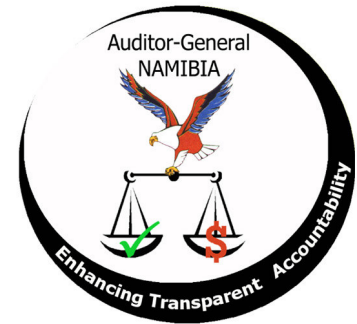




REPUBLIC OF NAMIBIA



AUDIT REPORT ON THE ACCOUNTS OF THE

VILLAGE COUNCIL OF OSHIKUKU

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

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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 Village Council of Oshikuku for the financial year ended 30 June 2008, 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 2009

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
VILLAGE COUNCIL OF OSHIKUKU
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008**

1. INTRODUCTION

The accounts of the Village Council of Oshikuku for the year ended 30 June 2008 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 Village Council on behalf of the Auditor-General and under his supervision.

Figures in the report are rounded off to the nearest Namibian Dollar.

2. FINANCIAL STATEMENTS

The Village 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 Village Council is responsible for the preparation and fair presentation of the 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 complies with ethical requirements and plans and performs 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 judgement, 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 Trade receivables

The average collection period of trade receivables, before taking the provision for bad debts into account, is 178,7 days (2007: 155,1 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 131,1 days (2007: 140.7 days). 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 understated by N\$ 682 842.

4.2 Bank reconciliations

No bank reconciliations were available to verify the reconciling items of N\$ 1 799 933 between the unfavourable cash-book balance of N\$ 840 406 and the favourable balance per bank statement of N\$ 959 527. The reconciling items have been moved in this report to the trade payables.

4.3 Trade and other payables

The auditors could not verify trade and other payables or unrecorded liabilities to their satisfaction as no provision has been made for payables, and the detail of the reconciling items per bank reconciliation was not available for audit purposes.

4.4 P.A.Y.E. returns

P.A.Y.E. returns are not always submitted before the due date. No provision for any penalties or interest on late returns has been made in the financial statements.

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Village 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:

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus on 01/07/2007				3 751 149
General accounts				
- Non-profitable	1 826 300	3 650 616	(1 824 316)	
- Self-supporting	289 052	26 700	262 352	
Trade accounts				
- Electricity	119 426	-	119 426	
- Water	1 761 459	1 424 447	337 012	
Profit for the year	3 996 237	5 101 763	(1 105 526)	(1 105 526)
Adjustments and utilizations (Note 9)				2 645 623 516 030
Accumulated surplus on 30/06/2008				3 161 653

7. CURRENT BANK ACCOUNT

	2008	2007
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	(840 406)	146 948
Reconciling items - Moved to trade payables (Paragraph 23.2)	1 799 933	23 427
Balance as per bank statement	959 527	170 375

No bank reconciliation was available to verify the reconciling items.

8. INVESTMENTS

The investments as at 30 June were as follows:

Institution	2008	2007
	N\$	N\$
Commercial banks	4 880 974	5 747 911

The investments were allocated as follows:

Allocation	2008	2007
	N\$	N\$
Salary Reserve Fund	147 672	59 451
Build Together Fund	946 330	831 515
Capital Reserve Fund	972 805	2 000 000
Revenue	2 814 167	2 856 945
	4 880 974	5 747 911

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in note 7 in Annexure D.

10. TRADE ACCOUNTS

10.1 The results of trade accounts were as follows:

	Electricity		Water	
	2008	2007	2008	2007
	N\$	N\$	N\$	N\$
Surcharges/Sales	119 426	-	1 752 520	1 167 680
Cost of bulk purchases	-	-	(1 424 447)	(1 182 675)
Gross loss	119 426	-	328 073	(14 995)
Other income	-	-	8 939	10 573
Net deficit	119 426	-	337 012	(4 422)
Gross profit/(loss) percentages on bulk purchases	100.0%	0.0%	23.03%	(1.3%)
Net profit/(loss) percentages on bulk purchases	100.0%	0.0%	23.7%	(0.4%)

10.2 Water distribution results, in cubic meters

No distribution results were available. Council, in future must keep statistics on cubic meters purchased and sold to measure the distribution results.

11. SELF-SUPPORTING SERVICES

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

	Income 2008	Expenses 2008	Surplus 2008	Surplus 2007
	N\$	N\$	N\$	N\$
Cleansing	161 934	26 700	135 234	65 947
Sewerage	127 118	-	127 118	75 344
	289 052	26 700	262 352	141 291

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No such expenses were revealed by the audit.

13. SUSPENSE ACCOUNTS

Suspense accounts are cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

No such incidents were revealed by the audit.

15. CAPITAL PROJECTS

Nature of projects/ acquisitions	Financed by		Total expenditure 2007/2008	Total expenditure 2006/2007
	Revenue account	General capital		
	N\$	N\$	N\$	N\$
General Administration	4 084 853	-	4 084 853	2 429 577
	4 084 853	-	4 084 853	2 429 577

The income statements reflect no amount for capital projects. The amount of N\$ 4 084 853 reflected above could not be explained by the Village Council.

16. BURSARIES

There were no such expenses.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID.

	2008	2007
	N\$	N\$
Contribution from Government	-	4 000 000

18. COMPENSATION PAYMENTS

There were no such expenses.

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

No gifts and donations were given during the year.

22. TRANSFER OF PROPERTY

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

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

23. TRADE AND OTHER RECEIVABLES/PAYABLES

23.1 Trade and other receivables at 30 June were:

	2008	2007
	N\$	N\$
Services, rates and taxes	1 206 930	605 205
VAT	351 013	242 729
Provision for bad debts	1 557 943 (321 419)	847 934 (56 201)
Total	1 236 524	791 733

The average collection period of trade receivables, before taking the provision for bad debts into account, is 178,7 days (2007: 155,1 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 131,1 days (2007: 140.7 days). 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 understated by N\$ 682 842.

23.2 Trade and other payables at 30 June were:

	2008	2007
	N\$	N\$
Provisions	39 500	41 220
Consumer deposits	7 506	3 247
Reconciling items per bank reconciliation	1 799 933	-
Totals	1 846 939	44 467

The auditors could not verify trade and other payables or unrecorded liabilities to their satisfaction as no provision has been made for payables, and the detail of the reconciling items per bank reconciliation was not available for audit purposes.

24. ASSESSMENT RATES

	2008	2007
	N\$	N\$
The proceeds from assessment rates were	85 798	-
Tariffs per N\$1 valuation per annum - Land	0.02413	0.04540
Tariffs per N\$1 valuation per annum - Improvements	0.00450	0.00550
Tariffs per N\$1 valuation per annum - Unimproved land	0.04540	0.09480

25. LOANS

25.1 External loans

There are no external loans.

25.2 Due to the Village 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\$ 367 207 (2007: N\$ 254 693). Council could not provide the auditors with a list of properties sold.

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

	LDV's, 4x4's and Combi's		Other	
	Number	Value	Number	Value
Balance - 01/07/2007	2	N\$ 228 106	1	N\$ 194 507
Additions	-	-	-	-
Sub-total	2	228 106	1	194 507
Depreciation	-	(28 513)	-	(21 612)
Balance - 30/06/2008	2	199 593	1	172 895

30.2 Inventory

There is no inventory value reflected in the statements of the Village Council.

31. SPECIAL INVESTIGATIONS

All special investigations were completed and reported upon.

32. GENERAL

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

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in paragraph 4 of this report.

33.2 Informal queries

33.2.1 The income statements reflect no amount for capital projects. The financing of N\$ 4 084 853 could not be explained by the Village Council.

33.2.2 No inventories are carried on the financial statements.

33.2.3 No distribution results were available. Council, in future must keep statistics on cubic meters purchased and sold to measure the distribution results.

33.2.4 Depreciation on LDV's calculated over 10 years and not 5 years as per policy.

33.2.5 The balance sheet reflects an amount of N\$ 34 305 less for VAT claimed than the amount that was actually claimed on the VAT return.

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

34. QUALIFIED AUDIT OPINION

The accounts of the Village Council of Oshikuku for the financial year ended 30 June 2008, summarised in Annexures A to D, were audited by me in terms of Section 85 of the Local Authorities Act, 1992, read with Section 25 (1) (b) of the State Finance Act, 1991.

My opinion has been qualified due to the following reasons:

- ***Trade receivables***

The average collection period of trade receivables, before taking the provision for bad debts into account, is 178,7 days (2007: 155,1 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 131,1 days (2007: 140,7 days). Due to these statistics I am of the opinion that the provision for bad debts is understated by approximately N\$ 682 842.

- ***Bank reconciliations***

No bank reconciliations were available to verify the reconciling items of N\$ 1 799 933 between the unfavourable cash-book balance of N\$ 840 406 and the favourable balance per bank statement of N\$ 959 527. The reconciling items have been moved in this report to the trade payables.

- ***Trade and other payables***

The trade and other payables or unrecorded liabilities could not be verified as no provision has been made for payables, and the detail of the reconciling items per bank reconciliation, that could include payables, was not available for audit purposes.

- *P.A.Y.E. returns*

P.A.Y.E. returns are not always submitted before the due date. No provision for any penalties or interest on late returns has been made in the financial statements.

Except for the above-mentioned remarks, I certify that, in my opinion, the financial statements fairly present the financial position of the Village Council at 30 June 2008 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, September 2009

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

VILLAGE COUNCIL OF OSHIKUKU

BALANCE SHEET AT 30 JUNE

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
		N\$	N\$
ASSETS			
Non-current assets		11 275 296	8 405 463
Property, plant and equipment	2	6 394 322	2 657 552
Investments	3	4 880 974	5 747 911
Current assets		2 196 051	938 681
Trade and other receivables	4	1 236 524	791 733
Bank and cash	5	959 527	146 948
TOTAL ASSETS		13 471 347	9 344 144
FUNDS AND LIABILITIES			
Funds and reserves		11 624 408	9 299 677
Capital outlay	6	6 394 322	2 657 552
Funds and accounts	7	5 230 086	6 642 125
Current liabilities			
Trade and other payables	8	1 846 939	44 467
TOTAL FUNDS AND LIABILITIES		13 471 347	9 344 144

VILLAGE COUNCIL OF OSHIKUKU

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2008</u>	<u>2007</u>
		N\$	N\$
INCOME		3 601 899	5 772 137
EXPENDITURE		<u>(5 101 763)</u>	<u>(4 002 964)</u>
NET OPERATING (LOSS)/PROFIT		(1 499 864)	1 769 173
INTEREST ON INVESTMENTS		<u>394 338</u>	<u>-</u>
		(1 105 526)	1 769 173
APPROPRIATION ACCOUNT	9	<u>516 030</u>	<u>201 604</u>
		(589 496)	1 970 777
REVENUE ACCOUNT - Beginning of year		<u>3 751 149</u>	<u>1 780 372</u>
REVENUE ACCOUNT - End of year		<u>3 161 653</u>	<u>3 751 149</u>

OSHIKUKU VILLAGE COUNCIL

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Notes	2008 N\$	2007 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		3 601 899	5 772 137
Cash paid to suppliers		(3 228 052)	(4 284 950)
Cash generated by operations	10	373 847	1 487 187
Interest on investments		394 338	-
(Decrease)/increase in Fund accounts		(822 543)	2 098 654
Increase in Capital outlay		3 736 770	2 355 014
Net cash flow from operating activities		3 682 412	5 940 855
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital expenditure		(3 736 770)	(2 355 014)
Increase in investments		866 937	(3 596 497)
		(2 869 833)	(5 951 511)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		812 579	(10 656)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR			
		146 948	157 604
CASH AND CASH EQUIVALENTS - END OF THE YEAR			
	5	959 527	146 948

VILLAGE 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 C 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, contributions from Government and interest on investments and loans.

2. PROPERTY, PLANT AND EQUIPMENT

	2008	2007
	N\$	N\$
Income assets	4 194 729	405 454
General capital assets	2 199 593	2 252 098
	6 394 322	2 657 552

3. INVESTMENTS

INVESTMENTS

Commercial banks	4 880 974	5 747 911
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ALLOCATED AS FOLLOWS

Salary Reserve Fund	147 672	59 451
Build Together Fund	946 330	831 515
Capital Reserve Fund	972 805	2 000 000
Revenue	2 814 167	2 856 945
	4 880 974	5 747 911

VILLAGE COUNCIL OF OSHIKUKU

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

	2008	2007
	N\$	N\$
4. TRADE AND OTHER RECEIVABLES		
Services, rates and taxes	1 206 930	605 205
Inland revenue - VAT	351 013	242 729
	<hr/>	<hr/>
Provision for bad debts	1 557 943 (321 419)	847 934 (56 201)
	<hr/>	<hr/>
	1 236 524	791 733
	<hr/>	<hr/>
5. CASH AND BANK BALANCES		
Cash-book balance at 30 June - Balance sheet	(840 406)	146 948
Reconciling items - Moved to trade payables (Note 8)	1 799 933	-
	<hr/>	<hr/>
Balance as per bank statement	959 527	146 948
	<hr/>	<hr/>
6. CAPITAL OUTLAY		
Revenue contributions	4 194 729	405 454
General Capital contributions	2 199 593	2 252 098
	<hr/>	<hr/>
	6 394 322	2 657 552
	<hr/>	<hr/>
7. FUNDS AND ACCOUNTS		
Salary Reserve Fund	147 672	59 451
Build Together Fund	947 956	831 525
Capital Reserve Fund	972 805	2 000 000
	<hr/>	<hr/>
	2 068 433	2 890 976
	<hr/>	<hr/>
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	3 161 653	3 751 149
	<hr/>	<hr/>
	5 230 086	6 642 125
	<hr/>	<hr/>
8. TRADE AND OTHER PAYABLES		
Provisions	39 500	41 220
Consumer deposits	7 506	3 247
Outstanding cheques	1 799 933	-
	<hr/>	<hr/>
	1 846 939	44 467
	<hr/>	<hr/>

OSHIKUKU VILLAGE COUNCIL

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

	Note	2008 N\$	2007 N\$
9. ADJUSTMENTS TO APPROPRIATION ACCOUNT			
Expenses		(353 608)	-
Income		869 638	-
Income from old receivables not accounted for in 2006		-	322 219
Provision for bad debts		-	(56 201)
Provision for leave		-	(52 579)
Sundry expenses		-	(11 835)
		516 030	201 604
10. CASH GENERATED BY OPERATIONS			
Net operating (loss)/profit before interest		(1 499 864)	1 769 173
Adjustments for:			
- Adjustments to appropriation account	9	516 030	201 604
OPERATING INCOME BEFORE CHANGES IN WORKING CAPITAL		(983 834)	1 970 777
CHANGES IN WORKING CAPITAL			
Increase in trade and other receivables		(444 791)	(528 057)
Increase in trade and other payables		1 802 472	44 467
		1 357 681	(483 590)
CASH GENERATED BY OPERATIONS		373 847	1 487 187