



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

# TOWN COUNCIL OF EENHANA

FOR THE FINANCIAL YEARS ENDED 30 JUNE 2009 AND 2010

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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 years ended 30 June 2009 and 2010, 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, March 2012**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL  
ON THE ACCOUNT OF THE EENHANA TOWN COUNCIL  
FOR THE FINANCIAL YEAR ENDED  
30 JUNE 2009 AND 2010**

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**1. INTRODUCTION**

The accounts of the Town Council of Eenhana for the years ended 30 June 2009 and 2010 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 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 **except that they were only signed on 26 November 2010 and 15 January 2011 respectively, 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 originals.

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 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 OBSERVATIONS AND COMMENTS

##### 4.1 Recoverability of debtors - 2009 and 2010

In the years under review, the Council's debts outstanding increased by 71% for 2010, 64% for 2009 (2008: 64%) but total debt outstanding is rather significant in value.

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Debt outstanding	5 034 617	4 732 638	3 626 760
<b>Provision for bad debts</b>	3 552 633	3 047 550	2 318 332
Percentage increase in outstanding debts	6.4%	30.5%	26.0%
Percentage increase in provision for bad debts	17%	31%	29%
Percentage provision vs. debt	71%	64%	64%

The debts outstanding for 120 days and more were 73%: 2010 and 69%: 2009 (66%: 2008) of total debts outstanding.

The auditors' recalculated provision for doubtful debts indicated an under provision of N\$ 54 679 for 2010 and N\$ 83 938 for 2009.

Material differences of N\$ 85 370: 2010 and N\$ 255 713 for 2009 were found between the debtors age analysis and annual financial statements debtors.

This is considerably high and as stated in the prior year, it does not appear as if the Council is improving on debtors collections. 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.

The Council should follow a strict policy of debt collection, and if the amounts outstanding appear to be uncollectible, consideration should be given to write 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 Auditor-General cannot express an opinion on the provision for bad and doubtful debts.

##### 4.2 Stock control - 2009 and 2010

Stock cards were not provided by the Council. The stock cards provided were not updated for the years under review.

This leads to inadequate accounting control over the items of stock held by the Council. It is recommended that measures should be implemented to keep accurate records of stock on hand.

Due to the significant of this matter, no opinion is expressed on the value of stock as disclosed in the financial statements.

### 4.3 Consumer deposits - 2009 and 2010

Consumer deposits for 2010: N\$ 139 567 and for 2009: N\$ 110 430 (2008: N\$ 91 480) 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 coverage of 3% for 2010 and 2% for 2009 on total debt outstanding for the years under review.

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Debt outstanding	5 034 617	4 732 638	3 626 760
<b>Consumer deposits</b>	139 567	110 430	91 480
Percentage of deposits against outstanding debts	3%	2%	3%

### 4.4 Fixed assets

#### 4.4.1 Updating of fixed asset register

The auditors found that VAT of N\$ 209 011 for 2010 and N\$ 31 420 for 2009 was not excluded from the asset values. Upon physical inspection, it was found that motor vehicles disposed, were not yet removed from the fixed asset register. The auditors were also unable to verify any proceeds on disposal of assets.

### 4.5 Trade creditors, accrued expenses and provisions - 2009 and 2010

No supplier reconciliations were performed by the Town Council. Unrecorded liabilities of N\$ 92 253 for 2009 were found.

No accrued expenses breakdown or split was provided by the Town Council therefore the auditors could not search for unrecorded liabilities for the year ended 30 June 2010.

During the audit the auditors detected a difference of N\$ 70 847 for 2010 and N\$ 139 459 for 2009 on the provision for leave days.

A material difference of N\$ 98 338 for 2010 and N\$ 107 164 for 2009 were found on the water purchases reconciliation for the years under review.

### 4.6 Payroll - 2009 and 2010

During the audit the auditors discovered a material difference for 2010: N\$ 74 536 and an immaterial difference of N\$ 12 635 for 2009 on the payroll reconciliation. No supporting documentation or explanation was given to substantiate these differences found.

It is imperative that the Council should ensure that payroll information is kept and safeguarded at all costs. Payroll information is considered to be sensitive in nature and the inability to trace such records could lead to staff conflicts, and possible legal encounters. It is therefore recommended that the Council should implemented necessary measures to ensure that payroll information is kept secure.

Due to the significance of this matter, the Auditor-General cannot express an opinion on payroll.

#### **4.7 Value-Added-Tax - 2009 and 2010**

As reported in prior year, the annual financial statements of the Town Council portray a VAT debt receivable and the Council did not receive any VAT refunds from the Receiver of Revenue for the years ended 30 June 2009 and 2010. A material difference of N\$ 760 416 for 2010 and N\$ 403 744 for 2009 on the auditors' reconciliation were found, as no VAT returns were submitted by the Town Council to the Department of Inland Revenue for the years ended 30 June 2009 and 2010.

Due to the significance of this matter, the Auditor-General cannot express an opinion on VAT.

#### **4.8 Suspense - Unallocated Revenue and Creditors- 2009 and 2010**

##### **4.8.1 R/D cheques**

The balance for R/D cheques remained stagnant at N\$ 58 617 for the years ended 30 June 2009 and 30 June 2010.

##### **4.8.2 Receipts to be reversed**

These are monies recorded in the cash-book or recorded as receipts which amounted to N\$ 533 760 for 2010 and N\$ 87 950 for 2009, but could not be traced on the bank statements for the years ended 30 June 2009 and 2010.

##### **4.8.3 Amount not in receipts**

These are monies recorded in the cash-book or recorded as receipts which amounted to N\$ 2 999 946 for 2010 and N\$ 901 968 for 2009, but could not be traced on the bank statements and could not be set off against the respective debtor accounts for the years ended 30 June 2009 and 2010.

Due to the significance of this matter, the Auditor-General cannot express an opinion on Suspense Account revenue and creditors.

#### **4.9 Build Together Housing Fund and Investments - 2009 and 2010**

Special Funds such as the Build Together Programme are administered by the Town Council on behalf of the Ministry of Regional and Local Government, Housing and Rural Development and it should be considered significant as weaknesses were identified with regards to administration.

This Fund has its own peculiar specifications with respect to the way in which the Fund are to be managed and utilized as stipulated by the line Ministry. The following were irregularities detected by the auditors:

- \* No detailed testing was performed by the auditors because no list of the Build Together Fund debtors was provided by the Town Council for the year ended 30 June 2009.
- \* Most of the files do not have the identification cards for the year ended 30 June 2010.
- \* The progress payment sheet of one of the beneficiaries was not properly approved for the year ended 30 June 2010.
- \* The difference of N\$ 141 616 for 2010 and N\$ 96 576 for 2009 related to interest received on investment were not accounted for in the annual financial statements and could not be verified in which account it was posted or where in the annual financial statements was it allocated for the years under review.
- \* A difference of N\$ 468 521 was found between the annual financial statements and manual record of the Build Together loan advances for the year ended 30 June 2010.

\* A difference of N\$ 26 900 was found between the annual financial statements and the investment schedule closing balances as at 30 June 2010, as no bank statement of the Trade and Business Expo Fund could be provided by the Town Council as at 30 June 2009 and 2010.

Due to the significance of this matter, the Auditor-General cannot express an opinion on Build Together Fund or its investments.

#### **4.10 Source documents - 2009 and 2010**

Numerous important source documents of expenditures and the additions of the fixed assets invoices incurred by the Town Council could not be found at the time of the audit. This was mainly attributable to an unorganised filing system and poor recordkeeping by the Council.

#### **4.11 Services income - Accuracy of charges levied on water, sewerage, sanitation and electricity - 2009 and 2010**

##### **Water and sanitation**

The audit revealed that the water readings from consumers of October 2008 and of January 2010 did not agree to the meter reading record form for the years ended 30 June 2009 and 2010.

The audit further revealed that the consumer accounts selected for testing were incorrectly charged on sanitation for the years ended 30 June 2009 and 2010.

##### **Nored income**

Material differences of N\$ 229 141 for 2010 and N\$ 192 454 for 2009 were found between the calculated surcharge payable to Nored and the General ledger.

##### **RFA income**

A material difference of N\$ 264 780 for 2010 were found between the actual amount received from the Road Fund Administration and the General ledger

##### **Sale of erven**

No list for sale of erven could be provided by the Town Council for the years under review.

##### **Assessment rates**

Erf no: 694 on which a Youth Centre was erected, was charged with residential rates instead of business rate for the year ended 30 June 2009.

##### **Building sand**

Most of the receipts nor any other supporting documents or job cards could not be provided by the Town Council to satisfy the auditors that building sand income for the year ended 30 June 2009 are correctly stated.

##### **Sundry income**

Due to lack of receipts or any other supporting documents the auditors could not satisfy themselves to the correctness of sundry income for the years ended 30 June 2009 and 2010 are correctly stated.

Due to the significance of these matters, the Auditor-General cannot express an opinion on services income.

#### 4.12 General - 2009 and 2010

The auditors noted that numerous figures of balances and transactions on the Finstel trial balance did not agree with those stated in the annual financial statements for the years ended 2009 and 2010.

#### 4.13 Non-compliance with recommendations

Many of the above-mentioned problem areas have already been highlighted in previous audit report and were again highlighted when finalising the audit. However, none or only a 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 are appreciated.

### 6. FINANCIAL RESULTS

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

<b>2010</b>	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>	<b>Balance</b>
	N\$	N\$	N\$	N\$
Accumulated surplus as at 01/07/2009				2 537 724
<b>General accounts</b>				
Rate and general	7 219 706	9 035 994	(1 816 289)	
Non-profitable	4 699 352	4 446 996	252 356	
Self-supporting	1 120 061	1 405 590	(285 529)	
<b>Trade accounts</b>				
Electricity supply	526 652	-	526 652	
Water supply	1 975 367	1 570 662	404 705	
Surplus for the year	15 541 138	16 459 243	(918 105)	(918 105)
Adjustments and utilizations (See Note 10, Annexure D)				1 619 619 (738 796)
Accumulated surplus 30/06/2010				<b>880 823</b>



<b>2009</b>	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>	<b>Balance</b>
	N\$	N\$	N\$	N\$
Accumulated (deficit) as at 01/07/2008				3 230 821
<b>General accounts</b>				
Rate and general	4 200 278	5 592 329	(1 392 051)	
Non-profitable	3 731 523	3 408 357	323 166	
Self-supporting	1 927 853	792 985	1 134 868	
<b>Trade accounts</b>				
Electricity supply	396 295	-	396 295	
Water supply	2 146 956	2 700 129	(553 173)	
Deficit for the year	12 402 905	12 493 800	(90 895)	(90 895)
Adjustments and utilizations (See Note 10, Annexure D)				3 139 926 (602 202)
Accumulated surplus 30/06/2009				<b>2 537 724</b>

#### 7. CURRENT BANK ACCOUNT

The balance sheet reflected an unfavourable cashbook balance for 2010: N\$ 814 609 and for 2009: an unfavourable N\$ 50 969 (2008: an unfavourable N\$ 119 581), which is also the reconciled balance. The bank statements reflected a favourable balance for 2010: N\$ 391 285 and a favourable balance of N\$ 810 158 for 2009, mainly due to outstanding cheques at year-end.

#### 8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June 2009 and 2010 there were investments invested at financial institutions, as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Commercial banks	7 119 394	4 931 504	5 206 672
	<b>7 119 394</b>	<b>4 931 504</b>	<b>5 206 672</b>
Investments were allocated to the following Funds:			
Build Together Fund	3 435 898	1 514 285	1 402 103
Mayoral Fund	97 836	98 134	97 612
Capital Development Fund	3 063 010	3 063 010	2 911 116
Sport Complex Development Fund	29 197	29 345	28 982
Trade and Business Expo Fund	*153 811	*217 097	-
Revenue	339 642	9 633	766 859
	<b>7 119 394</b>	<b>4 931 504</b>	<b>5 206 672</b>

\* No supporting bank statements were found at the Council related to the Trade and Business Expo Fund for the years ended 30 June 2009 and 2010.

## 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 were as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Sales	1 264 018	1 451 858	2 828 651
Cost of bulk purchases	(1 522 645)	(1 220 147)	(1 018 885)
<b>Gross (loss)/profit</b>	(258 627)	231 711	1 809 766
Expenses/(income (net))	663 331	(784 883)	(830 101)
<b>Net (deficit)/surplus</b>	<b>404 704</b>	<b>(553 172)</b>	<b>979 665</b>
Gross profit/(loss) % on cost of bulk purchases	(16.99%)	18.99	177.62%
Net surplus/(loss) % on cost bulk purchases	26.58%	(45.34%)	96.15%

### 10.2 The distribution losses for water could not be determined due to inadequate record keeping.

## 11. SELF-SUPPORTING SERVICES

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

	<b>Income 2010</b>	<b>Expenses 2010</b>	<b>Surplus/(Loss) 2010</b>	<b>Surplus/(Loss) 2009</b>
Civic buildings	-	104 836	(104 836)	798 062
Licences and vehicles registration	-	609 023	(609 023)	(54 742)
Open market stalls	-	-	-	(4 235)
Cleaning services	485 184	258 068	227 116	238 340
Sewerage	634 877	433 663	201 214	157 443
<b>Total</b>	<b>1 120 061</b>	<b>1 405 590</b>	<b>(285 529)</b>	<b>1 134 868</b>

	<b>Income 2009</b>	<b>Expenses 2009</b>	<b>Surplus/(Loss) 2009</b>	<b>Surplus/(Loss) 2008</b>
Civic buildings	900 000	101 938	798 062	73 334
Licences and vehicles registration	24 044	78 786	(54 742)	(41 265)
Open market stalls	-	4 235	(4 235)	(3 532)
Cleaning services	412 801	174 461	238 340	18 400
Sewerage	591 008	433 565	157 443	5 837
<b>Total</b>	<b>1 927 853</b>	<b>792 985</b>	<b>1 134 868</b>	<b>52 774</b>

## 12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

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

### 13. SUSPENSE ACCOUNTS

A total amount of N\$ 2 999 946 for 2010 and N\$ 901 968 for 2009 (2008: N\$ 86 644) was received but could not be allocated to the respective debtor accounts.

A total amount of N\$ 592 378 for 2010 and N\$ 146 568 for 2009 related to refer to drawer cheques and receipts that were cancelled which should have been reversed were not dealt with correctly for the years under reviewed.

### 14. IRREGULARITIES AND LOSSES

No irregularities or losses were revealed by the audit for the years under review.

### 15. CAPITAL PROJECTS

The following expenditure was incurred during the years for capital projects or acquisitions and were financed from revenue:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Council general expenses	207 856	174 206	323 571
Town clerk	-	-	-
Town administration	-	5 679	12 193
Town Treasurer	-	-	9 278
Town engineer	-	4 999	18 023
Town planning and development	3 184 950	1 143 486	931 789
Stores and procurement	-	-	11 794
Parks and sports ground	-	53 250	-
Civic buildings and housing	-	-	4 389
Local Economic Development and tourism services	-	2 839	-
Electricity services	-	-	10 850
Streets and storm water	44 529	-	206 745
Cleaning services	34 783	7 919	80 435
Sewerage	-	-	30 204
Open market stalls	3 545 187	-	-
Water supply	-	1 422 435	1 530 762
<b>Total</b>	<b>7 017 305</b>	<b>2 814 814</b>	<b>3 170 033</b>

It was noted for both years under review that expenditures per vote agree with the capital statement ex-revenue in total but the amounts allocated to a specific vote in the capital statement differs from the amounts as per expenditure vote. Council should ensure that the capital statement and the expenditure votes are reconciled at year-end.

### 16. BURSARIES

An amount of N\$ 26 800 for 2010 and N\$ 19 640 for 2009 (2008: N\$ Nil) was paid out as bursaries during the years under review.

### 17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

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

## 18. COMPENSATION PAYMENTS

An amount of N\$ Nil for 2010 and N\$ 224 700 for 2009 (2008: N\$ 270 665) was paid out as crop fields compensation during the years under review.

## 19. VISITS TO FOREIGN COUNTRIES

An amount of N\$ 224 670 for 2010 and N\$ Nil for 2009 (2008: N\$ 65 947) was paid out as visits to foreign countries during the years under review.

## 20. CLAIMS AGAINST THE LOCAL AUTHORITY

No such claims were identified during the years under review.

## 21. GIFTS / DONATIONS BY / TO THE LOCAL AUTHORITY

An amount of N\$ Nil for 2010 and N\$ 1 570 for 2009 (2008: N\$ 90 000) was paid as donations for the years under review.

## 22. TRANSFER OF PROPERTY TO / FROM GOVERNMENT

No properties were transferred from the Ministry of Regional and Local Government, Housing and Rural Development for the years under review.

## 23. DEBTORS AND CREDITORS

### 23.1 Debtors at 30 June were:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Consumers	5 034 617	4 732 638	3 626 760
Less: Provision for bad debts	(3 552 633)	(3 047 550)	(2 318 332)
Subtotal	<b>1 481 984</b>	<b>1 685 088</b>	1 308 428
Value added taxation	3 199 178	2 438 762	2 035 018
Suspense account	592 378	146 568	-
	<b>5 273 540</b>	<b>4 270 418</b>	<b>3 343 446</b>

### 23.2 Creditors at 30 June were:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Trade creditors	107 802	255 712	521 211
Provisions and accruals	1 176 771	928 725	657 071
Consumer deposits	139 567	110 430	91 480
Suspense account	2 999 946	901 968	86 644
	<b>4 424 086</b>	<b>2 196 835</b>	<b>1 356 406</b>

## 24. ASSESSMENT RATES

The net profit from assessment rates to N\$ 2 037 704 for 2010 and N\$ 1 929 124 for 2009 (2008: N\$ 777 643). The tariffs for private properties on site valuation was N\$ 0.03 and no 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 the Government Gazette rates.

## 25. LOANS

### 25.1 External loans

No external loans were entered into during the the years under review.

### 25.2 Internal loans

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

### 25.3 Housing loans

The amounts advanced in favour of housing loans under the Build Together and Housing Fund Scheme are disclosed as N\$ 4 550 521 for 2010 and N\$ 2 184 110 for 2009 (2008: N\$ 2 163 069 in the financial statements).

## 26. SALE OF ERVEN

During the current financial years, cash proceeds to the value of 2010: N\$ 1 565 484 and 2009: N\$ 758 717 (2008: N\$ 1 094 969) were received for erven sold and allocated to the Revenue account.

## 27. PROPERTY SOLD ON INSTALLMENT BASIS

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

## 28. TARIFF ADJUSTMENTS

All tariff adjustments were in accordance with the relevant official Government Gazette.

## 29. APPROVALS

As a result of the fact that management accounts are discussed and approved by Council on their monthly meetings during the years, no votes were exceeded during the years under review (2008: N\$ 560 586).

## 30 Motor vehicles

	Sedan vehicles		LDV's and combi's		Heavy duty vehicles (Lorries and busses)	
	No	N\$	No	N\$	No	N\$
On hand as at 01/07/2009	2	134 697	5	315 392	10	1 046 010
On hand 30/06/2010	<b>2</b>	<b>134 697</b>	<b>5</b>	<b>315 392</b>	<b>10</b>	<b>1 046 010</b>

Due to the lack of record keeping related to the vehicles and the fact that the fixed asset register were not been updated, the auditors could not satisfy themselves to the correctness of the information above.

### 30.2 Stock and equipment

According to the Council, stock comprising of stationery and consumables amounted to 2010: N\$ 506 336 and 2009: N\$ 505 476 (2008: N\$ 596 503).

### **31. SPECIAL INVESTIGATIONS**

No special investigations were carried out during the years under review.

### **32. GENERAL**

#### **32.1 Internal controls**

The accounting and internal controls were found to be inadequate. 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 could override existing controls.

### **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
- \* Funds and investments
- \* Build Together Fund
- \* Purchases/Accounts payable cycle
- \* Fixed assets
- \* Inventory
- \* Payroll
- \* General matters
- \* Financial statements – Preparation and submittance

### **34. DISCLAIMED AUDIT OPINION**

The accounts of the Town Council of Eenhana for the financial years ended 30 June 2009 and 2010, 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 statements have been prepared on the basis of accounting practices applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

I am unable to express an audit opinion due to the following reasons:

- The provision for doubtful debts are under provided by N\$ 54 679 for 2010 and N\$ 83 938 for 2009.
- Material differences were found between the debtors age analysis and the annual financial statements debtors which amounted to N\$ 85 370 for 2010 and N\$ 255 713 for 2009.
- The auditors found that VAT of N\$ 209 011 for 2010 and N\$ 31 420 for 2009 was not excluded from the asset values as disclosed in the balance sheets of the Council. Upon physical inspection, it was found that motor vehicles disposed, were not yet removed from the fixed asset register. The auditors were also unable to verify any proceeds on disposal of assets.
- No creditors reconciliations were performed by the Town Council. Unrecorded liabilities of N\$ 92 253 for 2009 were found.

- No creditors breakdown or split was provided by the Town Council and the auditors could therefore not search for unrecorded liabilities for the year ended 30 June 2010.
- The auditors determine differences of N\$ 70 847 for 2010 and N\$ 139 459 for 2009 related to the provision for leave days during the audit.
- Material differences of N\$ 98 338 for 2010 and N\$ 107 164 for 2009 were found on the water purchases reconciliations.
- The auditors discovered a material difference of N\$ 74 536 for 2010 on the payroll reconciliation.
- Material differences related to VAT of N\$ 760 416 for 2010 and N\$ 403 744 for 2009 were found.
- The balance related to refer to drawer cheques remained stagnant at N\$ 58 617 for the years ended 30 June 2009 and 30 June 2010.
- These are monies recorded in the cash-book or recorded as receipts amounting to N\$ 533 760 for 2010 and N\$ 87 950 for 2009 but could not be traced on the bank statements.
- These are monies recorded in the cashbook or recorded as receipts which amounted to N\$ 2 999 946 for 2010 and N\$ 901 968 for 2009, but could not be traced on the bank statements and could not be set off against the respective debtor accounts.
- A difference of N\$ 468 521 were found between the annual financial statements and manual records of the Build Together loan advances for the year ended 30 June 2010.
- Amounts of N\$ 141 616 for 2010 and N\$ 96 576 for 2009 related to interest received on investment were not accounted for in the annual financial statements.
- A difference of N\$ 26 900 was found between the annual financial statements and the investment schedule closing balance as at 30 June 2010, as no bank statement of Trade and Business Expo Fund could be provided by the Town Council for the years under review.
- A material difference of N\$ 229 141 for 2010 and N\$ 192 454 for 2009 were found between the calculated surcharge payable to Nored and the General ledger.
- A material difference of N\$ 264 780 for 2010 were found between the actual amount received from the Road Fund Administration and the General ledger.
- No list for sale of erven could be provided by the Town Council during the audit period for the years ended 30 June 2009 and 2010.

**WINDHOEK, March 2012**

**JUNIAS ETUNA KANDJEKE  
AUDITOR GENERAL**

## TOWN COUNCIL OF EENHANA

## BALANCE SHEETS ON 30 JUNE

	Notes	2010 N\$	2009 N\$	2008 N\$
<b>ASSETS</b>				
<b>Non-current assets</b>				
		39 535 685	31 548 907	31 570 929
Property, plant and equipment	3	27 865 770	24 433 293	24 201 188
Loans	6	4 550 521	2 184 110	2 163 069
Investments	4	7 119 394	4 931 504	5 206 672
<b>Current assets</b>				
		5 779 876	4 775 894	3 939 949
Inventory	5	506 336	505 476	596 503
Accounts receivables	7	5 273 540	4 270 418	3 343 446
<b>TOTAL ASSETS</b>		<b>45 315 561</b>	<b>36 324 801</b>	<b>35 510 878</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Funds</b>				
		40 076 866	34 076 997	34 034 891
Funds and accounts	2	27 865 770	24 433 293	24 201 188
Funds	2	11 330 273	7 105 980	6 602 882
Accumulated surplus	2	880 823	2 537 724	3 230 821
<b>Current liabilities</b>				
		5 238 695	2 247 804	1 475 987
Accounts payables	8	4 424 086	2 196 835	1 356 406
Bank overdraft	9	814 609	50 969	119 581
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>45 315 561</b>	<b>36 324 801</b>	<b>35 510 878</b>



## TOWN COUNCIL OF EENHANA

## INCOME STATEMENTS FOR THE YEARS ENDED 30 JUNE

	<u>Notes</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
		N\$	N\$	N\$
INCOME		14 758 388	11 715 378	8 049 908
EXPENDITURE		(16 459 243)	(12 493 800)	(13 304 602)
NET OPERATING LOSS		(1 700 855)	(778 422)	(5 254 694)
INVESTMENT INTEREST EARNED		782 750	687 527	399 179
NET LOSS	2	(918 105)	(90 895)	(4 855 515)
ADJUSTMENTS	9	(738 796)	(602 202)	(924 756)
NET LOSS for the year		(1 656 901)	(693 097)	(5 780 271)
APPROPRIATION ACCOUNT AT BEGINNING OF THE YEAR		2 537 724	3 230 821	9 011 092
APPROPRIATION ACCOUNT AT END OF YEAR		<b>880 823</b>	<b>2 537 724</b>	<b>3 230 821</b>

## TOWN COUNCIL OF EENHANA

## CASH FLOW STATEMENTS FOR THE YEARS ENDED 30 JUNE

	<u>Note</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
		N\$	N\$	N\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Cash receipt from customers		14 758 388	11 715 378	8 049 908
Cash paid to suppliers		(15 974 769)	(13 091 518)	(15 191 141)
Cash (utilised) by operations	11	(1 216 381)	(1 376 140)	(7 141 233)
Plus: Movement in Fund accounts		7 656 770	735 203	1 957 843
Investment income		782 750	687 527	399 179
Net cash outflow from operating activities		<b>7 223 139</b>	<b>46 590</b>	<b>(4 784 211)</b>
<b>CASH FLOW BY INVESTING ACTIVITIES</b>				
Additions to fixed assets		(3 432 477)	(232 105)	(690 517)
(Increase)/decrease in loans		(2 366 411)	(21 041)	(1 475 594)
(Increase)/decrease in investments		(2 187 891)	275 168	7 155 099
		<b>(7 986 779)</b>	<b>22 022</b>	<b>4 988 988</b>
Net movement in cash and cash equivalents		(763 640)	68 612	204 777
Cash and cash equivalents at beginning of year		(50 969)	(119 581)	(324 358)
Cash and cash equivalents at end of year		<b>(814 609)</b>	<b>(50 969)</b>	<b>(119 581)</b>

## TOWN COUNCIL OF EENHANA

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE

**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, had 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.

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
<b>2. OWN FUNDS</b>			
<b>2.1 Financing of capital:</b>			
Contribution from:	27 865 770	24 433 293	24 201 188
General capital	8 273 574	10 176 647	11 479 392
Contribution from Revenue	19 592 196	14 256 646	12 721 796
<b>2.2 Funds</b>	12 211 096	9 643 704	9 833 703
Capital Development Fund	3 063 011	3 063 009	2 911 116
Build Together Fund	7 986 419	3 698 395	3 565 172
Mayoral Fund	97 835	98 134	97 612
Sport Complex Development Fund	29 197	29 345	28 982
Trade and Business Expo Fund	153 811	217 097	-
Accumulated surplus	880 823	2 537 724	3 230 821
<b>TOTAL FUNDS</b>	<b>40 076 866</b>	<b>34 076 997</b>	<b>34 034 891</b>
<b>3. FIXED ASSETS</b>			
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment.	<b>27 865 770</b>	<b>24 433 293</b>	<b>24 201 188</b>

## TOWN COUNCIL OF EENHANA

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
<b>4. INVESTMENTS</b>			
Fixed deposits and money on call	7 119 394	4 931 504	5 206 672
	<b>7 119 394</b>	<b>4 931 504</b>	<b>5 206 672</b>
<b>Comprising of:</b>			
Mayoral Fund	97 836	98 134	97 612
Build Together Fund	3 435 898	1 514 285	1 402 103
Capital Development Fund	3 063 010	3 063 010	2 911 116
Revenue	339 642	9 633	766 859
Sport Complex Development Fund	29 197	29 345	28 982
Trade and Business Expo Fund	153 811	217 097	-
	<b>7 119 394</b>	<b>4 931 504</b>	<b>5 206 672</b>
<b>5 INVENTORY</b>			
Comprising of:			
Consumables stores	<b>506 336</b>	<b>505 476</b>	<b>596 503</b>
<b>6. LOANS</b>			
These loans were granted from the Build Together Funds to residents of Eenhana.	<b>4 550 521</b>	<b>2 184 110</b>	<b>2 163 069</b>
<b>7. TRADE AND OTHER RECEIVABLES</b>			
Debtors	5 034 617	4 732 638	3 626 760
Less: Provision for doubtful debts	(3 552 633)	(3 047 550)	(2 318 332)
	1 481 984	1 685 088	1 308 428
VAT Control Account	3 199 178	2 438 762	2 035 018
Suspense account	592 378	146 568	-
	<b>5 273 540</b>	<b>4 270 418</b>	<b>3 343 446</b>
<b>8. TRADE AND OTHER PAYABLES</b>			
Trade creditors	107 802	255 712	521 211
Provisions and accruals	1 176 771	928 725	657 071
Consumer deposits	139 567	110 430	91 480
Suspense account	2 999 946	901 968	86 644
	<b>4 424 086</b>	<b>2 196 835</b>	<b>1 356 406</b>

## TOWN COUNCIL OF EENHANA

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
<b>9. CASH AND BANK BALANCES</b>			
Current bank account - Bank overdraft	<b>(814 609)</b>	<b>(50 969)</b>	<b>(119 581)</b>
<b>10. ADJUSTMENTS TO APPROPRIATION ACCOUNT</b>			
Increase in provision for bad debts	(505 083)	(729 218)	(520 554)
Unexplained adjustment	-	-	14 322
Adjustment previous year bank transaction	-	(46 544)	(1 200 200)
Adjustments stores	-	13 088	(2 619)
Audit adjustment	-	-	(42 139)
Adjustment accrued leave	(224 394)	49 162	5 400
Stale cheques	5 979	1 091	38 421
Adjustments salary control	(15 298)	110 219	65 698
Transfer to appropriation account	-	-	716 915
	<b>(738 796)</b>	<b>(602 202)</b>	<b>(924 756)</b>
<b>11. CASH GENERATED (UTILISED) BY OPERATIONS</b>			
Reconciliation of net operating profit to cash utilized in operations:			
Net operating surplus before adjustments	(918 105)	(90 895)	(4 855 515)
Adjusted for:			
- Appropriation account	(738 796)	(602 202)	(924 756)
- Investment income	(782 750)	(687 527)	(399 179)
Operating income before changes in working capital	<b>(2 439 651)</b>	<b>(1 380 624)</b>	<b>(6 179 450)</b>
<i>Changes in working capital:</i>			
(Increase)/decrease in accounts receivable	(1 003 121)	(926 972)	(720 324)
Increase/(decrease) in trade and other payables	2 227 251	840 429	(319 092)
(Increase)/Decrease in inventory	(860)	91 027	77 633
	<b>1 223 270</b>	<b>4 484</b>	<b>(961 783)</b>
Cash generated/(utilised) by operations	<b>(1 216 381)</b>	<b>(1 376 140)</b>	<b>(7 141 233)</b>