



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF EENHANA
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

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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 Eenhana for the financial year ended 30 June 2008, 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 2009

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL
ON THE ACCOUNTS OF THE TOWN COUNCIL OF EENHANA
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2008**

1. INTRODUCTION

The accounts of the Town Council of Eenhana for the year ended 30 June 2008 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, (Act 23 of 1992).

The firm EDB & Associates 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 Namibian 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 **except that they were only signed on 12 February 2009 instead of three months after the year-end as required by the Act.** 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.

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

The Accounting Officer of the Town Council is responsible for the preparation of the financial statements and for ensuring the regularity of the financial transactions. 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 audit as carried out by the said firm, included:

- a) Examination on a test basis of the evidence relevant to the amounts, disclosure and regularity of financial transactions included in the financial statements;
- b) assessment of the significant estimates and judgements made by the Accounting Officer of the Town Council in preparation of the financial statements and whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed; and
- c) evaluation of the overall adequacy of the presentation of information in the financial statements.

The audit was planned and performed so as to obtain all the information and explanations considered necessary to provide sufficient evidence to give reasonable assurance that:

- The financial statements are free from material misstatement, whether caused by error, fraud or other irregularities;
- in all material respects, the expenditure and income have been applied to the purposes intended; and
- the financial transactions conform to the authorities which govern them.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Recoverability of debtors - Bad and doubtful debts

	2008	2007
	N\$	N\$
Debt outstanding	3 626 760	2 870 945
Provision for bad debts	2 318 332	1 797 777
Percentage increase in outstanding debts	26%	11%
Percentage increase in provision for bad debts	29%	54%
Percentage debt provision vs. debt	64%	63%

During the year under review the amount of debtors outstanding for 120 days plus increased significantly by 66% (2007: 14%), compared with the prior year and the current year provision for bad debts represents 64% of total debt. This is considerably high as also stated in the prior year and it does not appear as if Council is improving on the debt collections situation. The significant amount of irrecoverable debt is a matter of grave concern as the recovery of long outstanding debtors threatens the future cash flows of the Town Council.

An analysis conducted by the auditors revealed that the provision for doubtful debts, as at year end, was understated by N\$ 145 984. The Council should follow a strict policy of debt collection, and if amounts outstanding appear to be uncollectible, consideration should be given to writing off such debts in order to maintain the integrity of the accounting records of the Town Council.

Due to the significance of this matter, the audit opinion on bad and doubtful debts has been qualified for the year under review.

4.2 Receiver of Revenue - VAT

As previously reported, Council did not receive any VAT refunds from the Receiver of Revenue. The debt keeps on accumulating from previous years and might not be recoverable by the Council.

In addition the Council did not account for any penalties and interest on the late submission of returns. Henceforth, the valuation of this receivable amount remains questionable.

4.3 Suspense account – Unallocated revenue

The opening balance of unknown direct deposits, N\$ 889 273, was transferred to the appropriation account. Despite this, the balance under review is N\$ 86 644 and could not be set off against the respective debtor accounts.

As reported in prior reports, it is advisable that Council should do everything in its power to allocate payments to correct debtor accounts.

4.4 Consumer deposits

Consumer deposits for 2008: N\$ 91 480 (2007: N\$ 58 401) were recorded in the annual financial statements. The auditors were unable to satisfy themselves to the adequacy of consumer deposits as the recorded amounts represented only a coverage of 3% of the total debt outstanding for the year under review.

	2008	2007
	N\$	N\$
Debt outstanding	3 626 760	2 870 945
Consumer deposits	91 480	58 401
Percentage of deposits against outstanding debts	3%	2%

4.5 Fixed assets

4.5.1 Updating of fixed asset register

The auditors found that VAT of N\$ 29 275 was not excluded from the asset values. Upon physical inspection, it was found that a refuse truck was disposed of by way of an auction but was not yet removed from the fixed asset register. The auditors were also unable to verify any proceeds on the disposal of assets.

4.6 Unrecorded liabilities

No supplier reconciliations were performed by the Town Council. Unrecorded liabilities of N\$ 32 885 were found.

4.7 Non-compliance with recommendations

Although many of the above-mentioned problem areas have already been highlighted in previous audit reports, none or few of the recommendations have been implemented.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

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

	Revenue	Expenditure	Surplus/ (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus as at 01/07/2007				9 011 092
General accounts				
Rate and general	1 286 341	(1 931 029)	(644 688)	
Non-profitable	3 830 890	(7 094 653)	(3 263 763)	
Self-supporting	1 021 382	(968 608)	52 774	
Trade accounts				
Electricity supply	168 534	(188 707)	(20 173)	
Water supply	2 141 940	(3 121 605)	(979 665)	
	8 449 087	(13 304 602)	(4 855 515)	
Deficit for the year				(4 855 515)
(Adjustments and utilizations detailed in Note 9 of the financial statements.)				(924 756)
				3 230 821

7. CURRENT BANK ACCOUNT

The cash-book balance reflected an unfavourable balance of N\$ 119 581 (2007: Unfavourable N\$ 324 357), which is also the reconciled balance. The bank statements reflected a favourable balance of N\$ 70 059 (2007: N\$ 210 745), mainly due to unrepresented cheques.

8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June 2008 there was N\$ 5 206 672 (2007: N\$ 12 361 771) invested at financial institutions, as follows:

	2008	2007
	N\$	N\$
Commercial bank	1 863 275	6 367 489
Commercial bank	3 343 397	5 994 282
	5 206 672	12 361 771
Investments were allocated to the following Funds:		
Build Together Fund	1 402 103	2 765 303
Mayoral Fund	97 612	93 804
Capital Development Fund	2 911 116	1 788 975
Sport Complex Development Fund	28 982	-
Revenue	766 859	7 713 689
	5 206 672	12 361 771
Investment income of N\$ 399 179 (2007: N\$ 619 787) was accounted for in the revenue account for the year.		

9. FUND ACCOUNTS

The position of the Fund accounts at the end of the year is shown in Note 2 of Annexure D.

10. TRADE ACCOUNTS

10.1 The results of operations of water distribution were as follows:

	2008	2007
	N\$	N\$
Sales	2 828 651	1 916 469
Cost of bulk purchases	(1 018 885)	(872 915)
Gross profit on bulk purchases	1 809 766	1 043 554
Expenses (net)	(830 101)	(316 127)
Net surplus	979 665	727 427
Gross profit % on bulk purchases	177.62%	119.55%
Net profit % on bulk purchases	96.15%	83.33%

11. SELF-SUPPORTING SERVICES

The net results of self-supporting services were as follows:

	2008	2007
	Surplus/ (Deficit)	Surplus/ (Deficit)
	N\$	N\$
Civic buildings	73 334	(1 281 766)
Licenses and vehicle registration	(41 265)	(22 813)
Open market stalls	(3 532)	766
Cleaning services	18 400	20 501
Sewerage	5 837	157 512
	52 774	(1 125 800)

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorized or avoidable expenditure was revealed during the audit.

13. SUSPENSE ACCOUNTS

A total amount of N\$ 86 644 (2007: N\$ 889 273) was received but could not be allocated to the respective debtor accounts.

14. IRREGULARITIES AND LOSSES

No irregularities and losses were revealed by the audit for the year under review.

15. CAPITAL PROJECTS

The following expenditure was incurred during the year for capital projects or acquisitions.

	2008	2007
	Revenue account	Revenue account
	N\$	N\$
Council general expenses	323 571	332 345
Town clerk	-	12 009
Town administration	12 193	19 805
Town treasurer	9 278	9 455
Town engineer	18 023	4 235
Town planning and development	* 931 789	1 410 527
Stores and procurement	11 794	-
Parks and sportground	-	89 735
Civic buildings and housing	4 389	1 204 997
Led and tourism services	-	35 590
Electricity services	10 850	430 509
Streets and stormwater	206 745	1 336 527
Cleansing services	80 435	-
Sewerage	30 204	-
Water supply	1 530 762	-
Total	3 170 033	4 885 734

* The capitalized expenditure relating to Town planning and development was N\$ 5 837 less than the amount stated above.

16. BURSARIES

No bursaries were granted during the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No Government subsidies or contributions, except of those for capital projects, were received during the year under review.

18. COMPENSATION PAYMENTS

An amount of N\$ 270 665 (2007: N\$ 183 977) was paid out as crop fields compensation during the year under review.

19. VISITS TO FOREIGN COUNTRIES

Expenditure of N\$ 65 947 (excluding S&T) was incurred by the Council on a visit by three officials to Wuzhong City, China. Approval from the Ministry of Regional and Local Government, Housing and Rural Development was obtained prior to the trip.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

21. GIFTS / DONATIONS BY / TO THE LOCAL AUTHORITY

An amount of N\$ 90 000 was paid as donations for the year under review.

22. TRANSFER OF PROPERTY TO / FROM GOVERNMENT

No properties were transferred from or to the Ministry of Regional and Local Government, Housing and Rural Development.

23. DEBTORS AND CREDITORS

23.1 Debtors at 30 June were:

	2008	2007
	N\$	N\$
Consumers	3 626 760	2 870 945
Provision for bad debts	(2 318 332)	(1 797 777)
Subtotal	1 308 428	1 073 168
Value added taxation	2 035 018	36 510
VAT	-	1 513 445
	3 343 446	2 623 123

23.2 Creditors at 30 June were:

	2008	2007
	N\$	N\$
Trade creditors	521 211	134 090
Provisions and accruals	657 071	593 733
Consumer deposits	91 480	58 401
Suspense account	86 644	889 274
	1 356 406	1 675 498

24. ASSESSMENT RATES

The net deficit from assessment rates amounted to N\$ 777 643 (2007: N\$ 1 612 243). The tariffs for private properties on site valuation was N\$ 0.03 and on improvements N\$ 0.0026 whilst the tariffs for business properties was N\$ 0.03 and on improvements N\$ 0.020, which is in line with gazette rates.

25. LOANS

25.1 External loans

No external loans were entered into in the year under review.

25.2 Internal loans

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

25.3 Housing loans

The amounts advanced in favour of housing loans under the Build Together Housing Scheme are disclosed as N\$ 2 163 069 (2007: N\$ 687 475) in the financial statements.

26. SALE OF ERVEN

During the current financial year, cash proceeds to the value of N\$ 1 094 969 (2007: N\$ 321 718) were received for erven sold and allocated to the Revenue Account. As a result of recording on a receipt basis, an amount of N\$ 50 254 excluded on the summary sheet provided by the client.

27. PROPERTY SOLD ON INSTALMENT BASIS

Details of erven that were sold on an instalment basis for the year under review are disclosed in paragraph 26.

28. TARIFF ADJUSTMENTS

All tariff adjustments were in accordance with the relevant Official Government Notice.

29. APPROVALS

29.1 Excess on approved budget

Although management accounts are discussed and approved by Council on their monthly meetings during the year, the following votes were exceeded:

	2008	2007
	N\$	N\$
Assessment rates	560 586	546 039
Electricity services	-	147 360
	560 586	693 399

Section 84(1) of the Local Authorities Act stipulates that the Council may not apply any of its funds other than as per approved estimate compiled in terms of Section 83 (1). Council should ensure that any excess expenditure is covered by the approval of supplementary estimates as determined in Section 83 (1) (b).

30. STOCK AND EQUIPMENT

30.1 Motor vehicles

	Sedan vehicles		LDV's and Combi's		Heavy duty vehicles (Lorries and busses)	
		N\$		N\$		N\$
On hand as at 01/07/2006	2	182 203	5	322 696	10	1 257 185
Additions	-	-	-	-	-	-
	2	182 203	5	322 696	10	1 257 185
Less: Depreciation	-	(47 506)	-	(7 304)	-	(211 175)
On hand 30/06/2007	2	134 697	5	315 392	10	1 046 010

The distances travelled and the fuel consumption was not available.

30.2 Stock

According to the Council, stock comprising of stationery and consumables amounted to N\$ 596 503 (2007: N\$ 674 135).

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year, but internal auditors from the Ministry of Regional and Local Government, Housing and Rural Development carried out a comprehensive internal audit.

32. GENERAL

32.1 Internal controls

The accounting and internal controls are satisfactory, except where indicated otherwise in this report. Proper segregation of duties is not feasible due to the small number of staff employed. While increased management involvement reduces risks, the risk arises that management and Council override existing controls.

32.2 Temporary advances

No temporary advances were made to revenue for the year under review.

33. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report.

Informal queries addressed to the Town Clerk consist of:

- * Sales/Accounts receivable cycle.
- * Receiver of Revenue – VAT.
- * Funds and investments.
- * Purchases/Accounts payable cycle
- * Fixed assets
- * Inventory
- * General matters

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Eenhana for the financial year ended 30 June 2008, summarized in Annexure A to D, were audited by me in terms of provisions of Section 85 of the Local Authorities Act, 1992 read with Section 25(1) of the State Finance Act, 1991.

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

- Underprovision of bad and doubtful debts by N\$ 145 984.
- VAT – The correctness of the balance is doubtful.
- An amount of N\$ 889 273 relating to unknown deposits was transferred from the suspense account to the appropriation account. Despite of this, the suspense account again accumulated a balance of N\$ 86 644 due to the fact that direct deposits could not be allocated to the respective debtors.

- It was found that VAT was included in the asset register and a truck was sold by auction but not removed from the register.

Except for the above-mentioned remarks, in my opinion the financial statements fairly present the financial position of the Town Council at 30 June 2008 and the results of its operations and cash flow for the year then ended.

WINDHOEK, December 2009

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

THE TOWN COUNCIL OF EENHANA

BALANCE SHEET ON 30 JUNE 2008

	Notes	2008 N\$	2007 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	3	24 201 188	23 510 671
Loans	6	2 163 069	687 475
Investments	4	5 206 672	12 361 771
Current assets			
Inventory	5	596 503	674 135
Accounts receivable	7	3 343 446	2 623 123
Cash and cash equivalents		-	-
TOTAL ASSETS		35 510 878	39 857 175
EQUITY AND LIABILITIES			
Funds			
Financing of capital	2	24 201 188	23 510 671
Funds	2	6 602 882	5 335 556
Accumulated surplus	2	3 230 821	9 011 092
Current liabilities			
Accounts payable	8	1 356 406	1 675 498
Bank overdraft		119 581	324 358
TOTAL EQUITY AND LIABILITIES		35 510 878	39 857 175

THE TOWN COUNCIL OF EENHANA

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Notes	2008 N\$	2007 N\$
INCOME		8 049 908	12 539 817
EXPENDITURE		(13 304 602)	(13 447 737)
NET OPERATING (LOSS)		(5 254 694)	(907 920)
INVESTMENT INTEREST EARNED		399 179	619 787
NET (LOSS) for the year	2	(4 855 515)	(288 133)
ADJUSTMENTS	9	(924 756)	(195 903)
NET (LOSS) for the year		(5 780 271)	(484 036)
APPROPRIATION ACCOUNT AT THE BEGINNING OF THE YEAR		9 011 092	9 495 128
APPROPRIATION ACCOUNT AT THE END OF THE YEAR		3 230 821	9 011 092

THE TOWN COUNCIL OF EENHANA

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Notes	2008	2007
		N\$	N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		8 049 909	12 539 817
Cash paid to suppliers		(12 717 463)	(11 772 668)
Cash generated/(utilised) by operations	10	(4 667 554)	767 149
Plus: Movement in Fund accounts		1 957 843	5 761 315
Investment income		399 179	619 787
Net cash flow from operating activities		(2 310 532)	7 148 251
CASH FLOW BY INVESTING ACTIVITIES			
Additions to fixed assets		(3 164 196)	(4 885 733)
(Increase)/decrease in loans		(1 475 594)	18 976
Decrease/(increase) in investments		7 155 099	(3 251 733)
Net movement in cash and cash equivalents		204 777	(970 239)
Cash and cash equivalents at the beginning of the year		(324 358)	645 881
Cash and cash equivalents at the end of the year		(119 581)	(324 358)

THE TOWN COUNCIL OF EENHANA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2008

1. ACCOUNTING POLICIES

The annual financial statements are compiled in accordance with the historical convention 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, have 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 Fixed assets and depreciation

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 cost and net realizable value. The cost of inventories should comprise all cost of purchases, cost of conversion and other cost incurred in bringing the inventories to their present location and condition.

	2008	2007
	N\$	N\$
2 OWN FUNDS		
2.1 Financing of capital:		
Contribution from:	24 201 188	23 510 671
Capital	11 479 392	12 747 636
Revenue	12 721 796	10 763 035
2.2 Funds	9 833 703	14 346 648
Capital Development Fund	2 911 116	1 788 975
Build Together Fund	3 565 172	3 452 777
Mayoral Fund	97 612	93 804
Sport Complex Development Fund	28 982	-
Accumulated surplus	3 230 821	9 011 092
TOTAL FUNDS	34 034 891	37 857 319

THE TOWN COUNCIL OF EENHANA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2008 (continued)

	2008	2007
	N\$	N\$
3. FIXED ASSETS		
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment	24 201 188	23 510 671
4. INVESTMENTS		
Fixed deposits and money on call	5 206 672	12 361 771
	5 206 672	12 361 771
Comprising of:		
Mayoral Fund	97 612	93 805
Build Together Fund	1 402 103	2 765 302
Capital Development Fund	2 911 116	1 788 975
Revenue	766 859	7 713 689
Sport Complex Development Fund	28 982	-
	5 206 672	12 361 771
5. INVENTORY		
Comprising of:		
Consumable stores	596 503	674 135
6. LOANS		
These loans were granted from the Build Together Funds to residents of Eenhana.	2 163 069	687 475
7. ACCOUNTS RECEIVABLE		
Debtors	3 626 760	2 870 945
Less: Provision for doubtful debts	(2 318 332)	(1 797 777)
	1 308 428	1 073 168
VAT Control Account	2 035 018	1 513 445
Sundry debtors	-	36 510
	3 343 446	2 623 123

THE TOWN COUNCIL OF EENHANA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2008 (continued)

	2008	2007
	N\$	N\$
8. ACCOUNTS PAYABLE		
Trade creditors	521 211	134 090
Provisions and accruals	657 071	593 733
Consumer deposits	91 480	58 401
Suspense account	86 644	889 274
	1 356 406	1 675 498
9. ADJUSTMENTS AND UTILIZATIONS		
Increase in provision for bad debts	(520 554)	(628 413)
Unexplained adjustment	14 322	-
Adjustment previous year bank transaction	(1 200 200)	-
Adjustment stores	(2 619)	294 620
Audit adjustment	(42 139)	146 045
Adjustment accrued leave	5 400	-
Stale cheque's	38 421	4 638
Adjustment salary control	65 698	-
Transfer to Appropriation account	716 915	-
Cheque not in cash-book	-	988
Previous year expenses	-	(7 705)
Debts written off	-	(6 076)
	(924 756)	(195 903)
10. CASH GENERATED BY OPERATIONS		
Net operating surplus/(loss) before transfers	(4 855 515)	(288 133)
Adjustments for:		
Depreciation	2 473 679	2 345 825
Appropriation account	(924 756)	(195 903)
Interest on investments	(399 179)	(619 787)
Operating income before changes in working capital	(3 705 771)	1 242 002
Changes in working capital:		
(Increase)/decrease in other receivables	(720 324)	(149 305)
Increase/(decrease) in other payables	(319 092)	(47 740)
(Increase)/decrease in inventory	77 633	(277 808)
	(961 783)	(474 853)
Cash generated by operations	(4 667 554)	767 149