



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF OSHIKUKU
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

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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 Oshikuku for the financial year ended 30 June 2013, 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, June 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF OSHIKUKU
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013**

1. INTRODUCTION

The accounts of the Town Council of Oshikuku for the year ended 30 June 2013 are being reported on in accordance with the provisions set out in the State Finance Act, 1991 (Act 31 of 1991) and the Local Authorities Act, 1992 (Act 23 of 1992).

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

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

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. The audited financial statements are in agreement with the general ledger and are filed in the Office of the Auditor-General. The abridged balance sheet at Annexure A is a true reflection of the original signed by the Accounting Officer.

The financial statements also include:

Annexure B: Abridged income statement

Annexure C: Cash flow statement

Annexure D: Notes to the financial statements

3. SCOPE OF THE AUDIT

Management's Responsibility for the Financial Statements

The Accounting Officer of the 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 OBSERVATION AND COMMENTS

4.1 Trade receivables

The average collection period of trade receivables, before taking the provision for bad debts into account, is 140,9 days (2012: 193,8 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 21,5 days (2012: 51,0 days). The Council should attend to the arrears as a matter of urgency. Due to this statistics, the auditors are of the opinion that the provision for bad debts is over stated.

4.2 Bank reconciliations

There is a difference on the bank reconciliation of N\$ 380 668, which could not be explained by the Town Council.

4.3 Trade and other payables

The auditors could not verify trade and other payables or unrecorded liabilities to their satisfaction as no sufficient documentation could be provided and also due to the difference on the bank reconciliation where the reconciling items could not be verified.

4.4 Property, plant and equipment

The auditors could not verify property, plant and equipment to their satisfaction as no proper fixed assets register was available for audit purposes.

4.5 VAT

The balance sheet reflects an amount of N\$ 2 647 102 for VAT owed to the Town Council by the Ministry of Finance for which no reconciliation could be provided. Not all VAT returns were submitted on time and no provision for penalties and interest has been made.

4.6 Inventories

The auditors did not observe the counting of the inventories on 30 June 2013. There were no alternative practical audit procedures that they could perform to confirm the existence of the inventories on hand at year-end.

4.7 Appropriation account

There is an unexplained difference of N\$ 57 052 on the appropriation account which could not be explained by the Town Council.

4.8 Consumer deposits

Consumer deposits are not in line with monthly charges and the auditors are of the opinion that the deposits are not adequate to cover one month's consumer services.

4.9 Insurance of assets

The auditors are of the opinion that the assets are not adequately insured.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

The results of the operations and transactions on the Revenue account for the year were as follows:

2013	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus on 01/07/2012				1 075 727
General accounts				
- Non-profitable	5 084 707	8 334 744	(3 250 037)	
- Self-supporting	866 874	196 826	670 048	
Trade account				
- Electricity	696 182	100 000	596 182	
- Water	2 110 956	1 400 825	710 131	
(Deficit) for the year	8 758 719	10 032 395	(1 273 676)	(1 273 676)
				(197 949)
Adjustments and utilisations (See Note 9, Annexure D)				(571 152)
Accumulated (deficit) on 30/06/2013				(769 101)

7. CURRENT BANK ACCOUNT

	2013	2012
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	(1 635 998)	(771 964)
Reconciling items - Moved to trade payables (Note 23.2)	-	-
Outstanding deposits	-	-
Outstanding payments	1 694 384	-
Balance as per bank statement	58 386	(771 964)

There is a difference of N\$380 668 on the bank reconciliation, no explanation can be provided by the Town Council.

8. INVESTMENTS

The investments as at 30 June were as follows:

Institution	2013	2012
	N\$	N\$
Commercial banks	13 643 371	12 541 456

The investments were allocated as follows:

Allocation	2013	2012
	N\$	N\$
Salary Reserve Fund	411 885	389 080
Build Together Fund	1 600 111	1 467 586
Capital Reserve Fund	5 784 102	9 453 888
Revenue	5 847 273	1 230 902
	13 643 371	12 541 456

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in note 8 in Annexure D.

10. TRADE ACCOUNTS

10.1 The results of trade accounts were as follows:

	Electricity		Water	
	2013	2012	2013	2012
	N\$	N\$	N\$	N\$
Surcharges/Sales	581 951	464 849	2 110 956	1 731 958
Cost of sales	(100 000)	(100 000)	(1 400 825)	(1 111 874)
Gross profit	481 951	364 849	710 131	620 084
Other income	114 231	-	-	38 299
Net surplus	596 182	364 849	710 131	658 383
Gross profit/(loss) percentages on sales	82.8%	78.5%	33.6%	35.8%
Net profit/(loss) percentage on sales	102.4%	78.5%	33.6%	38.0%

10.2 Water distribution results, in cubic meters

	2013	2012
	Units	Units
Sales	166 978	997 028
Purchases	162 915	146 914
Profit	4 063	850 114
Percentage loss in units	2.4%	85.3%

11. SELF-SUPPORTING SERVICES

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

	Income 2013	Expenses 2013	Surplus 2013	Surplus 2012
	N\$	N\$	N\$	N\$
Cleansing	474 984	196 826	278 158	224 867
Sewerage	391 890	-	391 890	308 250
	866 874	196 826	670 048	533 117

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorized or avoidable expenditure was revealed during the year under review.

13. SUSPENSE ACCOUNTS

Suspense accounts are cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

No irregularities or losses due to thefts, fire and accidents were revealed during the year under review.

15. CAPITAL PROJECTS

Nature of projects/acquisitions	Financed by	Total expenditure 2012/2013	Total expenditure 2011/2012
	Revenue account		
	N\$	N\$	N\$
General Administration	9 450 582	9 450 582	9 715 197
	9 450 582	9 450 582	9 715 197

The income statements reflect an amount of N\$ 774 839 for capital projects. The difference of N\$ 8 675 742 could not be explained by the Town Council.

16. BURSARIES

No contributions were made during the years under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

	2013	2012
	N\$	N\$
Contribution from Government	6 382 000	-

18. COMPENSATION PAYMENTS

No compensation payments were made during the year under review.

19. VISITS TO FOREIGN COUNTRIES

There were no such expenses.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

There were no claims against the Local Authority.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

There were no such expenses.

22. TRANSFER OF PROPERTY

22.1 There were no transfers of property to the Local Authority.

22.2 There were no transfer of property by the Local Authority to others.

23. TRADE AND OTHER RECEIVABLES/PAYABLES

23.1 Trade and other receivables at 30 June were:

	2013	2012
	N\$	N\$
Services, rates and taxes	1 970 265	2 127 033
VAT	2 647 101	1 304 433
Build Together debtors	16 313	1 627
Sundry debtors	-	1 500
	4 633 679	3 434 593
Provision for bad debts	(1 669 152)	(1 567 139)
Total	2 964 527	1 867 454

The average collection period of trade receivables, before taking the provision for bad debts into account, is 140,9 days (2012: 193,8 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 21,5 days (2012: 51,0 days). The Council should attend to the arrears as a matter of urgency. Due to these statistics, the auditors are of the opinion that the provision for bad debts is overstated.

23.2 Trade and other payables at 30 June were:

	2013	2012
	N\$	N\$
Trade payables	214 352	13 679
Provisions	39 500	39 500
Consumer deposits	69 598	55 069
Land compensation	7 660 349	1 168 337
Sundry creditors	60 790	-
Reconciling items per bank reconciliation	1 694 384	-
Totals	9 738 973	1 276 585

24. ASSESSMENT RATES

	2013	2012
	N\$	N\$
The proceeds from assessment rates were	1 065 587	617 393
Tariffs per N\$1 valuation per annum - Land	0.03000	0.02660
Tariffs per N\$1 valuation per annum - Improvements	0.01000	0.00600
Tariffs per N\$1 valuation per annum - Unimproved land	0.07000	0.05000

25. LOANS**25.1 External loans**

There are no external loans.

25.2 Due to the Town Council

None

25.3 Loans written off

No loans were written off by the Council.

26. SALE OF ERVEN

The income credited to the income statement amounted to N\$ 843 391 (2012: N\$ 1 369 641).

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

None

28. TARIFF ADJUSTMENTS

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

29. APPROVALS

29.1 Excess on approved budget

All budget excesses were approved.

29.2 Internal loans

There were no internal loans.

29.3 Revenue written off

None

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles and values thereof

	Sedan		LDV's, 4x4's and combi's		Other	
	Number	Value	Number	Value	Number	Value
Balance - 01/07	1	N\$ 97 415	3	N\$ 170 718	1	N\$ 2 400 000
Additions	-	-	2	330 312	-	-
Sub-total	1	97 415	5	501 030	1	2 400 000
Depreciation	-	(32 472)	-	(148 217)	-	(200 000)
Balance - 30/06	1	64 943	5	352 813	1	2 200 000

30.2 Inventory

Inventories as disclosed in the financial statements of the Council amount to N\$ 115 526 (2012: N\$ 26 847)

31. SPECIAL INVESTIGATIONS

All special investigations were completed and reported thereon.

32. GENERAL

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

33. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report. Informal queries were raised with the Chief Executive Officer. Audit differences and other comments are addressed in paragraph 4 of this report.

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Oshikuku for the financial year ended 30 June 2013, summarised in Annexures A to D, were audited by me in terms of Section 85 of the Local Authority act, 1992, read with Section 25 (1) (b) of the State Finance Act, 1991.

The audit opinion has been qualified due to the following:

Trade receivables

The average collection period of trade receivables, before taking the provision for bad debts into account, is 140,9 days (2012: 193,8 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 21,5 days (2012: 51,0 days). The Council should attend to the arrears as a matter of urgency. Due to these statistics, the auditors are of the opinion that the provision for bad debts is over stated.

Bank reconciliations

There is a difference on the bank reconciliation of N\$ 380 668, which could not be explained by the Town Council.

Trade and other payables

The auditors could not verify trade and other payables or unrecorded liabilities to their satisfaction as no sufficient documentation could be provided, and due to the difference on the bank reconciliation where the reconciling items could not be verified.

Capital statements

The income statements reflect an amount of N\$ 774 839 for capital projects. The purchases according to the capital statements is N\$ 9 450 582. The difference of N\$ 8 675 742 could not be explained by the Town Council.

Property, plant and equipment

The auditors could not verify property, plant and equipment to their satisfaction as no proper fixed assets register was available for audit purposes.

VAT

The balance sheet reflects an amount of N\$ 2 647 102 for VAT owed to the Town Council by the Ministry of Finance for which no reconciliation could be provided. Not all VAT returns were submitted on time and no provision for penalties and interest has been made.

Inventories

The auditors did not observe the counting of the inventories on 30 June 2013. There were no alternative practical audit procedures that they could perform to confirm the existence of the inventories on hand at year-end.

Appropriation account

There is an unexplained difference of N\$ 57 052 on the appropriation account which could not be explained by the Town Council.

I certify that, subject to the matters referred to in the preceding paragraphs, in my opinion, the financial statements fairly present the financial position of the Town Council at 30 June 2013 and the results of its operations and cash flows for the year then ended in the manner required by the Local Authorities Act, 1992, and the State Finance Act, 1991.

WINDHOEK, June 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

TOWN COUNCIL OF OSHIKUKU

BALANCE SHEET AS AT 30 JUNE

	Notes	2013 N\$	2012 N\$
ASSETS			
Non-current assets			
		45 506 183	37 890 408
Property, plant and equipment	2	31 862 812	25 348 952
Investments	3	13 643 371	12 541 456
Current assets			
		3 138 911	1 895 001
Inventories	4	115 526	26 847
Trade and other receivables	5	2 964 527	1 867 454
Bank and cash	6	58 858	700
TOTAL ASSETS		48 645 094	39 785 409
FUNDS AND LIABILITIES			
Funds and reserves			
		38 906 121	37 736 860
Capital outlay	7	31 862 812	25 348 952
Funds and accounts	8	7 043 309	12 387 908
Current liabilities			
		9 738 973	2 048 549
Trade and other payables	9	9 738 973	1 276 585
Bank and cash		-	771 964
TOTAL FUNDS AND LIABILITIES		48 645 094	39 785 409

TOWN COUNCIL OF OSHIKUKU

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2013</u>	<u>2012</u>
		N\$	N\$
INCOME		8 355 635	8 651 504
EXPENDITURE		<u>(10 032 395)</u>	<u>(8 585 755)</u>
NET OPERATING LOSS		(1 676 760)	65 749
INTEREST ON INVESTMENTS		<u>403 084</u>	<u>6 750</u>
		(1 273 676)	72 499
APPROPRIATION ACCOUNT	10	<u>(571 152)</u>	<u>(175 881)</u>
		(1 844 828)	(103 382)
REVENUE ACCOUNT - Beginning of year		<u>1 075 727</u>	<u>1 179 109</u>
REVENUE ACCOUNT - End of year		<u>(769 101)</u>	<u>1 075 727</u>

TOWN COUNCIL OF OSHIKUKU

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
		N\$	N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		8 355 635	8 651 504
Cash paid to suppliers		<u>(3 326 911)</u>	<u>(8 839 838)</u>
Cash (utilised)/generated by operations	11	5 028 724	(188 334)
Interest on investments		403 084	6 750
Increase/(decrease) in Fund accounts		(3 499 771)	2 659 981
Increase in Capital outlay		<u>6 513 860</u>	<u>7 893 914</u>
Net cash flow from operating activities		<u>8 445 897</u>	<u>10 372 311</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital expenditure		(6 513 860)	(7 893 915)
(Increase)/decrease in investments		<u>(1 101 915)</u>	<u>(3 085 594)</u>
		<u>(7 615 775)</u>	<u>(10 979 509)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		830 122	(607 198)
CASH AND CASH EQUIVALENTS			
- BEGINNING OF YEAR		<u>(771 264)</u>	<u>(164 066)</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	6	<u>58 858</u>	<u>(771 264)</u>

TOWN COUNCIL OF OSHIKUKU

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

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements set out in Annexures A to D were prepared on the historical cost basis and incorporate the following principal accounting policies, which are consistent in all material aspects with those applied in the previous year.

1.2 Property, plant and equipment

Property, plant and equipment are stated at cost or valuation where assets have been acquired by grant or by donation. Assets are depreciated over their estimated useful lives.

1.3 Internal Funds

The following Funds were created by the Town Council:

1.3.1 Salary Reserve Fund

The purpose of this Fund is to provide for accrued leave of the Council's staff.

1.3.2 Build Together Fund

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

	<u>2013</u>	<u>2012</u>
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Income assets	22 064 310	21 263 412
General capital assets	9 798 502	4 085 540
	<u>31 862 812</u>	<u>25 348 952</u>

3. INVESTMENTS

INVESTMENTS

Commercial Banks	<u>13 643 371</u>	<u>12 541 456</u>
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ALLOCATED AS FOLLOWS

Salary Reserve Fund	411 885	389 080
Build Together Fund	1 600 111	1 467 586
Capital Reserve Fund	5 784 102	9 453 888
Revenue	5 847 273	1 230 902
	<u>13 643 371</u>	<u>12 541 456</u>

4. INVENTORIES

Consumable goods in store	<u>115 526</u>	<u>26 847</u>
	<u>115 526</u>	<u>26 847</u>

TOWN COUNCIL OF OSHIKUKU

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

	2013	2012
	N\$	N\$
5. TRADE AND OTHER RECEIVABLES		
Services, rates and taxes	1 970 265	2 127 033
Inland revenue - VAT	2 647 101	1 304 433
Build together debtors	16 313	1 627
Sundry debtors	-	1 500
	<u>4 633 679</u>	<u>3 434 593</u>
Provision for bad debts	(1 669 152)	(1 567 139)
	<u>2 964 527</u>	<u>1 867 454</u>
6. CASH AND BANK BALANCES		
Cash-book balance at 30 June - Balance sheet	(1 635 998)	(771 964)
Reconciling items - Moved to trade payables (Note 9)	1 694 384	-
Petty cash	472	700
	<u>58 858</u>	<u>(771 264)</u>
7. CAPITAL OUTLAY		
Revenue contributions	28 169 777	21 263 412
General Capital contributions	3 693 035	4 085 540
	<u>31 862 812</u>	<u>25 348 952</u>
8. FUNDS AND ACCOUNTS		
Salary Reserve Fund	411 885	389 080
Build Together Fund	1 616 423	1 469 213
Capital Reserve Fund	5 784 102	9 453 888
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(769 101)	1 075 727
	<u>7 043 309</u>	<u>12 387 908</u>
9. TRADE AND OTHER PAYABLES		
Trade payables	214 352	13 679
Provisions	39 500	39 500
Consumer deposits	69 598	55 069
Land compensation	7 660 349	1 168 337
Sundry creditors	60 790	-
Reconciling items per bank reconciliation	1 694 384	-
	<u>9 738 973</u>	<u>1 276 585</u>

TOWN COUNCIL OF OSHIKUKU

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

	2013	2012
	N\$	N\$
10. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Expenses	(616 458)	(175 791)
Income	102 358	-
Prior year difference	-	(90)
Unexplained difference	(57 052)	-
	(571 152)	(175 881)
11. CASH (UTILISED)/GENERATED BY OPERATIONS		
Net operating loss before interest	(1 676 760)	65 749
Adjustments for:		
- Adjustments to appropriation account	(571 152)	(175 789)
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	(2 247 912)	(110 040)
CHANGES IN WORKING CAPITAL		
(Increase)/decrease in inventories	(88 679)	823
Increase/(decrease) in trade and other receivables	(1 097 073)	(1 251 562)
(Decrease)/increase in trade and other payables	8 462 388	1 172 445
	7 276 636	(78 294)
CASH (UTILISED)/GENERATED BY OPERATIONS	5 028 724	(188 334)