribution results, in cubic meters

	2009	2008
	Units	Units
Sales	159 579	-
Purchases	192 193	-
Loss	(32 614)	-
Percentage loss in units	(17.0%)	

The distribution loss on water is abnormally high. Council should investigate these losses and implement procedures to reduce such losses.

11. SELF-SUPPORTING SERVICES

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

	Income 2009	Expenses 2009	Surplus 2009	Surplus 2008
	N\$	N\$	N\$	N\$
Cleansing	196 845	430 000	(233 155)	135 234
Sewerage	143 038	-	143 038	127 118
	339 883	430 000	(90 117)	262 352

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 thefts, fire and accidents were revealed during the years under review.

15. CAPITAL PROJECTS

Nature of projects/acquisitions	Financial by	Total expenditure 2008/2009	Total expenditure 2007/2008
	Revenue account		
	N\$	N\$	N\$
General Administration	4 397 148	4 397 148	4 084 853
	4 397 148	4 397 148	4 084 853

The income statements reflect an amount of N\$ 4 379 276 (2008: Nil) for capital projects. The difference of N\$ 17 872 (2008: N\$ 4 084 853) could not be explained by the Village Council.

16. BURSARIES

No contributions were made during the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID.

	2009	2008
	N\$	N\$
Contribution from Government	2 500 000	-

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 was 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:**

	2009	2008
	N\$	N\$
Services, rates and taxes	1 379 170	1 206 930
VAT	1 047 113	351 013
Provision for bad debts	2 426 283 (638 670)	1 557 943 (321 419)
Total	1 787 613	1 236 524

The average collection period of trade receivables, before taking the provision for bad debts into account, is 225.2 days (2008: 178,7 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 120.9 days (2008: 131,1 days). 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 understated by N\$ 373 027.

23.2 Trade and other payables at 30 June were:

	2009	2008
	N\$	N\$
Trade payables	172 024	-
Provisions	39 500	39 500
Consumer deposits	20 949	7 506
Reconciling items per bank reconciliation	-	1 799 933
Totals	232 473	1 846 939

24. ASSESSMENT RATES

	2009	2008
	N\$	N\$
The proceeds from assessment rates were	169 483	85 798
Tariffs per N\$1 valuation per annum - Land	0.02413	0.02413
Tariffs per N\$1 valuation per annum - Improvements	0.00550	0.00450
Tariffs per N\$1 valuation per annum - Unimproved land	0.04540	0.04540

25. LOANS**25.1 External loans**

There are no external loans.

25.2 Due to the Village 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\$ 1 558 353 (2008: N\$367 207).

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

	LDV's, 4x4's and combi's		Other	
	Number	Value	Number	Value
Balance - 01/07	2	N\$ 199 593	1	N\$ 172 895
Additions	-	-	-	-
Sub-total	2	199 593	1	172 895
Depreciation	-	(28 513)	-	(21 612)
Balance - 30/06	2	171 080	1	151 283

30.2 Inventory

There is no inventory in the statements of the Village Council.

31. SPECIAL INVESTIGATIONS

All special investigations were completed and reported upon.

32. GENERAL

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

33. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report.

The following informal queries were raised with the Town Clerk:

- Trade receivables
- Trade and other payables
- Inventories
- Depreciation
- Capital statement
- VAT
- P.A.Y.E. returns
- Insurance of assets

Audit differences and other comments are addressed in paragraph 4 of this report.

34. QUALIFIED AUDIT OPINION

The accounts of the Oshikuku Village Council for the financial year ended 30 June 2009, summarised in Annexures A to D, were audited by me in terms of Section 85 of the Local Authority 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:

- Provision for bad debts is understated by N\$ 682 842.
- P.A.Y.E. returns not submitted on time.

Except for the effects 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 Municipality at 30 June 2009, and the results of operations and cash flows for the year then ended in accordance with generally accepted accounting practice.

WINDHOEK, May 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR- GENERAL**

VILLAGE COUNCIL OF OSHIKUKU

BALANCE SHEET AT 30 JUNE

	Notes	2009	2008
		N\$	N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	15 522 819	11 275 296
Investments	3	10 108 958	6 394 322
		5 413 861	4 880 974
Current assets			
Trade and other receivables	4	2 412 069	2 196 051
Bank and cash	5	1 787 613	1 236 524
		624 456	959 527
TOTAL ASSETS		17 934 888	13 471 347
FUNDS AND LIABILITIES			
Funds and reserves			
Capital outlay	6	17 702 415	11 624 408
Funds and accounts	7	10 108 958	6 394 322
		7 593 457	5 230 086
CURRENT LIABILITIES			
Trade and other payables	8	232 473	1 846 939
TOTAL FUNDS AND LIABILITIES		17 934 888	13 471 347

VILLAGE COUNCIL OF OSHIKUKU

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2009 N\$	2008 N\$
INCOME		7 253 282	3 601 899
EXPENDITURE		(9 259 580)	(5 101 763)
NET OPERATING LOSS		(2 006 298)	(1 499 864)
INTEREST ON INVESTMENTS		305 036	394 338
		(1 701 262)	(1 105 526)
APPROPRIATION ACCOUNT	9	765 202	516 030
		(936 060)	(589 496)
REVENUE ACCOUNT - Beginning of year		3 161 653	3 751 149
REVENUE ACCOUNT - End of year		2 225 593	3 161 653

VILLAGE COUNCIL OF OSHIKUKU

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2009 N\$	2008 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		7 253 282	3 601 899
Cash paid to suppliers		(10 659 933)	(3 228 052)
Cash (utilised)/generated by operations	10	(3 406 651)	373 847
Interest on investments		305 036	394 338
Increase/(decrease) in Fund accounts		3 299 431	(822 543)
Increase in Capital outlay		3 714 636	3 736 770
Net cash flow from operating activities		3 912 452	3 682 412
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital expenditure		(3 714 636)	(3 736 770)
(Increase)/decrease in investments		(532 887)	866 937
		(4 247 523)	(2 869 833)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(335 071)	812 579
- BEGINNING OF THE YEAR		959 527	146 948
- END OF THE YEAR	5	624 456	959 527

VILLAGE 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 C 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 lives.

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.

	<u>2009</u>	<u>2008</u>
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Income assets	8 001 891	4 194 729
General capital assets	2 107 067	2 199 593
	<u>10 108 958</u>	<u>6 394 322</u>

3. INVESTMENTS

INVESTMENTS

Commercial Banks	<u>5 413 861</u>	<u>4 880 974</u>
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ALLOCATED AS FOLLOWS

Salary Reserve Fund	147 672	147 672
Build Together Fund	1 082 926	946 330
Capital Reserve Fund	4 135 639	972 805
Revenue	47 624	2 814 167
	<u>5 413 861</u>	<u>4 880 974</u>

VILLAGE COUNCIL OF OSHIKUKU

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

	2009	2008
	N\$	N\$
4. TRADE AND OTHER RECEIVABLES		
Services, rates and taxes	1 379 170	1 206 930
Inland revenue - VAT	1 047 113	351 013
	<u>2 426 283</u>	<u>1 557 943</u>
Provision for bad debts	(638 670)	(321 419)
	<u>1 787 613</u>	<u>1 236 524</u>
5. CASH AND BANK BALANCES		
Cash-book balance at 30 June - Balance sheet	624 456	(840 406)
Reconciling items - Moved to trade payables (Note 8)	-	1 799 933
	<u>624 456</u>	<u>959 527</u>
6. CAPITAL OUTLAY		
Revenue contributions	8 001 891	4 194 729
General Capital contributions	2 107 067	2 199 593
	<u>10 108 958</u>	<u>6 394 322</u>
7. FUNDS AND ACCOUNTS		
Salary Reserve Fund	147 672	147 672
Build Together Fund	1 084 552	947 956
Capital Reserve Fund	4 135 640	972 805
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	<u>2 225 593</u>	<u>3 161 653</u>
	<u>7 593 457</u>	<u>5 230 086</u>
8. TRADE AND OTHER PAYABLES		
Trade payables	172 024	-
Provisions	39 500	39 500
Consumer deposits	20 949	7 506
Outstanding cheques	-	1 799 933
	<u>232 473</u>	<u>1 846 939</u>

VILLAGE COUNCIL OF OSHIKUKU

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

	2009	2008
	N\$	N\$
9. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Expenses	(318 037)	(353 608)
Income	1 083 239	869 638
	765 202	516 030
10. CASH (UTILISED)/GENERATED BY OPERATIONS		
Net operating loss before interest	(2 006 298)	(1 499 864)
Adjustments for:		
- Adjustments to appropriation account	765 202	516 030
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	(1 241 096)	(983 834)
CHANGES IN WORKING CAPITAL		
(Increase) in trade and other receivables	(551 089)	(444 791)
(Decrease)/increase in trade and other payables	(1 614 466)	1 802 472
	(2 165 555)	1 357 681
CASH (UTILISED)/GENERATED BY OPERATIONS	(3 406 651)	373 847