



**REPUBLIC OF NAMIBIA**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE**  
**VILLAGE COUNCIL OF OSHIKUKU**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010**

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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 2010, 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, April 2011**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL  
ON THE ACCOUNTS OF VILLAGE COUNCIL OF OSHIKUKU  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010**

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**1. INTRODUCTION**

The accounts of Village Council of Oshikuku for the year ended 30 June 2010 are being reported on in accordance with the provisions set out in the State Finance Act, (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 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 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, Annexure A, is a true reflection of the original, signed by the Accounting Officer.

The financial statements also include:

- Annexure B: 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 the financial statements and for ensuring the regularity of the financial transactions. The responsibility includes designing, implementing and maintaining internal controls 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 judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 or expressing an opinion on the effectiveness of the entity's internal controls. 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**

During the audit the following observations were made:

##### **4.1 Accounts payable**

The auditors detected N\$ 28 156 unrecorded liabilities at financial year end.

The auditors found that Council creditors trial balance of N\$ 95 917 were misstated by an amount of N\$ 90 167 which were due to non-existent creditors. Suppliers' reconciliation are not performed regularly to detect such non-existent creditors.

Included in the creditors balance of N\$ 1 116 967 on the annual financial statements were 2008/2009 paid up creditors of N\$ 172 024. This balance also contained a duplicated creditor to the amount of N\$ 385 689.

The Council's financial statements contain a static provision for audit fees.

The auditors found that consumer deposits are inadequate compared to total debt due.

As a result of the above Council's liabilities at year end are overstated.

##### **4.2 Property, plant and equipment**

Council's fixed asset register contain inadequate descriptions of assets.

Incorrect useful lives were used in the computation of the depreciation.

The fixed asset register of the Council differed by an amount of N\$ 951 076 compared to the amount in the annual financial statements. Auditors are of the opinion that this was caused by arithmetic errors.

Council expenditure as per the departmental income statements were understated by an amount of N\$ 2 735 402. This was due to capital expenditure directly allocated to the Capital Reserve Fund instead of the income statement vote.

##### **4.3 Investment – NORED**

Council's annual financial statements omitted its investment shareholding in NORED. The finance department should obtain the Council's value of shareholding in NORED and appropriately disclose it in the financial statements.

#### **4.4 Investments – Account overstatement**

The correct disclosure and transfer of the “Build Together disbursement fund bank account” should have been disclosed as N\$ 177 591 but could not be ascertained by the auditors.

#### **4.5 Funds and Reserves**

The Council did not reflect in its annual financial statements any balances of the Build Together beneficiaries.

Interest allocations between funds and reserves were not reasonable on the auditors’ comparison of the fund investment balance.

#### **4.6 Debtors**

##### *Consumer debtors*

The age analysis of the Council debtors are inaccurate and is disclosed as a credit balance of N\$ 510 730. This indicates that receipts are not correctly allocated against the relevant invoices.

According to the auditors the provision for doubtful debts should be adjusted with N\$ 47 027 to include debts at 120 days.

##### *Vat Control Account*

The auditors are of the opinion that Council’s VAT receivable has been materially understated by an amount of N\$ 173 330. This understatement in the current year can mainly be attributed to an understatement during the prior year. The total receipts collected after year end related to the 2009/2010 financial year returns were N\$ 179 603.

#### **4.7 Income – Sale of erven**

The Council’s filing and recordkeeping related to sale of erven transactions are inadequate. A list of erven sold during the year as well as outstanding balances of erven sold on an installment basis could not be provided.

Furthermore the Council could also not provide the auditors with a detailed list on all PTO/Rental holders.

The auditors could also not obtain correspondence from the Road Fund Administration (RFA) to confirm a subsidy of N\$ 480 000 receivable.

#### **4.8 Expenses**

It was with grave concern that the auditors noted that a cheque (number 2355) to the amount of N\$ 2 875 was passed while it only had one signatory.

A duplicate payment of N\$ 2 875 related to invoice 2113 was processed by Council. While the auditors understand the scenario created on signatories by the resignation of the former Village Secretary, it was with concern that the auditors noted that duties were not properly segregated. Cheques and payment vouchers were approved by the same official.

A cheque related to subsistence and travelling allowance was not substantiated with supporting documentation.

Minutes of Tender Board meetings for the year under review could not be availed to the auditors at the time of the audit. This prevented auditors from ensuring that tender regulations have been applied on expenditure above N\$ 10 000.

#### 4.9 Inventory

The auditors were not present or involved at the Council inventory count at year end and such would not be able to express an opinion of the quantities recorded at 30 June 2010.

Numerous inventory items costing were done on the VAT inclusive price instead of the exclusive amount.

#### 5. ACKNOWLEDGEMENT

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

#### 6. FINANCIAL RESULTS

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

	<b>Revenue</b>	<b>Expenditure</b>	<b>(Deficit)/ Surplus</b>	<b>Balance</b>
	N\$	N\$	N\$	N\$
Accumulated surplus: 01/07/2009				2 225 593
<b>General accounts</b>				
Non-profitable	4 099 530	4 959 511	(859 981)	
Self-supporting	474 527	30 000	444 527	
<b>Trade accounts</b>				
Water	1 824 147	1 165 162	658 985	
Electricity*	521 717	-	521 717	
Surplus for the year	6 919 921	6 154 673	765 248	765 248
Adjustments and utilization (See Note 10, Annexure D)				2 990 841 (293 975)
Accumulated surplus 30/06/2010				<b>2 696 866</b>

\* See paragraph 10.1

## 7. CURRENT BANK ACCOUNT

	2010	2009
	N\$	N\$
Cash-book balance at 30 June – Balance sheet	724 587	624 456
Outstanding deposits	(14 241)	(23 183)
Outstanding payments	278 745	453 662
<b>Balance as per bank statement</b>	<b>989 091</b>	<b>1 054 935</b>

## 8. INVESTMENTS AND INTEREST PROCEEDS

Institutions	2010	2009
	N\$	N\$
Commercial Banks	5 981 938	5 413 861

The investments were allocated as follows:

Allocations	2010	2009
	N\$	N\$
Salary Reserve Fund	149 073	147 672
Build Together Fund	1 217 090	1 082 926
Capital reserve Fund	2 102 792	4 135 639
Revenue	2 512 983	47 624
<b>Total</b>	<b>5 981 938</b>	<b>5 413 861</b>

## 9. FUND ACCOUNTS

The Council had the following funds and reserves at the end of the year:

	2010	2009
<b>Funds</b>	N\$	N\$
Salary Reserve Fund	149 074	147 672
Build Together Fund	1 218 717	1 084 552
Capital Reserve Fund	2 102 792	4 135 640
<b>Reserves</b>		
Revenue Contributions	11 612 080	8 001 891
General Capital Contributions	1 978 553	2 107 067
Revenue reserve Sec 86(1),Local Authorities Act, 1992	2 696 866	2 225 593
<b>Total</b>	<b>19 758 082</b>	<b>17 702 415</b>

## 10. TRADE ACCOUNTS

10.1 The results of operations were as follows:

	Electricity		Water	
	2010	2009	2010	2009
	N\$	N\$	N\$	N\$
Surcharges/sales	521 717	443 072	1 804 775	1 281 374
Cost of bulk purchases	-	-	(1 165 162)	(1 492 293)
Gross profit/(loss)	521 717	443 072	639 613	(210 919)
Other income	-	-	19 373	24 385
<b>NET SURPLUS/(LOSS)</b>	<b>521 717</b>	<b>443 072</b>	<b>658 986</b>	<b>(186 534)</b>
Gross profit/(loss) % on cost of bulk purchases	N/A	N/A	54.90%	(14.14%)
Net profit/(loss) % on cost of bulk purchases	N/A	N/A	56.56%	(12.50%)

10.2 Distribution losses were:

	Water	
	2010	2009
	m <sup>3</sup>	m <sup>3</sup>
Units sold	167 259	159 579
Units bought	169 458	192 193
Loss	<b>(2 199)</b>	<b>(32 614)</b>
Percentage loss in units	(1.30%)	(17.0%)



## 11. SELF-SUPPORTING SERVICES

The net results were as follows:

	2010	2009
	N\$	N\$
Cleansing income	234 244	(233 155)
Sewerage income	210 283	143 038
Net surplus/(deficit)	<b>444 527</b>	<b>(90 117)</b>

## 12. FRUITLESS/UNAUTHORISED OR AVOIDABLE EXPENDITURE

No fruitless or unauthorized expenditure was revealed during the year.

## 13. SUSPENSE ACCOUNTS

Suspense accounts are cleared on a regular basis.

## 14. IRREGULARITIES AND LOSSES

No irregularities or losses were detected during the audit.

## 15. CAPITAL PROJECTS

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

Nature of project/acquisitions	Financed by	Total expenditure	Total expenditure
	Revenue account	2009/2010	2008/2009
	N\$	N\$	N\$
General Administration	4 430 827	4 430 827	4 397 148
	<b>4 430 827</b>	<b>4 430 827</b>	<b>4 397 148</b>

The auditors' reconciliation on capital outlay expenses as per the departmental income and expenditure statements (N\$ 1 695 424) compared to the capital statements revealed a difference of N\$ 2 735 403. These resulted in an overstatement of the surplus for the year under review.

## 16. BURSARIES

No bursaries were granted during the year.

## 17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants or financial aid were made during the year.

## 18. COMPENSATION PAYMENTS

No compensation payments were made during the year.

## 19. VISITS TO FOREIGN COUNTRIES

There were no such expenses.

## 20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

## 21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

There were no such expenses.

## 22. TRANSFER OF PROPERTY

No property was transferred to or from the Council during the year.

## 23. DEBTORS/CREDITORS

### 23.1 Debtors at 30 June were:

	<b>2010</b>	<b>2009</b>
	N\$	N\$
Services, rates and taxes	1 533 107	1 379 170
Build Together debtors	1 627	-
VAT	6 273	1 047 113
	1 541 007	2 426 283
Less: Provision for doubtful debts	(972 240)	(638 670)
	<b>568 767</b>	<b>1 787 613</b>

### 23.2 Creditors at 30 June were:

	<b>2010</b>	<b>2009</b>
	N\$	N\$
Trade payables	1 116 967	172 024
Provisions	39 500	39 500
Consumer deposits	29 038	20 949
	<b>1 185 505</b>	<b>232 473</b>

## 24. ASSESSMENT RATES

Net proceeds from assessment rates were N\$ 197 997 (2009: N\$ 169 483).

## 25. LOANS

### 25.1 External loans

There were no new external loans.

### 25.2 Loans written off

No loans were written off by the Council.

## 26. SALE OF ERVEN

Erven were sold for N\$ 500 341 (2009: N\$ 1 558 353) and was allocated to revenue.

## 27. PROPERTY SOLD ON AN INSTALMENT BASIS

None

## 28. TARIFF ADJUSTMENTS

Tariff adjustments were all in accordance with the relevant Government notice.

## 29. APPROVALS

### 29.1 Revenue written off

No debts were written off during the year.

### 29.2 Excess on approved budget

All budget excesses were approved.

### 29.3 Internal loans

All internal loans made during the year were approved.

## 30. INVENTORY AND EQUIPMENT

### 30.1 Inventory

Inventories as disclosed in the financial statements of the Council amount to N\$ 77 661 (2009: Nil).

### 30.2 Motor Vehicles

	Sedans, LDV's, combi's and trailers		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value
Balance 01/07/2009	2	N\$ 171 080	1	N\$ 151 283
Additions	-	-	-	-
	2	171 080	1	151 283
Less: Depreciation	-	(28 513)	-	(21 612)
<b>On hand 30/06/2010</b>	<b>2</b>	<b>142 567</b>	<b>1</b>	<b>129 671</b>

## 31. SPECIAL INVESTIGATIONS FACTUAL FINDINGS

No special investigations were conducted of which the auditors were aware of.

## 32. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report.

The following matters were brought to the attention of the Chief Executive Officer by way of a report to management:

- Accounts Payable.
- Fixed Assets
- Investments
- Funds and reserves
- Accounts Receivable
- Income
- Expenses
- Payroll
- Inventory

### **33. GENERAL**

There is an insufficient system of internal controls 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 partly, it causes the risk that management and the Council can override existing controls, a potentially dangerous practice, which Council should vigilantly guard against.

### **34. QUALIFIED AUDIT OPINION**

The accounts of Village Council of Oshikuku for the financial year ended 30 June 2010, summarized in Annexures A to D, were audited by me in terms of the provisions of Section 85 of the Local Authorities Act, 1992, read with Section 25(1)(b) of the State Finance Act, 1991.

The audit opinion has been qualified due to the following reasons:

- Non-existent creditors amounted to N\$ 90 167.
- A duplicated creditor amounting to N\$ 385 689.
- Fixed assets are misstated by N\$ 951 076.
- Investment in NOREDF not disclosed.
- Provision for doubtful and bad debt is misstated by N\$ 47 027.
- Inventory to the amount of N\$ 77 661 could not be confirmed.

Except for the effect of any adjustments which might have been necessary as referred to above, in my opinion, the financial statements fairly present the financial position of the Village Council at 30 June 2010, and the results of operations and cash-flows for the year then ended in accordance with generally accepted accounting practice.

**WINDHOEK, April 2011**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

## BALANCE SHEET AT 30 JUNE

	<b>Notes</b>	<b>2010</b>	<b>2009</b>
		N\$	N\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	19 572 571	15 522 819
Investments	3	13 590 633	10 108 958
		5 981 938	5 413 861
<b>Current assets</b>			
Inventories	4	1 371 015	2 412 069
Accounts receivable	5	77 661	-
Bank and cash	7	568 767	1 787 613
		724 587	624 456
<b>Total assets</b>		<b>20 943 586</b>	<b>17 934 888</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Fund and reserves</b>			
Capital outlay	8	19 758 081	17 702 415
Funds and accounts	9	13 590 633	10 108 958
		6 167 448	7 593 457
<b>Current liabilities</b>			
Accounts payable	6	1 185 505	232 473
		1 185 505	232 473
<b>Total equity and liabilities</b>		<b>20 943 586</b>	<b>17 934 888</b>

## VILLAGE COUNCIL OD OSHIKUKU

## ANNEXURE B

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2010</u>	<u>2009</u>
		N\$	N\$
INCOME		6 682 711	7 253 282
EXPENDITURE		(6 154 673)	(9 259 580)
<b>NET OPERATING PROFIT/(LOSS)</b>		<b>528 038</b>	<b>(2 006 298)</b>
Investment interest on revenue account		237 210	305 036
<b>NET SURPLUS/(LOSS) for the year</b>		<b>765 248</b>	<b>(1 701 262)</b>
Adjustments to appropriation account	10	(293 975)	765 202
Accumulated surplus (deficit) for the year		471 273	(936 060)
<b>ACCUMULATED SURPLUS</b>			
– At the beginning of the year		2 225 593	3 161 653
– At the end of the year		<b>2 696 866</b>	<b>2 225 593</b>

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	<b>Note</b>	<b>2010</b>	<b>2009</b>
		N\$	N\$
<b>Cash generated (utilised) by operating activities</b>			
Cash receipts from customers		6 682 711	7 253 282
Cash paid to suppliers		(4 354 431)	(10 659 933)
<b>Cash (utilized) by operating activities</b>	<b>11</b>	<b>2 328 280</b>	<b>(3 406 651)</b>
Interest on investments		237 210	305 036
Increase/(decrease) in Fund Accounts		(1 897 282)	3 299 431
Increase in Capital outlay		3 481 675	3 714 636
<b>Net cash flow from operating activities</b>		<b>4 149 883</b>	<b>3 912 452</b>
<b>Cash effects on investing activities</b>			
Net capital expenditure		(3 481 675)	(3 714 636)
(Increase) in investments		(568 077)	(532 887)
		(4 049 752)	(4 247 523)
<b>Net change in cash and cash equivalents</b>		<b>100 131</b>	<b>(335 071)</b>
Cash and cash equivalents at the beginning of the year		624 456	959 527
<b>Cash and cash equivalents at the end of the</b>		<b>724 587</b>	<b>624 456</b>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

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**1. ACCOUNTING POLICIES**

The financial statements set out in Annexure A to C were prepared on the historical cost basis and incorporated the following principal accounting policies, which are consistent with those applied in the previous year:

**1.1 Property, plant and equipment**

Property, plant and equipment are stated at cost or at valuation where assets have been acquired by grant or donation, less depreciation written off over the expected useful lives as determined by Council from time to time. Property, plant and equipment 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 depreciation is calculated on the shortfall.

**1.2 Inventory**

Inventory is valued using the average cost basis. Obsolete stock is written off.

**1.3 Fund accounts****1.3.1 Revenue Account**

All monies received by and accrued to and expenses paid, except for allocations to other Funds, are reflected in this account, and are kept in compliance with Section 86(1)(b) of the Act.

**1.3.2 Reserve Funds**

The Village Council also maintains the following Funds in terms of the authorisation in Section 80(4) of the Act:

- **Salary Reserve Fund**

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

- **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.

- **Capital Reserve Fund**

The purpose of this Fund is to build up a general reserve to ensure that the Municipality's financial position is stable. Income to this Fund is transferred from the general income account and derived from interest on investments.



## NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

	<u>2010</u>	<u>2009</u>
	N\$	N\$
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>		
Income assets	11 612 080	8 001 891
General capital assets	1 978 553	2 107 067
	<b><u>13 590 633</u></b>	<b><u>10 108 958</u></b>
<b>3. INVESTMENTS</b>		
Commercial banks	<b><u>5 981 938</u></b>	<b><u>5 413 861</u></b>
ALLOCATED AS FOLLOWS		
Salary Reserve Fund	149 073	147 672
Build together Fund	1 217 090	1 082 926
Capital reserve Fund	2 102 792	4 135 639
Revenue	2 512 983	47 624
	<b><u>5 981 938</u></b>	<b><u>5 413 861</u></b>
<b>4. INVENTORIES</b>		
Consumable goods in store	<b><u>77 661</u></b>	-
<b>5. ACCOUNTS RECEIVABLE</b>		
Services, rates and taxes	1 533 107	1 379 170
Inland revenue – Vat	6 273	1 047 113
Build together debtors	1 627	-
	<u>1 541 007</u>	<u>2 426 283</u>
Less: Provision for doubtful debts	(972 240)	(638 670)
	<b><u>568 767</u></b>	<b><u>1 787 613</u></b>
<b>6. ACCOUNTS PAYABLE</b>		
Creditors	1 116 967	172 024
Provisions	39 500	39 500
Consumer deposits	29 038	20 949
	<b><u>1 185 505</u></b>	<b><u>232 473</u></b>
<b>7. CASH AND BANK BALANCES</b>		
Cash book balance at 30 June	<b><u>724 587</u></b>	<b><u>624 456</u></b>

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

	<b>2010</b>	<b>2009</b>
	N\$	N\$
<b>8. CAPITAL OUTLAY</b>		
Revenue contributions	11 612 080	8 001 891
General capital contributions	1 978 553	2 107 067
	<b>13 590 633</b>	<b>10 108 958</b>
<b>9. FUNDS AND ACCOUNTS</b>		
Salary Reserve Fund	149 073	147 672
Build Together Fund	1 218 717	1 084 552
Capital Reserve Fund	2 102 792	4 135 640
Revenue Account	2 696 866	2 225 593
	<b>6 167 448</b>	<b>7 593 457</b>
<b>10. ADJUSTMENTS TO APPROPRIATION ACCOUNT</b>		
Expenses	(373 263)	(318 037)
Income	79 288	1 083 239
	<b>(293 975)</b>	<b>765 202</b>
<b>11. CASH (UTILIZED)/GENERATED BY OPERATIONS</b>		
Operating profit/(loss) before interest and adjustments	528 038	(2 006 298)
- Adjustments and utilizations	(293 975)	765 202
Operating surplus/(deficit)before changes in working capital	234 063	(1 241 096)
<b>Working capital changes</b>		
(Increase) in inventories	(77 661)	-
Decrease/(increase) in accounts receivable	1 218 846	(551 089)
Increase/(decrease) in accounts payable	953 032	(1 614 466)
	<b>2 328 280</b>	<b>(3 406 651)</b>