



**REPUBLIC OF NAMIBIA**



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

# **TOWN COUNCIL OF OTAVI**

**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 Otavi 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, February 2014**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

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

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**1. INTRODUCTION**

The accounts of the Otavi Town Council 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 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 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 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, 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 Loans in arrears**

External Government loans are, as in previous years, not repaid but the repayments are provided for as arrear loan installments. The total installments in arrears amount to N\$ 4 077 213 (2012: N\$ 3 949 456).

No interest on overdue amounts due to Government has been provided for.

##### **4.2 Trade and other receivables- Provision for bad debts**

The average collection period of trade receivables is 303 days (2012: 299 days). As previously reported, Council should attend to the arrears as a matter of urgency. Based upon a average collection period of 60 days the auditors are of the opinion that the provision for bad debts is understated by an immaterial amount of N\$ 288 355 (2012: N\$ 2 321 024).

##### **4.3 Value Added Tax and employees tax returns**

The auditors could not find significant proof that all returns have timeously been submitted.

##### **4.4 Consumer deposits**

Consumer deposits does not cove one months usage.

##### **4.5 Accounts payables**

Council has recorded amounts received from Government as a trade payable instead of recognising the amount in funds. The total amount received was an amount of N\$ 14 871 878 (2012: N\$ 3 143 136).

##### **4.6 Inventories**

No physical stock taking was done at year end. No stock records are maintained and all purchases of items are expensed. No stock balance is thus accounted for in the Council records.

##### **4.7 Property, plant and equipment**

No proper physical inspection of fixed assets could be done due to a lack of proper identification of fixed assets.

#### **5. ACKNOWLEDGEMENT**

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

## 6. FINANCIAL RESULTS

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

	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>	<b>Balance</b>
	N\$	N\$	N\$	N\$
Accumulated deficit on 01/07/2012				(12 326 636)
General accounts				
- Non-profitable services	6 102 716	12 226 969	(6 124 253)	
- Self-supporting services	997 331	5 535 911	(4 538 580)	
Trade accounts				
- Electricity	324 527	-	324 527	
- Water	4 454 848	1 871 058	2 583 790	
Deficit for the year	11 879 422	19 633 938	(7 754 516)	(7 754 516)
				(20 081 152)
Adjustments and utilisations (See note 11, Annexure D)				3 723 817
Accumulated deficit on 30/06/2013				<b>(16 357 335)</b>

## 7. CURRENT BANK ACCOUNT

	<b>2013</b>	<b>2012</b>
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	1 293 178	(1 025 519)
Reconciling items - Seem to be invalid	-	760 701
Outstanding cheques	409 888	-
Balance as per bank statement	<b>1 703 066</b>	<b>(264 818)</b>

The reconciling items to the bank reconciliation seem to be invalid.

## 8. INVESTMENTS

The investments as at 30 June were as follows:

<b>Institution</b>	<b>2013</b>	<b>2012</b>
	<b>Investment</b>	<b>Investment</b>
	N\$	N\$
Commercial banks	31 738 604	27 021 971
CENORED Equity	5 313 439	5 313 439
	<b>37 052 043</b>	<b>32 335 410</b>
<b>Distribution</b>		
Build Together Fund	6 777 083	9 677 096
Capital	2 031 738	2 031 738
Revenue	5 313 439	5 313 439
Capital Reserve Fund	21 211 000	13 594 354
Renewal Fund	61 832	61 832
Endowment Fund	32 840	32 840
Fixed Property Fund	1 589 287	1 589 287
Housing Fund	34 824	34 824
	<b>37 052 043</b>	<b>32 335 410</b>

## 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 water operations were as follows:

	<b>Electricity</b>		<b>Water</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	N\$	N\$	N\$	N\$
Surcharge/sales	324 527	320 000	3 377 748	2 609 906
Cost of sales	-	-	(1 202 149)	(2 275 188)
Gross surplus	324 527	320 000	2 175 599	334 718
Other expenses	-	(334 440)	408 191	(320 485)
<b>Net surplus</b>	<b>324 527</b>	<b>(14 440)</b>	<b>2 583 790</b>	<b>14 233</b>
Net surplus percentage on sales	100.0%	(4.5%)	76.5%	0.5%

### 10.2 Distribution results were as follows:

No distribution results were available.

**11. SELF-SUPPORTING SERVICES**

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

<b>Service</b>	<b>Income 2013</b>	<b>Expenses 2013</b>	<b>Surplus/ (deficit) 2013</b>	<b>Surplus/ (deficit) 2012</b>
	N\$	N\$	N\$	N\$
Sanitation	997 331	5 535 911	(4 538 580)	860 713

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

There were no such expenses.

**13. SUSPENSE ACCOUNTS**

Suspense accounts are cleared on a regular basis.

**14. IRREGULARITIES AND LOSSES**

There were no irregularities or losses during the period under review.

**15. CAPITAL PROJECTS**

The following were spend on capital projects:

<b>Nature of projects/acquisitions</b>	<b>Financial by</b>	<b>Total expenditure 2013</b>	<b>Total expenditure 2012</b>
	<b>Revenue account</b>		
	N\$	N\$	N\$
Civic buildings	3 482 090	3 482 090	-
Cleansing services	-	-	1 290 146
Council's general expenses	21 616	21 616	-
Environmental health	133 866	133 866	-
Fire brigade	-	-	2 326 885
General administration	2 849 556	2 849 556	2 034 315
Parks and recreation	-	-	37 840
Sewerage	8 300 191	8 300 191	-
Streets and roads	4 053 322	4 053 322	8 841 862
Water	306 261	306 261	-
Workshop	48 804	48 804	-
	<b>19 195 706</b>	<b>19 195 706</b>	<b>14 531 048</b>

**16. STUDY LOANS/BURSARIES**

No bursaries were granted during the year.

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

	<b>2013</b>	<b>2012</b>
	N\$	N\$
Contribution from Government	<b>2 564 930</b>	<b>2 323 026</b>

**18. COMPENSATION PAYMENTS**

No compensation payments were made during the year under review.

**19. VISITS TO FOREIGN COUNTRIES**

No amount was incurred on visits to other countries during the year under review.

**20. CLAIMS AGAINST THE LOCAL AUTHORITY**

There were no claims against the Local Authority.

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

There were no gifts/donations by the Town Council.

**22. TRANSFER OF PROPERTY**

No transfer of property has been made to / from Government for the period under review.

**23. TRADE AND OTHER RECEIVABLES/PAYABLES****23.1 Trade and other receivables at 30 June were:**

	<b>2013</b>	<b>2012</b>
	N\$	N\$
Consumers	5 718 763	4 949 042
VAT receivable	2 425 897	31 816
Sundries	5 332	177 479
	8 149 992	5 158 337
Provision for bad debts	(4 297 062)	(6 275 355)
<b>Total</b>	<b>3 852 930</b>	<b>(1 117 018)</b>

**23.2 Trade and other payables at 30 June were:**

	<b>2013</b>	<b>2012</b>
	N\$	N\$
Trade payables	6 171 213	6 532 449
Provisions	823 743	979 024
Loan installments in arrears	4 077 213	3 949 456
Single quarters	14 871 878	3 143 136
Sundry payables	48 774	27 563
<b>Totals</b>	<b>25 992 821</b>	<b>14 631 628</b>



## 24. ASSESSMENT RATES

	<b>2013</b>	<b>2012</b>
	N\$	N\$
The net proceeds from assessment rates were	2 108 213	1 826 221
Tariffs per N\$1 valuation per month (Residential)		
- Land	0.05740	0.05739
- Improvements	0.01390	0.01390
Tariffs per N\$1 valuation per month (Business)		
- Land	0.05980	0.05976
- Improvements	0.01460	0.01458

## 25. LOANS

### 25.1 External loans

	<b>2013</b>	<b>2012</b>
	N\$	N\$
External loans - Government	788 716	826 563
Housing Fund/Build Together Fund	34 824	34 824
	<b>823 540</b>	<b>861 387</b>

### 25.2 Internal loans

There are no internal loans.

## 26. SALE OF ERVEN

During the current financial year, cash proceeds to the value of N\$ 1 366 090 (2012: N\$ 623 363) were received for erven sold which were fully allocated to the revenue account.

## 27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

No properties were sold on installment basis 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:

The auditors could not obtain satisfactory information regarding the movement of motor vehicles.

### 30.2 Inventory

No inventories are accounted for in the financial statements.

## 31. SPECIAL INVESTIGATIONS

There was no special investigation during the period under review.

## **32. GENERAL**

The accounting and internal controls are not satisfactory, except where indicated otherwise in this report. Proper segregation of duties do exist. While increased management involvement does reduce risks, the risk arises that management and Council override existing controls, a potentially dangerous practice which the 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 discussed with the Council.

## **34. QUALIFIED AUDIT OPINION**

The accounts of the Otavi Town Council 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.

### **Loans in arrears**

External Government loans are, as in previous years, not repaid but the repayments are provided for as arrear loan installments. The total installments in arrears amount to N\$ 4 077 213 (2012: N\$ 3 949 456).

No interest on overdue amounts due to Government has been provided for.

### **Accounts payables**

The Council has recorded amounts received from Government as a trade payable instead of recognising the amount in funds. The total amount received was an amount of N\$ 14 871 878 (2012: N\$ 3 143 136).

Except for the matters referred to in the preceding paragraphs, I certify that, 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 flow for the year then ended in the manner required by the Local Authorities Act, 1992, and the State Finance Act, 1991.

**WINDHOEK, February 2014**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**TOWN COUNCIL OF OTAVI**  
**BALANCE SHEET AT 30 JUNE**

	<b>Notes</b>	<b>2013</b>	<b>2012</b>
		N\$	N\$
<b>ASSETS</b>			
<b>Non-current assets</b>		81 413 909	57 725 016
Property, plant and equipment	2	38 930 408	23 393 029
Investments	3	37 052 043	32 335 410
Loans receivable	4	5 431 458	1 996 577
<b>Current assets</b>		5 146 108	(1 117 018)
Trade and other receivables	5	3 852 930	(1 117 018)
Bank and cash	6	1 293 178	-
<b>TOTAL ASSETS</b>		<b>86 560 017</b>	<b>56 607 998</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Funds and reserves</b>		59 743 656	40 089 464
Capital outlay	7	40 173 430	24 598 204
Funds and accounts	8	19 570 226	15 491 260
<b>Non-current liabilities</b>			
Long-term loans	9	823 540	861 387
<b>Current liabilities</b>		25 992 821	15 657 147
Trade and other payables	10	25 992 821	14 631 628
Bank overdraft	6	-	1 025 519
<b>TOTAL FUNDS AND LIABILITIES</b>		<b>86 560 017</b>	<b>56 607 998</b>

## TOWN COUNCIL OF OTAVI

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2013</u>	<u>2012</u>
		N\$	N\$
INCOME		11 879 422	10 206 126
EXPENDITURE		<u>19 633 938</u>	<u>12 356 634</u>
NET OPERATING DEFICIT		(7 754 516)	(2 150 508)
APPROPRIATION ACCOUNT	11	<u>3 723 817</u>	<u>(329 575)</u>
NET DEFICIT AFTER APPROPRIATIONS		(4 030 699)	(2 480 083)
REVENUE ACCOUNT - Beginning of year		<u>(12 326 636)</u>	<u>(9 846 553)</u>
REVENUE ACCOUNT - End of year		<u><b>(16 357 335)</b></u>	<u><b>(12 326 636)</b></u>

## TOWN COUNCIL OF OTAVI

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	<b>Note</b>	<b>2013</b> N\$	<b>2012</b> N\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		11 879 422	10 206 126
Cash paid to suppliers		(9 518 876)	(10 134 168)
Cash generated by operations	12	2 360 546	71 958
<b>Movement in Fund accounts</b>			
Fund accounts		8 109 665	22 114 184
Capital outlay		15 575 226	11 712 281
Net cash flow from operating activities		26 045 437	33 898 423
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net capital expenditure		(15 537 379)	(11 678 277)
Increase in investments		(4 716 633)	(23 906 614)
Increase in loans receivable		(3 434 881)	(11 034)
		(23 688 893)	(35 595 925)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Decrease in long-term liabilities		(37 847)	(34 005)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2 318 697	(1 731 507)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		(1 025 519)	705 988
CASH AND CASH EQUIVALENTS - END OF YEAR		<b>1 293 178</b>	<b>(1 025 519)</b>

## TOWN COUNCIL OF OTAVI

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

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**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 through purchases by grant or by donation less depreciation written off over the expected useful lives as determined by 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 the depreciation is calculated on the shortfall.

**1.3 Fund accounts**

The following Funds were maintained:

**1.3.1 Housing Fund**

The purpose of this Fund is to provide for housing loans. Income for the Fund is derived from interest earned on secured housing loans and investments as well as from profits made on the resale of Housing Scheme houses. Interest paid on external housing loans is charged to this Fund.

**1.3.2 Capital Reserve Fund**

The purpose of this Fund is to build up a general capital reserve to ensure a stable financial position. Income from this Fund is derived from general revenue contributions and interest earned on internal loans and investments.

**1.3.3 Fixed Property Fund**

Proceeds from the sale of land that has been developed by the Council accumulate in this Fund. Costs incurred on the development of land are charged to this Fund.

**1.3.4 Renewal Fund**

The purpose of the fund is to provide for future replacement of assets and for additional depreciation on assets which have permanently declined in value. Income for this Fund is derived from general revenue contributions as well as interest on investments.

**1.3.5 Build Together Fund**

The purpose of this Fund is to provide loans to applicants who want to build or purchase houses with the help of the community. The installments received for payment of these loans are reinvested in this Fund.

**1.3.6 Endowment Fund**

The purpose of the fund is to provide for future sub-division of erven. Income is derived from the proceeds of sub-division of erven as well as interest earned on investments and internal loans.

## TOWN COUNCIL OF OTAVI

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

	<b>2013</b>	<b>2012</b>
	N\$	N\$
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>		
Total	<b>38 930 408</b>	<b>23 393 029</b>
<b>3. INVESTMENTS</b>		
INVESTMENTS		
Commercial banks	31 738 604	27 021 971
CENORED Equity	5 313 439	5 313 439
	<b>37 052 043</b>	<b>32 335 410</b>
ALLOCATED AS FOLLOWS		
Build Together Fund	6 777 083	9 677 096
Capital	2 031 738	2 031 738
Revenue	5 313 439	5 313 439
Capital Reserve Fund	21 211 000	13 594 354
Renewal Fund	61 832	61 832
Endowment Fund	32 840	32 840
Fixed Property Fund	1 589 287	1 589 287
Housing Fund	34 824	34 824
	<b>37 052 043</b>	<b>32 335 410</b>
<b>4. LOANS RECEIVABLE</b>		
Housing Fund/Build Together Fund	<b>5 431 458</b>	<b>1 996 577</b>
Secured by mortgage bonds againsts the properties.		
<b>5. TRADE AND OTHER RECEIVABLES</b>		
Consumers	5 718 763	4 949 042
VAT receivable	2 425 897	31 816
Sundries	5 332	177 479
	8 149 992	5 158 337
Provision for bad debts	(4 297 062)	(6 275 355)
	<b>3 852 930</b>	<b>(1 117 018)</b>

## TOWN COUNCIL OF OTAVI

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

	<b>2013</b>	<b>2012</b>
	N\$	N\$
<b>6. BANK AND CASH</b>		
Current account - Operating account	1 293 178	(1 025 519)
	<b>1 293 178</b>	<b>(1 025 519)</b>
<b>7. CAPITAL OUTLAY</b>		
Loans redeemed	2 433 629	2 395 782
Revenue contributions	30 143 227	12 806 014
General capital contributions	7 596 574	9 396 408
	<b>40 173 430</b>	<b>24 598 204</b>
<b>8. FUNDS, ACCOUNTS AND RESERVES</b>		
Fixed Property Fund	1 589 286	1 589 286
Capital Reserve Fund	21 211 000	13 594 354
Renewal Fund	817 715	817 715
Endowment Fund	32 840	32 840
Build Together Fund	12 276 720	11 783 701
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(16 357 335)	(12 326 636)
	<b>19 570 226</b>	<b>15 491 260</b>
<b>9. LONG-TERM LIABILITIES</b>		
External loans - Government	788 716	826 563
Housing Fund/Build Together Fund	34 824	34 824
	<b>823 540</b>	<b>861 387</b>
<b>10. TRADE AND OTHER PAYABLES</b>		
Trade payables	6 171 213	6 532 449
Provisions	823 743	979 024
Loan installments in arrears	4 077 213	3 949 456
Single quators	14 871 878	3 143 136
Sundry payables	48 774	27 563
	<b>25 992 821</b>	<b>14 631 628</b>



## TOWN COUNCIL OF OTAVI

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

	<b>2013</b>	<b>2012</b>
	N\$	N\$
<b>11. ADJUSTMENTS TO APPROPRIATION ACCOUNT</b>		
Bad debt provision	1 978 293	-
Correction of VAT balance	1 484 832	-
Expenditure adjustments	-	(329 575)
Leave pay provision	260 692	-
	<b>3 723 817</b>	<b>(329 575)</b>
<b>12. CASH GENERATED BY OPERATIONS</b>		
Net operating deficit before interest and transfers	(7 754 516)	(2 150 508)
Adjustments for:		
- Adjustments to appropriation account	3 723 817	(329 575)
OPERATING SURPLUS BEFORE CHANGES IN WORKING CAPITAL	(4 030 699)	(2 480 083)
CHANGES IN WORKING CAPITAL		
(Increase)/decrease in trade and other receivables	(4 969 948)	173 283
Increase in trade and other payables	11 361 193	2 378 758
	6 391 245	2 552 041
CASH GENERATED BY OPERATIONS	<b>2 360 546</b>	<b>71 958</b>