



**REPUBLIC OF NAMIBIA**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE**

# **TOWN COUNCIL OF OPUWO**

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

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**REPUBLIC OF NAMIBIA**



**TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY**

I have the honour to submit herewith my report on the accounts of the Town Council of Opuwo for the financial year ended 30 June 2011, in terms of Article 127(2) of the Namibian Constitution. The report is transmitted to the Honourable Minister of Finance in terms of Section 27(1) of the State Finance Act, 1991, (Act 31 of 1991) to be laid upon the Table of the National Assembly in terms of Section 27(4) of the Act.

**WINDHOEK, September 2012**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

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

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**1. INTRODUCTION**

The accounts of the Town Council of Opuwo for the year ended 30 June 2011 are being reported on in accordance with the provisions set out in the State Finance Act, 1991 (Act 31 of 1991) and the Local Authorities Act, (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 submitted on 9 February 2012 instead of within three months after 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

A provision of N\$ 4 440 376 was made by the Town Council for bad and doubtful debts as per the financial statements for the year ended 30 June 2011. The auditors' own review and considering slow repayment by consumers indicate an underprovision for N\$ 496 307.

|   | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|
|   | N\$         | N\$         |
| Debt outstanding including Namwater debts                 | 6 469 514   | 4 315 953   |
| Provision for bad debts                                   | (4 440 376) | (3 793 241) |
| Percentage (decrease)/increase in outstanding debts       | 49.9%       | 32.7%       |
| Percentage (decrease)/increase in provision for bad debts | 17%         | 366%        |
| Percentage provision vs. debt                             | (69%)       | 88%         |

The outstanding debts as at 120 days and more were 98% of debts outstanding for both 2010 and 2011 financial years.

These excludes the Namwater debts of N\$ 2 930 020: 2011 (N\$ 1 017 270: 2010).

Debt outstanding is considerably high and it does not appear as if the Council is improving on debtors collections. This 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 develop and implement 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.

##### 4.2 Build Together Fund

Special Funds such as the Build Together Housing Fund Programme are administered by the Town Council on behalf of the line Ministry and significant weaknesses were identified with regards to administration.

This Fund has its own peculiar specifications with respect to the way in which the Fund is to be managed and utilized as stipulated by the relevant Ministry for the second consecutive year. For the second consecutive year, the following irregularities were detected:

- \* The Finstel system was not properly updated to reflect the loan balances of beneficiaries as funds were disbursed over the years, but were only recorded on excel as per amortization schedules. Differences of 2011: N\$ 3 114 317 and for 2010: N\$ 1 179 322 were observed between the annual financial statements and the manual excel working documents provided by the Council;
- \* Poor repayments history by beneficiaries. The Council should re-define its collection strategies to ensure this trend does not continue;
- \* Numerous supporting documents related to the Build Together inspection sheets for funds disbursed could not be found at the time of the audit; and
- \* No splitting of funds sheets were prepared by the Council.

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

#### 4.3 Submission of annual financial statements

The Accounting Officer of the Town Council failed to submit the annual financial statements in time for the financial year under review to the Office of the Auditor-General for audit purposes. According to Section 87 of the Local Authorities Act, 1992 (Act 23 of 1992), annual financial statements needs to be submitted within three months after the end of the financial year.

#### 4.4 Inventory

No physical stock-taking was conducted during the year under review. Stock was recorded in the balance sheet, which means that stock is expensed to different votes as and when purchased.

Whilst this practice is financially prudent, it 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.

#### 4.5 Consumer deposits

Consumer deposits for 2011: N\$ 265 that was stated in the annual financial statements which was also not properly divided between the water deposit portion and payments. Also no sufficient evidence was provided to indicate which consumer paid their water deposits.

|  | <b>2011</b> | <b>2010</b> |
|--|-------------|-------------|
|  | N\$         | N\$         |
| Debt outstanding                                 | 6 469 514   | 4 315 953   |
| <b>Consumer deposits</b>                         | 265         | -           |
| Percentage of deposits against outstanding debts | 0.00%       | 0.00%       |

It is advised that the Town Council should determine the level of consumer deposits to be made and ensure collection thereof.

#### 4.6 Source documents

- For the past consecutive years, numerous important source documents of expenditures 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,
- Most of the invoices that were provided were processed with VAT inclusive in the annual financial statements for the year ended 30 June 2011 and this resulted in an over-statement of the expenditure with a consequent understatement of the surplus for the financial year.
- This lack of proper record-keeping is in contravention of Section 86 of the Local Authorities Act, 1992 (Act 23 of 1992).

#### 4.7 Fixed assets

A fixed asset register was initiated by the Town Council for the year ended 30 June 2011, but was incomplete regarding the dates when the assets were purchased and disposals were made for the year under review.

The VAT of N\$ 7 174 on the fixed assets addition of N\$ 55 000 of the Nissan bakkie was not excluded in the fixed assets register for the year under review.

An unreconciled difference of N\$ 37 087 was found between the balance in annual financial statement and the fixed asset register.

No supporting documents of a journal entry of N\$ 1 698 589 could be provided. This was to correct the opening balances.

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

#### **4.8 Value-Added-Tax**

As reported in prior years, the annual financial statements of the Town Council portray a VAT debt payable to Inland Revenue of N\$ 749 099. This can be attributed to payments that were not made to or refunds that were not received from the Department of Inland Revenue for the year under review.

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

#### **4.9 Trade creditors, accrued expenses, provisions and consumers advance and deposits**

As reported in prior years, no creditors reconciliations related to trade creditors were performed during the year under review. The auditors were unable to perform their audit tests on the Namwater creditors for 2011, because no supplier statements could be availed by the Council to proof the outstanding balances.

A provision of N\$ 400 000 was provided for accrued leave days for the year under review. The auditors' recalculation for provision for leave days proofed to be overstated by N\$ 334 953.

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

#### **4.10 Payroll**

As reported in prior years, the auditors discovered material differences on payroll reconciliation. No supporting documentation or any explanation could be provided to substantiate these differences.

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 actions. It is therefore recommended that the Council should implement 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.

#### **4.11 Funds - Fixed property and contribution by revenue**

A material difference of N\$ 166 648 was found between the closing balance as per the reconciliation schedule and the bank statement balance for the year under review.

A material difference of N\$ 122 051 was found on the contribution of Revenue, which is due to the movement between the additions and the depreciation for the year under review.

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

#### **4.12 Investments**

As reported in prior years, no investment policy is in place to guide the Council on the placement of reserve funds.

The interest received on investments of N\$ 147 628 was not posted to the income statement but was only reconciled in the capital statement account.

As reported in prior years, it was also noted by the auditors that most funds are invested with one

financial institution instead of spreading the Council's investments risk basket.

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

#### **4.13 Bank reconciliations**

Re-performed bank reconciliations revealed a material difference of N\$ 2 515 013 for the year under review. As explained by the Chief Accounting Officer and the external consultant, it is money received on the system, but does not appear on the bank statement.

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

#### **4.14 Contribution – Ministry of Regional and Local Government, Housing and Rural Development**

During the audit the auditors could not satisfy themselves to a journal entry amounting to N\$ 313 209.

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

#### **4.15 Government subsidy**

As per the Ministerial letter of budget, an amount of N\$ 1 000 000 was allowed for operational activities whilst for capital projects another N\$ 1 000 000, but the Council processed the N\$ 2 000 000 under the operational budget for the year under review.

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

#### **4.16 Sundry income**

The auditors sample selected for testing revealed that most of the transactions posted in this account were wrongly allocated to this account for the year under review.

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

#### **4.17 NORED electricity income**

A material difference of N\$ 368 460 was found. Due to a lack of invoices not provided for December 2010, January 2011, February 2011, March 2011, April 2011, May 2011 and June 2011, this could not be verified.

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

#### **4.18 Rental income**

As reported in prior year, Gazetted rates for the house rentals were not updated for the year ended 30 June 2011.

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

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

As reported in prior year, no list of erven sold was provided by the Town Council for the year under review.

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

#### 4.20 Street - Subsidies (RFA)

A material difference of N\$ 519 906 was found. This related to money paid by Road Fund Administration directly to the contractor's (Nexus Civil) bank account, but no supporting document for confirmation could be provided that this amount was indeed received by the contractor.

Due to the significance of this matter, the Auditor-General cannot express an opinion on street - subsidies (RFA).

#### 4.21 NATIS income

Natis income were understated by N\$ 57 339 for the year under review.

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

#### 4.22 Water

The meter reading sheets of various consumers do not agree to the system reading, due to estimates and wrong recordings of the readings in the system for the year under review.

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

### 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

| <b>2011</b>   | <b>Revenue</b> | <b>Expenditure</b> | <b>Surplus/<br/>(deficit)</b> | <b>Balance</b>     |
|---|----------------|--------------------|-------------------------------|--------------------|
|   | N\$            | N\$                | N\$                           | N\$                |
| Accumulated (deficit)<br>as at 01/07/2010             |                |                    |                               | (8 980 848)        |
| <b>General Services</b>                               |                |                    |                               |                    |
| Non-profitable  | 4 804 393      | 3 706 562          | 1 097 831                     |                    |
| Self-supporting                                       | 1 334 315      | 1 034 517          | 299 798                       |                    |
| <b>Trade accounts</b>                                 |                |                    |                               |                    |
| Water supply  | 5 371 925      | 3 916 517          | 1 455 408                     |                    |
|   | 11 510 633     | 8 657 596          | 2 853 037                     |                    |
| Surplus for the year                                  |                |                    |                               | 2 853 037          |
| Adjustments and utilizations (See Note 7, Annexure D) |                |                    |                               | 3 495 987          |
| Accumulated (deficit) 30/06/2011                      |                |                    |                               | <b>(2 631 823)</b> |

### 7. CURRENT BANK ACCOUNT

The balance sheet reflected a favourable cash-book balance of N\$ 1 596 683 (2010: N\$ 144 009), which is also the reconciled balance. The bank statements reflected a favourable balance of N\$ 4 254 250 (2010: favourable N\$ 2 147 088), mainly due to outstanding cheques at year-end.



## 8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June 2011 there was investments invested at financial institutions, as follows:

|                     | <b>2011</b>      | <b>2010</b>      |
|---------------------|------------------|------------------|
|                     | N\$              | N\$              |
| Fixed Property Fund | 1 462 097        | 1 314 468        |
| Housing Fund        | 751 568          | 2 265 273        |
| Revenue             | 2 618 567        | 1 222 477        |
|                     | <b>4 832 231</b> | <b>4 802 218</b> |

Interest received on investments amounted to N\$ 147 627. According to the auditors these amounts were not posted to the income statement. They are only reconciled in the capital statements but the auditors could not trace them to the financial statements nor could they find journals which captured and allocated the interest.

## 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>2011</b>        | <b>2010</b>        |
|--|--------------------|--------------------|
|  | N\$                | N\$                |
| Sales                                  | 380 375            | 361 374            |
| Cost of bulk purchases*                | (3 529 183)        | (2 782 597)        |
| <b>Gross (loss) / profit</b>           | <b>(3 148 808)</b> | <b>(2 421 223)</b> |
| Expenses (net)                         | 1 693 400          | 1 799 445          |
| <b>Net deficit</b>                     | <b>(1 455 408)</b> | <b>(621 778)</b>   |
| Gross loss % on cost of bulk purchases | (89.21%)           | (87.01%)           |
| Net loss % on cost of bulk purchases   | (41.24%)           | (22.35%)           |

\* The amount as per the auditors calculations related to water purchases tested indicated a material difference of N\$ 1 086 626, but no explanation could be provided.

### 10.2 The distribution losses for water show a loss of N\$ 391 675 due to inadequate record keeping.

## 11. SELF-SUPPORTING SERVICES

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

|                    | <b>Income</b>      | <b>Expenses</b>    | <b>Surplus/(Loss)</b> | <b>Surplus/(Loss)</b> |
|--------------------|--------------------|--------------------|-----------------------|-----------------------|
|                    | <b>2011</b><br>N\$ | <b>2011</b><br>N\$ | <b>2011</b><br>N\$    | <b>2010</b><br>N\$    |
| Cleansing services | 809 487            | 793 373            | 16 115                | 69 674                |
| Sewerage           | 524 827            | 241 144            | 283 683               | 410 292               |
|                    | <b>1 334 315</b>   | <b>1 034 517</b>   | <b>299 798</b>        | <b>479 966</b>        |

|                    | <b>Income</b>      | <b>Expenses</b>    | <b>Surplus/(Loss)</b> | <b>Surplus/(Loss)</b> |
|--------------------|--------------------|--------------------|-----------------------|-----------------------|
|                    | <b>2010</b><br>N\$ | <b>2010</b><br>N\$ | <b>2010</b><br>N\$    | <b>2009</b><br>N\$    |
| Cleansing services | 754 753            | 503 692            | 251 061               | 69 674                |
| Sewerage           | 491 663            | 393 132            | 98 531                | 410 292               |
|                    | <b>1 746 416</b>   | <b>896 824</b>     | <b>349 592</b>        | <b>479 966</b>        |

**12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE**

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

**13. SUSPENSE ACCOUNTS**

No money was accounted for in suspense accounts during the years under review.

**14. IRREGULARITIES AND LOSSES**

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

**15. CAPITAL PROJECTS**

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

|   | <b>2011</b>                   | <b>2010</b>                   |
|---|-------------------------------|-------------------------------|
|   | <b>Revenue account</b><br>N\$ | <b>Revenue Account</b><br>N\$ |
| Culture centre                              | -                             | 151 356                       |
| Office furniture and equipment (new laptop) | 11 539                        | 1 800                         |
| Sewerage pond                               | -                             | 310 658                       |
| Toyota Quantum                              | 264 083                       | -                             |
| Nissan Bakkie                               | 55 000                        | -                             |
| Road maintenance                            | 68 313                        | -                             |
| Pound construction                          | 54 360                        | -                             |
| <b>Total</b>                                | <b>453 295</b>                | <b>463 814</b>                |

\* An immaterial difference of N\$ 37 086 were found between the amount as per annual financial statements of the contribution to capital spending breakdown and the capital statement reconciliation of the year under review.

**16. BURSARIES**

No bursaries were granted during the year under review.

**17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID**

A Government contribution of N\$ 2 000 000 (2010: N\$ 0.00 ) was received for the year under review.

**18. COMPENSATION PAYMENTS**

No compensation payments were made during the years under review.

**19. VISITS TO FOREIGN COUNTRIES**

No such visits were identified during the years under review.

**20. CLAIMS AGAINST THE LOCAL AUTHORITY**

No claims against the Local Authority payments were made during the year under review.

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

No gifts/donations by/to the Local Authority were made during the year under review.

**22. TRANSFER OF PROPERTY TO / FROM GOVERNMENT**

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

**23. DEBTORS AND CREDITORS**

**23.1 Debtors at 30 June were:**

|                               | <b>2011</b>      | <b>2010</b>      |
|-------------------------------|------------------|------------------|
|                               | N\$              | N\$              |
| Service to consumers          | 3 539 495        | 3 298 383        |
| Namwater debtor               | 2 930 020        | 1 017 570        |
| Sundry debtors 511            | 800              | -                |
| Debtor - Build Together       | 5 637 317        | 3 702 322        |
| Less: Provision for bad debts | (4 440 376)      | (3 793 241)      |
|                               | <b>7 667 255</b> | <b>4 225 034</b> |

**23.2 Creditors at 30 June were:**

|                            | <b>2011</b>      | <b>2010</b>       |
|----------------------------|------------------|-------------------|
|                            | N\$              | N\$               |
| Trade creditors            | 1 119            | 1 119             |
| Sundry creditors: Namwater | 118 653          | 157 399           |
| Provision - Namwater       | 4 986 881        | 9 567 785         |
| Provision for leave days   | 400 000          | 200 000           |
| Namwater                   | 854 620          | 71 768            |
| Water payment              | 981 384          | 170 860           |
| Deposito's                 | 266              | -                 |
| VAT suspense account       | 1 534 088        | 701 114           |
|                            | <b>8 877 011</b> | <b>10 870 450</b> |

**24. ASSESSMENT RATES**

|                                   | <b>2011</b> | <b>2010</b> |
|-----------------------------------|-------------|-------------|
|                                   | N\$         | N\$         |
| Net surplus from assessment rates | 646 615     | 642 528     |
| Tariffs per N\$ 1                 |             |             |
| Valuation per annum               |             |             |
| - Land                            | 0.001       | 0.001       |
| - Improvements                    | 0.0126      | 0.0126      |

No payments were made to the Regional Council as required by Section 77(1) of the Local Authorities Act.

## **25. LOANS**

### **25.1 External loans**

No external loans were entered 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**

According to the financial statements of the Council, an amount of N\$ 1 934 995 (2010: N\$ 1 733 911) was advanced to clients from the Housing Fund for the year under review.

## **26. SALE OF ERVEN**

No list of erven sales was provided by the Town Council for the year under review.

## **27. PROPERTY SOLD ON INSTALLMENT BASIS**

No details of houses that were sold on an instalment basis during the year under review could be provided.

## **28. TARIFF ADJUSTMENTS**

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

## **29. APPROVALS**

### **29.1 Excess on approved budget**

A budget for 2011 was submitted and a letter of approval was found at the Council, however, a surplus as per annual financial statements was achieved.

## **30. STOCK AND EQUIPMENT**

### **30.1 Motor vehicles and values thereof:**

According to the Council purchased of two (2) light delivery vans, a Toyota Quantum and a Nissan Bakkie valued at N\$ 319 083 were made for the year under review (2010: three (3) light delivery vans and combi's valued at N\$ 618 008 and two (2) heavy vehicles valued at N\$ 1 075 000).

### **30.2 Stock and equipment**

As reported in prior years, no stock was accounted for nor disclosed in the financial statements of the Council.

## **31. SPECIAL INVESTIGATIONS**

No special investigations were carried out during the year.

## **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 override existing controls, a potentially dangerous practice, which the Council should vigilantly guard against.

No journal entry or any accounting transactions were updated on the Finstel system to agree with the financial statements figures 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:

- Lack of supporting documentation;
- Inadequate inventory control;
- Control and accounting of housing funds;
- Unorganised filing and record-keeping system;
- Inadequate consumer deposits; and
- Long overdue debtors accounts and monies long outstanding becoming doubtful.

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

The accounts of the Town Council of Opuwo for the financial year ended 30 June 2011, 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 the business.

I am unable to express an opinion on the financial statements of the financial year ended 30 June 2011 due to the following reasons:

- The provision for bad debts was understated by N\$ 496 307;
- Difference of 2011: N\$ 3 114 317 was observed between the financial statements and the manual excel working documents provided by the Council;
- Poor payment history by beneficiaries;
- Numerous supporting documents related to the build together inspection sheets for funds disbursed, could not be found at the time of the audit;
- The Accounting Officer failed to submit the financial statements in time as contemplated in Section 87;
- No physical stock-taking was conducted during the year under review;
- No sufficient evidence was provided to indicate which consumer paid their water deposits;
- Numerous important source documents of expenditures incurred by the Town Council could not be provided for audit purposes;
- An unreconciled difference of N\$ 37 087 was found between the annual financial statement and the fixed asset register;
- No creditors reconciliations were performed during the year;
- No supporting documents were provided for the differences found on the payroll reconciliation;
- A material difference was found between the closing balance and the bank statement balance;
- No investment policy is in place;
- Re-performed bank reconciliation revealed a difference of N\$ 2 515 013;
- Most of the transactions were wrongly posted to the sundry income;
- Invoices were not provided for the period December 2010 – June 2011; and
- No list of erven sold was provided for audit purposes.

## TOWN COUNCIL OF OPUWO

## BALANCE SHEET ON 30 JUNE

|                                     | Notes | 2011<br>N\$       | 2010<br>N\$       |
|-------------------------------------|-------|-------------------|-------------------|
| <b>ASSETS</b>                       |       |                   |                   |
| <b>Non-current assets</b>           |       |                   |                   |
| Property, plant and equipment       | 3     | 9 542 193         | 11 332 820        |
| Investments                         | 4     | 4 709 962         | 6 530 602         |
|                                     |       | 4 832 231         | 4 802 218         |
| <b>Current assets</b>               |       |                   |                   |
| Accounts receivables                | 5     | 9 263 938         | 4 369 043         |
| Cash and cash equivalents           | 7     | 7 667 255         | 4 225 034         |
|                                     |       | 1 596 683         | 144 008           |
| <b>TOTAL ASSETS</b>                 |       | <b>18 806 131</b> | <b>15 701 863</b> |
| <b>EQUITY AND LIABILITIES</b>       |       |                   |                   |
| <b>Funds</b>                        |       |                   |                   |
| Funds and accounts                  | 2     | 9 929 120         | 4 831 818         |
| Accumulated funds                   | 2     | 12 560 944        | 13 812 666        |
|                                     |       | (2 631 823)       | (8 980 848)       |
| <b>Current liabilities</b>          |       |                   |                   |
| Accounts payables                   | 6     | 8 877 011         | 10 870 045        |
| <b>TOTAL EQUITY AND LIABILITIES</b> |       | <b>18 806 131</b> | <b>15 701 863</b> |

## TOWN COUNCIL OF OPUWO

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

|                                  | <b>Notes</b> | <b>2011</b>        | <b>2010</b>        |
|----------------------------------|--------------|--------------------|--------------------|
|                                  |              | N\$                | N\$                |
| INCOME                           |              | 11 510 633         | 6 900 012          |
| EXPENDITURE                      |              | (8 657 596)        | (7 095 119)        |
| NET OPERATING PROFIT / (LOSS)    |              | 2 853 038          | (195 107)          |
| INVESTMENT INTEREST EARNED       |              | -                  | -                  |
| NET PROFIT/ (LOSS)               | 9            | 2 853 038          | (195 107)          |
| ADJUSTMENTS                      | 9            | 3 495 987          | (3 859 623)        |
| NET PROFIT / (LOSS) for the year |              | 6 349 025          | (4 054 730)        |
| APPROPRIATION ACCOUNT            |              |                    |                    |
| - AT THE BEGINNING OF THE YEAR   |              | (8 980 848)        | (4 926 118)        |
| APPROPRIATION ACCOUNT            |              |                    |                    |
| - AT THE END OF THE YEAR         |              | <b>(2 631 823)</b> | <b>(8 980 848)</b> |

## TOWN COUNCIL OF OPUWO

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

|  | Notes | 2011<br>N\$      | 2010<br>N\$    |
|--|-------|------------------|----------------|
| Cash absorbed / (utilized) by operations                   | A     | 6 349 025        | (4 054 730)    |
| Investment income  |       | -                | -              |
| Generated by working capital                               | B     | (5 435 254)      | 2 356 951      |
| <i>Cash generated / (utilised) by operating activities</i> |       | 913 769          | (1 697 779)    |
| <i>Cash generated in investing activities</i>              |       | 1 790 628        | 1 336 885      |
| (Additions) re-statement to fixed assets                   |       | 1 820 640        | 70 777         |
| (Increase) / decrease in investments                       |       | (30 013)         | 1 266 108      |
| <i>Cash (utilized) / generated by financing activities</i> |       | (1 251 722)      | 1 043 404      |
| Decrease / (increase) in funds                             |       | (1 251 722)      | 1 043 404      |
| Change in cash and cash equivalents                        |       | 1 452 674        | 682 510        |
| Cash and cash equivalents at the beginning of the year     |       | 144 008          | (538 502)      |
| Cash and cash equivalents at the end of the year           |       | <b>1 596 682</b> | <b>144 008</b> |



## TOWN COUNCIL OF OPUWO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE

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**1 ACCOUNTING POLICIES****1.1 Basis of presentation**

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment, marketable securities and investment properties where appropriate.

**1.2 Property, plant and equipment and depreciation**

All plant and equipment are initially recorded at cost. Cost includes all costs directly attributable to bringing the assets to working condition for their intended use. All other plant and equipment are stated at historical cost or valuation where applicable.

No depreciation is calculated on property, plant and equipment.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimation recoverable amount, the assets or cash generating units are written down to their recoverable.

**1.3 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in current liabilities.

**1.4 Fixed Property Fund**

Proceeds from the sale of land that has been developed by the Town Council accumulates in this Fund. Cost incurred on the development of land is charged to this Fund.

No sale of erven was recorded in the annual financial statements.

**1.5 Housing Fund**

The purpose of this Fund is to provide for housing loans. Income to this Fund is transferred from the general income statement account, external loans from Government and interest on investments and loans.

**1.6 Capital Reserve Fund**

This Fund was created to make provision for unforeseen expenditures as approved by the Council.

## TOWN COUNCIL OF OPUWO

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

|  | <b>2011</b>      | <b>2010</b>      |
|--|------------------|------------------|
|  | N\$              | N\$              |
| <b>2. OWN FUNDS</b>  |                  |                  |
| <b>2.1 Financing of capital:</b>   |                  |                  |
| Contribution from:   | 4 709 962        | 6 530 602        |
| General capital  | -                | -                |
| Contribution from Revenue  | 4 709 962        | 6 530 602        |
| <b>2.2 Funds</b>   | 5 219 159        | (1 698 784)      |
| Fixed Property Fund  | 1 462 097        | 1 314 469        |
| Housing Fund   | 6 388 885        | 5 967 595        |
| Accumulated (deficit)  | (2 631 823)      | (8 980 848)      |
| <b>TOTAL FUNDS</b>   | <b>9 929 121</b> | <b>4 831 818</b> |
| <b>3. FIXED ASSETS</b>   |                  |                  |
| Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment. | <b>4 709 962</b> | <b>6 530 602</b> |
| Financed from:   |                  |                  |
| Revenue account  | 4 709 962        | 6 530 602        |
|  | <b>4 709 962</b> | <b>6 530 602</b> |
| <b>4. INVESTMENTS</b>  |                  |                  |
| Fixed deposits and money on call   | 4 832 231        | 4 802 218        |
|  | <b>4 832 231</b> | <b>4 802 218</b> |
| Comprising of:   |                  |                  |
| Housing Fund   | 751 568          | 2 265 273        |
| Fixed Property Fund  | 1 462 097        | 1 314 468        |
| Revenue Property Fund  | 2 618 567        | 1 222 477        |
|  | <b>4 832 232</b> | <b>4 802 218</b> |
| <b>5. TRADE AND OTHER RECEIVABLES</b>  |                  |                  |
| Service to consumers   | 3 539 495        | 3 298 383        |
| Namwater debtor  | 2 930 020        | 1 017 570        |
| Sundry debtors 511   | 800              | -                |
| Debtor : Road Fund Administration  | -                | -                |
| Build Together   | 5 637 317        | 3 702 322        |
| Less: Provisions for bad debts   | (4 440 376)      | (3 793 241)      |
|  | <b>7 667 255</b> | <b>4 225 034</b> |

## TOWN COUNCIL OF OPUWO

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

|   | <b>2011</b>        | <b>2010</b>        |
|---|--------------------|--------------------|
|   | N\$                | N\$                |
| <b>6. TRADE AND OTHER PAYABLES</b>                            |                    |                    |
| Trade creditors   | 1 119              | 1 119              |
| Sundry creditors: Namwater                                    | 118 653            | 157 399            |
| Provision: Namwater   | 4 986 881          | 9 567 785          |
| Provision for leave days                                      | 400 000            | 200 000            |
| Namwater  | 854 620            | 71 768             |
| Water payment   | 981 384            | 170 860            |
| Deposito's  | 266                | -                  |
| VAT suspense account  | 1 534 088          | 701 114            |
|   | <b>8 877 011</b>   | <b>10 870 045</b>  |
| <b>7. CASH AND BANK BALANCES</b>                              |                    |                    |
| Current bank account  | 1 596 683          | 144 008            |
|   | <b>1 596 683</b>   | <b>144 008</b>     |
| <b>8. ADJUSTMENTS AND UTILIZATIONS</b>                        |                    |                    |
| Previous year adjustments: Provision for bad debt             | (647 135)          | (3 666 180)        |
| Leave provision   | (200 000)          | -                  |
| Correction to J99 Namwater                                    | (313 893)          | -                  |
| Prior year adjustments  | -                  | 158 860            |
| Adjustments: Namwater   | 4 497 431          | (352 303)          |
| Previous year creditors written back                          | 157 399            | -                  |
| Cancelled creditor previous                                   | 2 185              | -                  |
|   | <b>3 495 987</b>   | <b>(3 859 623)</b> |
| <b>9. CASH ABSORBED/(UTILISED) BY OPERATIONS</b>              |                    |                    |
| <b>A. Cash absorbed / (utilized) by operations</b>            |                    |                    |
| Net profit/(loss) before investment interest and adjustments. | 2 853 038          | (195 107)          |
| Adjustment on appropriation account                           | 3 495 987          | (3 859 623)        |
|   | <b>6 349 025</b>   | <b>(4 054 730)</b> |
| <b>B. Utilized to increase working capital</b>                |                    |                    |
| (Increase) / decrease in accounts receivable                  | (3 442 221)        | 680 094            |
| Increase / (decrease) in accounts payable                     | (1 993 035)        | 1 676 857          |
| Net changes in working capital                                | <b>(5 435 254)</b> | <b>2 356 951</b>   |
| Cash generated / (utilized) by operations                     | <b>913 769</b>     | <b>(1 697 779)</b> |