



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF OTAVI

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 Otavi 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.

WINDHOEK, May 2015

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

1. INTRODUCTION

The accounts of the Town Council of Otavi for the year ended 30 June 2014 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 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 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\$ 2 165 650 (2013: N\$ 4 077 213).

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 378 days (2013: 303 days). As previously reported, the Council should attend to the arrears as a matter of urgency. Based upon an average collection period of 60 days the auditors are of the opinion that the provision for bad debts is understated by material amount of N\$ 840 765 (2013: N\$ 288 355).

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 cover one months usage.

4.5 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.

4.6 Property, plant and equipment

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

4.7 Loans receivable

The auditors could not verify the Build Together Loans of N\$ 5 334 862 to their satisfaction as no sufficient documentation could be provided, therefore no tests could be performed on loans receivables.

4.8 Income

Water is under charged by the Town Council, as it was not charged according to the government gazette, therefore it is a loss of income.

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Town Council of Otavi 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:

	Revenue	Expenditure	Surplus/ (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit on 01/07/2013				(16 357 335)
General accounts				
- Non-profitable services	14 563 618	20 638 600	(6 074 982)	
- Self-supporting services	2 016 328	5 448 198	(3 431 870)	
Trade accounts				
- Electricity	558 330	29 087	529 243	
- Water	3 706 103	2 160 178	1 545 925	
Deficit for the year	20 844 379	28 276 063	(7 431 684)	(7 431 684)
Adjustments and utilisations				(23 789 019)
				16 151 682
Accumulated deficit on 30/06/2014				(7 637 337)

7. CURRENT BANK ACCOUNT

	2014	2013
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	2 148 739	1 293 178
Outstanding cheques	326 274	409 888
Balance as per bank statement	2 475 013	1 703 066

8. INVESTMENTS

The investments as at 30 June were as follows:

Institution	2014 Investment	2013 Investment
	N\$	N\$
Commercial banks	23 489 008	31 738 604
CENORED Equity	5 313 439	5 313 439
	28 802 447	37 052 043
Distribution		
Build Together Fund	2 386 992	6 777 083
Capital	2 031 738	2 031 738
Revenue	5 313 439	5 313 439
Capital Reserve Fund	7 978 668	21 211 000
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
Single Quarters Transformation Fund	9 372 827	-
	28 802 447	37 052 043

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:

	Electricity		Water	
	2014	2013	2014	2013
	N\$	N\$	N\$	N\$
Surcharge/sales	558 327	324 527	3 664 913	3 377 748
Cost of sales	-	-	(1 079 575)	(1 202 149)
Gross surplus	558 327	324 527	2 585 338	2 175 599
Other expenses	(29 084)	-	(1 039 413)	408 191
Net surplus	529 243	324 527	1 545 925	2 583 790
Net surplus percentage on sales	94.8%	100.0%	42.2%	76.5%

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:

Service	Income 2014	Expense 2014	Surplus/ (deficit) 2014	Surplus/ (deficit) 2013
	N\$	N\$	N\$	N\$
Sanitation	2 016 328	5 448 198	(3 431 870)	(4 538 580)

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:

Nature of projects/acquisitions	Financed by	Total expenditure 2014	Total expenditure 2013
	Revenue account		
	N\$	N\$	N\$
Civic buildings	7 231 672	7 231 672	3 482 090
Council's general expenses	-	-	21 616
Environmental health	-	-	133 866
General administration	7 754 179	7 754 179	2 849 556
Parks and recreation	356 116	356 116	-
Sewerage	5 190 308	5 190 308	8 300 191
Streets and roads	4 480 401	4 480 401	4 053 322
Water	690 418	690 418	306 261
Workshop	-	-	48 804
	25 703 094	25 703 094	19 195 706

The capital statement for revenue assets purchased reflects an amount of N\$ 7 747 829 more than the income statement.

16. STUDY LOANS/BURSARIES

No bursaries were granted during the year.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

	2014	2013
	N\$	N\$
Contribution from Government	11 189 062	2 564 930

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/TRADE AND OTHER PAYABLES

23.1 Trade and other receivables at 30 June were:

	2014	2013
	N\$	N\$
Consumers	6 739 158	5 718 763
VAT receivable	1 132 586	2 425 897
Sundries	-	5 332
	7 871 744	8 149 992
Provision for bad debts	(4 828 854)	(4 297 062)
Total	3 042 890	3 852 930

23.2 Trade and other payables at 30 June were:

	2014	2013
	N\$	N\$
Trade payables	5 865 847	6 171 213
Provisions	1 284 406	823 743
Loan installments in arrears	2 165 650	4 077 213
Suspence account - Government grant	8 000 000	-
Single quarters	-	14 871 878
Sundry payables	2 450	48 774
Totals	17 318 353	25 992 821

24. ASSESSMENT RATES

	2014	2013
	N\$	N\$
The net proceeds from assessment rates were	1 624 433	2 108 213
Tariffs per N\$1 valuation per month (Residential)		
- Land	0.05700	0.05740
- Improvements	0.01400	0.01390
Tariffs per N\$1 valuation per month (Business)		
- Land	0.06000	0.05980
- Improvements	0.01500	0.01460

25. LOANS

25.1 External loans

	2014	2013
	N\$	N\$
External loans - Government	746 591	788 716
Housing Fund/Build Together Fund	34 824	34 824
	781 415	823 540

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\$ 1 341 542 (2013: N\$ 1 366 090) 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 were no special investigations 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 2014, 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.

A qualified audit opinion is being expressed due to the following reasons:

Loans in arrears

External Government loans are, as in previous years, not repaid and no interest on overdue amounts due to Government has been provided for.

Trade and other receivables - Provision for bad debts

Based upon an average collection period of 60 days the auditors are of the opinion that the provision for bad debts is understated by a material amount of N\$ 840 765.

Value Added Tax and employees tax returns

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

Property, plant and equipment

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

Loans receivable

The auditors could not verify Build Together loans amounting to N\$ 5 334 862. No documentation could be provided, therefore no tests could be performed on loans receivables.

Income

Water is under charged by the Town Council, as it was not charged according to the government gazette, therefore it is a loss of income.

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 2014 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, May 2015

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

TOWN COUNCIL OF OTAVI

BALANCE SHEET AT 30 JUNE

	Notes	2014 N\$	2013 N\$
ASSETS			
NON-CURRENT ASSETS		93 308 307	81 413 909
Property, plant and equipment	2	59 170 998	38 930 408
Investments	3	28 802 447	37 052 043
Loans receivable	4	5 334 862	5 431 458
CURRENT ASSETS		5 191 629	5 146 108
Trade and other receivables	5	3 042 890	3 852 930
Bank and cash	6	2 148 739	1 293 178
TOTAL ASSETS		98 499 936	86 560 017
FUNDS AND LIABILITIES			
FUNDS AND RESERVES		80 400 168	59 743 656
Capital outlay	7	60 456 146	40 173 430
Funds and accounts	8	19 944 022	19 570 226
NON-CURRENT LIABILITIES			
Long-term loans	9	781 415	823 540
CURRENT LIABILITIES			
Trade and other payables	10	17 318 353	25 992 821
TOTAL FUNDS AND LIABILITIES		98 499 936	86 560 017

TOWN COUNCIL OF OTAVI

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2014</u>	<u>2013</u>
		N\$	N\$
INCOME		20 844 379	11 879 422
EXPENDITURE		<u>28 276 063</u>	<u>19 633 938</u>
NET OPERATING DEFICIT		(7 431 684)	(7 754 516)
+			
APPROPRIATION ACCOUNT	11	<u>16 151 682</u>	<u>3 723 817</u>
NET SURPLUS/(DEFICIT) AFTER APPROPRIATIONS		8 719 998	(4 030 699)
REVENUE ACCOUNT - Beginning of year		<u>(16 357 335)</u>	<u>(12 326 636)</u>
REVENUE ACCOUNT - End of year		<u>(7 637 337)</u>	<u>(16 357 335)</u>

TOWN COUNCIL OF OTAVI

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	2014 N\$	2013 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		20 844 379	11 879 422
Cash paid to suppliers		(19 988 809)	(9 518 876)
Cash generated by operations	12	855 570	2 360 546
Movement in Fund accounts			
Fund accounts		(8 346 202)	8 109 665
Capital outlay		20 282 716	15 575 226
Net cash flow from operating activities		12 792 084	26 045 437
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital expenditure		(20 240 590)	(15 537 379)
Increase in investments		8 249 596	(4 716 633)
Increase in loans receivable		96 596	(3 434 881)
		(11 894 398)	(23 688 893)
CASH FLOW FROM FINANCING ACTIVITIES			
Decrease in long-term liabilities		(42 125)	(37 847)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		855 561	2 318 697
CASH AND CASH EQUIVALENTS			
- BEGINNING OF YEAR		1 293 178	(1 025 519)
CASH AND CASH EQUIVALENTS - END OF YEAR		2 148 739	1 293 178

TOWN COUNCIL OF OTAVI

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 through purchases by grant or by donation less depreciation written off over the expected useful lives as determined by the Council from time to time. Fixed assets acquired with loan funds are not depreciated until the loan is repaid, unless the expected lifetime of the asset is less than the repayment period of the loan in which case 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.

TOWN COUNCIL OF OTAVI

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

	2014	2013
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Total	59 170 998	38 930 408
3. INVESTMENTS		
INVESTMENTS		
Commercial banks	23 489 008	31 738 604
CENORED Equity	5 313 439	5 313 439
	28 802 447	37 052 043
ALLOCATED AS FOLLOWS		
Build Together Fund	2 386 992	6 777 083
Capital	2 031 738	2 031 738
Revenue	5 313 439	5 313 439
Capital Reserve Fund	7 978 668	21 211 000
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
Single Quarters Transformation Fund	9 372 827	-
	28 802 447	37 052 043
4. LOANS RECEIVABLE		
Housing Fund/Build Together Fund	5 334 862	5 431 458
Secured by mortgage bonds against the properties.		
5. TRADE AND OTHER RECEIVABLES		
Consumers	6 739 158	5 718 763
VAT receivable	1 132 586	2 425 897
Sundries	-	5 332
	7 871 744	8 149 992
Provision for bad debts	(4 828 854)	(4 297 062)
	3 042 890	3 852 930

TOWN COUNCIL OF OTAVI

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

	2014	2013
	N\$	N\$
6. BANK AND CASH		
Current account - Operating account	2 148 739	1 293 178
	2 148 739	1 293 178
7. CAPITAL OUTLAY		
Loans redeemed	2 475 755	2 433 629
Revenue contributions	52 248 471	30 143 227
General capital contributions	5 731 920	7 596 574
	60 456 146	40 173 430
8. FUNDS, ACCOUNTS AND RESERVES		
Fixed Property Fund	1 589 287	1 589 286
Capital Reserve Fund	7 978 667	21 211 000
Single Quarters Transformation Fund	9 372 817	-
Renewal Fund	817 715	817 715
Endowment Fund	32 840	32 840
Build Together Fund	7 790 033	12 276 720
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(7 637 337)	(16 357 335)
	19 944 022	19 570 226
9. LONG-TERM LIABILITIES		
External loans - Government	746 591	788 716
Housing Fund/Build Together Fund	34 824	34 824
	781 415	823 540
10. TRADE AND OTHER PAYABLES		
Trade payables	5 865 847	6 171 213
Provisions	1 284 406	823 743
Loan installments in arrears	2 165 650	4 077 213
Suspense account - Government grant	8 000 000	-
Single quators	-	14 871 878
Sundry payables	2 450	48 774
	17 318 353	25 992 821

OTAVI TOWN COUNCIL

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

	<u>2014</u>	<u>2013</u>
	N\$	N\$
11. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Adjustment to loans outstanding	1 911 563	-
Bad debt provision	(531 792)	1 978 293
Correction of VAT balance	279 473	1 484 832
Leave pay provision	(379 441)	260 692
Transfer to Fund accounts	14 871 879	-
	<u>16 151 682</u>	<u>3 723 817</u>
12. CASH GENERATED BY OPERATIONS		
Net operating deficit before interest and transfers	(7 431 684)	(7 754 516)
Adjustments for:		
- Adjustments to appropriation account	<u>16 151 682</u>	<u>3 723 817</u>
OPERATING SURPLUS BEFORE CHANGES IN WORKING CAPITAL	<u>8 719 998</u>	<u>(4 030 699)</u>
CHANGES IN WORKING CAPITAL		
Change in trade and other receivables	810 040	(4 969 948)
Change in trade and other payables	<u>(8 674 468)</u>	<u>11 361 193</u>
	<u>(7 864 428)</u>	<u>6 391 245</u>
CASH GENERATED BY OPERATIONS	<u>855 570</u>	<u>2 360 546</u>