



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF EENHANA
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

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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 2014, 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.

A handwritten signature in black ink, appearing to read 'Junias Etuna Kandjeke'.

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

WINDHOEK, July 2016

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF EENHANA
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

1. Report on the Financial Statements

1.1 INTRODUCTION

This report on the accounts of the Town Council of Eenhana for the financial year ended 30 June 2014 is presented to the National Assembly in accordance with the terms of Article 127(2) of the Constitution of the Republic of Namibia and provisions set out in the State Finance Act, 1991 (Act 31 of 1991) read with the Local Authorities Act, 1992 (Act 23 of 1992).

The firm MAC & Associates of Windhoek has been appointed by the Auditor-General in terms of Section 26(2) of the State Finance Act, 1991, to audit the accounts of the Town Council on his behalf and under his supervision.

Figures in the report are rounded off to the nearest Namibia Dollar. Deficits are indicated in (brackets).

I certify that I have audited the accompanying financial statements of the Town Council of Eenhana for the financial year ended 30 June 2014. These financial statements comprise the following statements submitted for the year then ended:

- Annexure A: Balance Sheet
- Annexure B: Income Statement
- Annexure C: Cash Flow Statement
- Annexure D: Notes to the Financial Statements

The Town Council's financial statements were submitted by the Accounting Officer to the Auditor-General in compliance with Section 87(1) of the Local Authorities Act, 1992.

The financial statements and notes to the financial statements information provided by the Accounting Officer are attached as Annexure A-D.

2. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Section 87(1) of the Local Authorities Act, (Act 23 of 1992) and relevant legislation, and for such internal control as management determines it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

3. AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on the audit. I conducted the audit in accordance with International Standards for Supreme Audit Institutions (ISSAIs). These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Powers and duties

Section 25(1)(c) of the State Finance Act, 1991, provides that the Auditor-General should satisfy himself that:

- (a) all reasonable precautions have been taken to ensure that all monies due to the State are collected, and that the laws relating to the collection of such monies have been complied with;

- (b) all reasonable precautions have been taken to safeguard the receipt, custody and issue of and accounting for, the State's assets, such as stores, equipment, securities and movable goods; and
- (c) the expenditure has taken place under proper authority and is supported by adequate vouchers or other proof.

In addition, Section 26(1)(b)(iv) of the State Finance Act, 1991, empowers the Auditor-General to investigate and report on the economy, efficiency and effectiveness of the use of the State's resources.

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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for the audit opinion.

4. ACKNOWLEDGEMENT

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

5. AUDIT OBSERVATION AND COMMENTS

5.1 Overstatement of liabilities

The liabilities per financial statements at 30 June 2014 are overstated by N\$ 732 099 due to the incorrect number of the accrued leave amounting to N\$ (933 002) and inclusion of ineligible accrual for the audit fees (55 000) and Namwater bill amounting to N\$ (2555 903).

5.2 Omission of equity investments

The equity investment by the Town Council in Local Authorities Electricity Company (Pty) Limited is not reflected in the financial statements.

5.3 Overstatement of sale of erven revenue

The Council recognises the instalments received on intended sale of erven as revenue despite the fact that ownership passes to the buyer upon payment of the full purchase price and registration by the Deeds Office. As a result, no liability (deposits/instalments received) is reflected in the financial statements while the revenue is overstated by the amount of the instalments received.

5.4 Understatement of property plant and equipment

Property, plant and equipment and the related Fund account are understated due to the fact that capital expenditure incurred during year amounting to N\$ 2 493 959 was not capitalised and the omission of the fire truck donated by the ministry and the main office building from the fixed assets register and financial statements.

5.5 Unexplained difference on the bank reconciliation

The bank reconciliation at 30 June 2014 has an unexplained difference of N\$ 2 611 369, consequently, the auditors were unable to verify the accuracy of the reported amount.

5.6 Filing of VAT returns

No VAT returns were submitted to the Directorate: Inland Revenue during the current and prior financial years and no provision for penalties and interest has been made in the financial statements.

5.7 Inventory valuation

The inventory value reflected in the financial statements is based on the FINSTEL system which was last updated during the 2012 financial year except for the movement of N\$ 24 006. Though inventory count was done by the Council at year end, the inventory valuation was not done. In addition, the auditors did not observe the counting of inventory at year end since they had not yet been appointed as auditors. Consequently, and owing to the nature of the Town Council's accounting records, the auditors were unable to verify the physical quantities and value of the reported inventories.

6. FINANCIAL RESULTS

The results of the 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 on 01/07/2013				2 228 439
General accounts				
- Rates and General	1 557 625	(11 646 607)	(10 088 982)	
- Non-profitable services	18 386 448	(14 502 126)	3 884 322	
- Self-supporting services	3 443 987	(3 042 850)	401 137	
Trade accounts				
- Electricity	589 513	(685 108)	(95 595)	
- Water	4 691 369	(2 806 042)	1 885 327	
	28 668 942	(32 682 733)	(4 013 791)	(4 013 791)
Adjustments and utilisations (See note 11, Annexure D)				(488 922)
Accumulated deficit on 30/06/2014				(2 274 274)

7. CURRENT BANK ACCOUNT

	2014	2013
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	2 060 060	2 350 975
Outstanding deposits	(35 327)	-
Outstanding cheques	906 987	-
Unexplained difference (*)	(2 611 369)	-
Balance as per bank statement	320 351	2 350 975

(*) - As explained on item 5.5, the bank account (cash and cash equivalents) is qualified.

8. INVESTMENTS

The investments as at 30 June are as follows:

Institution	2014 Investment	2013 Investment
	N\$	N\$
Commercial banks	29 226 157	34 291 928
Distribution		
Mayoral Fund -Bank Windhoek	102 982	86 978
Build Together Fund - First National Bank	8 426 181	9 219 741
Capital Development Fund – Bank Windhoek	15 715 296	18 880 423
Sport Complex Development Fund –Bank Windhoek	43 736	44 037
Trade and Business Expo Fund – Standard Bank	4 937 962	6 060 749
	29 226 157	34 291 928

9. FUND ACCOUNTS

The position of the Funds and Accounts at year end is reflected in note 9 of Annexure D.

10. TRADE ACCOUNT

10.1 The results of water operations are as follows:

	Water	
	2014	2013
	N\$	N\$
Sales	4 601 981	4 582 830
Cost of sales	(2 713 325)	(2 551 558)
Gross surplus	1 888 656	2 031 272
Other (expenses)/ income	(3 328)	66 258
Net surplus	1 885 328	2 097 530
Gross surplus percentage on sales	41.0%	44.3%
Net surplus percentage on sales	40.9%	45.8%

10.2 Distribution results are as follows:

	Water	
	2014	2013
	m ³	m ³
Units sold	302 827	(*)
Units bought	(310 998)	(*)
Distribution loss	(8 171)	(*)
Loss-as percentage of units bought	(2.6%)	(*)

(*) - No information was provided.

11. SELF-SUPPORTING SERVICES

11.1 The results for the year under review are as follows:

Service	Income 2014	Expenses 2014	Surplus/ (deficit) 2014	Surplus; (deficit) 2013
	N\$	N\$	N\$	N\$
Civic buildings	11 350	(791 002)	(779 652)	(665 834)
Licenses and vehicle registration	1 387 502	(970 807)	416 695	88 078
Open market	-	-	-	12 719
Cleansing services	911 642	(645 628)	266 014	395 979
Sewerage	1 133 493	(635 413)	498 080	441 186
	3 443 987	3 042 850	401 137	272 128

As reported in the previous year, the Council must turn the loss making services into self-supporting services.

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

There were no such expenses.

13. SUSPENSE ACCOUNTS

Suspense accounts were cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

There were no such expenses.

15. CAPITAL PROJECTS

The following expenditure was incurred on capital projects:

Nature of projects/acquisitions	Financed by	Total expenditure	Total expenditure
	Revenue account	2014	2013
	N\$	N\$	N\$
Councils General Expenses	102 131	102 131	476 616
Town Planning and Development	8 977 007	8 977 007	735
Streets and Storm Water	2 443 147	2 443 147	1 439 524
Cleaning Services	9 591	9 591	126 978
Open Market Stalls	602 730	602 730	472 120
Town Treasurer	99 757	99 757	1 469
Water Services	-	-	4 940 374
Health	10 500	10 500	267 128
Town Clerk	-	-	14 381
Town Administration	-	-	735
Town Engineer	-	-	12 039
Stores and Procurement	-	-	735
Workshop	-	-	618 387
Local Economic Development and Tourism	41 718	41 718	38 566
Sewerage	-	-	2 051 140
Electricity Services	-	-	3 282 458
Civic Buildings and Housing	649 496	649 496	-
	12 936 077	12 936 077	13 743 385

16. STUDY LOANS/BURSARIES

The Council granted study loans to staff amounting to N\$ 78 006 during the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

	2014	2013
	N\$	N\$
Contribution from Government	6 500 000	12 808 000

18. COMPENSATION PAYMENTS

No compensation payments were made during the year under review.

19. VISITS TO FOREIGN COUNTRIES

The cost of foreign trips amounted to N\$ 57 104.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

There were no claims against the Local Authority.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

An amount of N\$ 2 000 (2013: N\$ 5 069) was paid as donations during the year under review.

22. TRANSFER OF PROPERTY

No property was transferred to or from Government.

23. TRADE AND OTHER RECEIVABLES/TRADE AND OTHER PAYABLES

23.1 Trade and other receivables at 30 June are as follows:

	2014	2013
	N\$	N\$
Consumers	7 198 665	5 279 903
VAT receivable	7 232 806	5 773 156
Other	187 122	184 357
	14 618 593	11 237 416
Provision for bad debts	(4 646 213)	(4 157 290)
Total	9 972 380	7 080 126

23.2 Trade and other payables at 30 June are as follows:

	2014	2013
	N\$	N\$
Trade payables	324 448	486 392
Consumer and other deposits	417 175	342 473
Provisions	2 048 696	1 035 573
Totals	2 790 319	1 864 438

24. ASSESSMENT RATES

	2014	2013
	N\$	N\$
The net proceeds from assessment rates	4 713 791	4 521 324
Residential		
Tariffs per N\$1 valuation per month on site value	0.030	0.030
Tariffs per N\$1 valuation per month on improvement value	0.0026	0.0026
Business		
Tariffs per N\$1 valuation per month on site value	0.0300	0.0300
Tariffs per N\$1 valuation per month on improvement value	0.0020	0.0200

25. LOANS

25.1 External and internal loans

There were no external or internal loans.

25.2 Housing loans due to the Council

	2014	2013
	N\$	N\$
Build Together loans	9 459 629	8 066 897

26. SALE OF ERVEN

The proceeds of erven and plots sold amounted to N\$ 5 738 962 (2013: N\$ 2 863 037) and were allocated to the Revenue account.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

The Council sold properties on both cash and instalment bases during the year under review.

28. TARIFF ADJUSTMENTS

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

29. APPROVALS

All overspending were approved by the Council.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles and values thereof:

	Sedan		LDV's, 4x4's and Combi's		Other	
	Number	Value	Number	Value	Number	Value
Balance - 01/07/2013	2	N\$ 228 866	6	N\$ 229 580	8	N\$ 634 194
Sub-total	2	228 866	6	229 580	8	634 194
Depreciation	-	(57 216)	-	(25 509)	-	(127 569)
Balance - 30/06/2014	2	171 650	6	204 071	8	506 625

30.2 Inventory

Inventory comprises of stationery and consumables amounting to N\$ 543 773 (2013: N\$ 567 779). As stated on item 5.7 inventory is qualified.

31. SPECIAL INVESTIGATIONS

There were no special investigations during the year under review.

32. GENERAL

The accounting and internal controls are reasonable 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 does reduce risks, the risk arises that management and Council override existing controls, a potentially dangerous practice which the Town Council should vigilantly guard against. The integrity of staff in appropriate positions should however be reviewed to ensure that qualified personnel are employed in respective positions.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 Informal queries were addressed to the CEO.

34 BASIS OF AUDIT OPINION

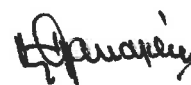
The audit opinion has been qualified due to the following reasons:

- Overstatement of liabilities;
- The investment in the shareholding of the Local Authorities Electricity Company (Proprietary) Limited is not reflected in these financial statements;
- Incorrect recognition of the sale of erven revenue;
- Understatement of property, plant and equipment;
- Unexplained difference on the bank reconciliation of N\$ 2 611 369; and
- Inventory valuation.

35. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Eenhana for the financial year ended 30 June 2014, 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.

Except for the effects of any adjustments which might be necessary as referred to in the preceding paragraph, in my opinion, the financial statements fairly present the financial position of the Town Council as at 30 June 2014, and the results of its operations and cash flows for the year then ended and in the manner required by the Local Authorities Act, 1992, and the State Finance Act, 1991.



**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

WINDHOEK, July 2016

ANNEXURE A

TOWN COUNCIL OF EENHANA

BALANCE SHEET AT 30 JUNE

	Note	2014 N\$	2013 N\$
ASSETS			
Non-current assets		86 073 863	84 101 226
Property, plant and equipment	2	47 388 077	41 742 401
Investments	3	29 226 157	34 291 928
Long-term loans receivable	4	9 459 629	8 066 897
Current assets		12 576 213	9 998 880
Inventory	5	543 773	567 779
Trade and other receivables	6	9 972 380	7 080 126
Cash and cash equivalents	7	2 060 060	2 350 975
TOTAL ASSETS		98 650 076	94 100 106
FUNDS AND LIABILITIES			
Funds and reserves		95 859 757	92 235 668
Capital outlay	8	47 388 077	41 742 402
Funds and accounts	9	48 471 680	50 493 266
Current liabilities			
Trade and other payables	10	2 790 319	1 864 438
TOTAL FUNDS AND LIABILITIES		98 650 076	94 100 106

TOWN COUNCIL OF EENHANA

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	<u>Note</u>	<u>2014</u> N\$	<u>2013</u> N\$
INCOME		28 660 133	30 092 491
EXPENDITURE		<u>(32 682 733)</u>	<u>(29 371 067)</u>
NET OPERATING (DEFICIT)/SURPLUS		(4 022 600)	721 424
INTEREST ON INVESTMENTS		<u>8 809</u>	<u>6 860</u>
NET OPERATING (DEFICIT)/SURPLUS AFTER INTEREST		(4 013 791)	728 284
APPROPRIATION ACCOUNT	11	<u>(488 922)</u>	154 627
NET (DEFICIT)/SURPLUS AFTER APPROPRIATIONS		(4 502 713)	882 911
REVENUE ACCOUNT - Beginning of year		<u>2 228 439</u>	<u>1 345 528</u>
REVENUE ACCOUNT - End of year		<u>(2 274 274)</u>	<u>2 228 439</u>

TOWN COUNCIL OF EENHANA

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2014 N\$	2013 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		28 660 133	30 092 491
Cash paid to suppliers and employees		(35 114 022)	(31 299 983)
Cash utilised by operations	12	(6 453 889)	(1 207 492)
Investment income		8 809	6 860
		(6 445 080)	(1 200 632)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in Fund accounts		2 481 126	3 337 196
Increase in Capital outlay		5 645 676	9 563 564
Net cash flow from operating activities		8 126 802	12 900 760
CASH FLOWS FROM INVESTING ACTIVITIES			
Net capital expenditure		(5 645 676)	(9 563 563)
Decrease/(Increase) in investments		5 065 771	(2 501 027)
Increase in advances		(1 392 732)	(608 549)
		(1 972 637)	(12 673 139)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(290 915)	(973 011)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR			
		2 350 975	3 323 986
CASH AND CASH EQUIVALENTS - END OF YEAR			
		2 060 060	2 350 975

TOWN COUNCIL OF EENHANA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**1. ACCOUNTING POLICIES****1.1 Introduction**

The annual financial statements are compiled in accordance with the historical cost convention as 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 consistently applied and comply with Namibian Statements of Generally Accepted Accounting Practice. The financial statements have been prepared in accordance with the requirements of the Namibian Local Authorities Act, 1992 (Act 23 of 1992), as amended.

1.2 Property, plant and equipment

Property, plant and equipment 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 depreciated until the loan is repaid, unless the expected lifetime of the asset is less than the repayment period of the loan in which case the depreciation is calculated on the shortfall.

1.3 Inventory

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises all cost of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

1.4 Capital Development Fund

The purpose of this Fund is to finance capital projects by means of internal loans or appropriation.

2. Property, plant and equipment

	<u>2014</u>	<u>2013</u>
	N\$	N\$
Revenue	43 560 445	36 924 657
General capital	3 827 632	4 817 744
Total	<u>47 388 077</u>	<u>41 742 401</u>

TOWN COUNCIL OF EENHANA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

(continued)

	2014	2013
	N\$	N\$
3. INVESTMENTS		
INVESTMENTS		
Commercial banks	29 226 157	34 291 928
ALLOCATED AS FOLLOWS		
Mayoral Fund	102 982	86 978
Build Together Fund	8 426 181	9 219 741
Capital Development Fund	15 715 296	18 880 423
Sport Complex Development Fund	43 736	44 037
Trade and Business Expo Fund	4 937 962	6 060 749
	29 226 157	34 291 928
4. LONG-TERM LOANS RECEIVABLE		
Build Together advances to buyers	8 427 190	8 066 897
Temporary advances to buyers	1 032 439	-
	9 459 629	8 066 897
5. INVENTORY		
Consumable stores	543 773	567 779
6. TRADE AND OTHER RECEIVABLES		
Consumers	7 198 665	5 279 903
VAT receivable	7 232 806	5 773 156
Other	187 122	184 357
	14 618 593	11 237 416
Provision for bad debts	(4 646 213)	(4 157 290)
	9 972 380	7 080 126
7. CASH AND CASH EQUIVALENTS		
Current account	2 060 060	2 350 975

TOWN COUNCIL OF EENHANA

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

	2014 N\$	2013 N\$
8. CAPITAL OUTLAY		
Revenue contributions	43 560 445	36 924 657
General capital contributions	3 827 632	4 817 745
	47 388 077	41 742 402
9. FUNDS, ACCOUNTS AND RESERVES		
Mayoral Fund	184 056	158 785
Build Together Fund	18 222 358	17 554 319
Capital Development Fund	24 923 071	24 012 165
Sport Complex Development Fund	370 136	189 070
Trade and Business Expo Fund	7 046 333	6 350 488
	50 745 954	48 264 827
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(2 274 274)	2 228 439
	48 471 680	50 493 266
10. TRADE AND OTHER PAYABLES		
Trade payables	324 448	486 392
Consumer and other deposits	417 175	342 473
Provisions	2 048 696	1 035 573
	2 790 319	1 864 438
11. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Adjustment for accrued leave	-	268 836
Adjustment for salary control	-	4 407
Provision for bad debts	(488 922)	(118 616)
	(488 922)	154 627

TOWN COUNCIL OF EENHANA

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

	<u>2014</u>	<u>2013</u>
	N\$	N\$
12. CASH UTILISED BY OPERATIONS		
Operating (deficit)/surplus before interest and transfers	(4 022 600)	721 424
Adjustments for:		
- Adjustments to appropriation account	<u>(488 922)</u>	<u>154 627</u>
NET OPERATING (DEFICIT)/INCOME BEFORE CHANGES IN WORKING CAPITAL	<u>(4 511 522)</u>	<u>876 051</u>
CHANGES IN WORKING CAPITAL		
Decrease in inventories	24 006	-
Increase in trade and other receivables	(2 892 254)	(2 258 725)
Increase in trade and other payables	<u>925 881</u>	<u>175 182</u>
	(1 942 367)	(2 083 543)
CASH UTILISED BY OPERATIONS	<u>(6 453 889)</u>	<u>(1 207 492)</u>