



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

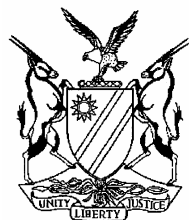
VILLAGE COUNCIL OF OTAVI

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

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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 Otavi for the financial year ended 30 June 2006, 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, January 2009

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
VILLAGE COUNCIL OF OTAVI
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006**

1. INTRODUCTION

The accounts of the Village Council of Otavi for the year ended 30 June 2006 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 BDO Spencer Steward (Namibia) 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 **except that they were only finalized and signed on 3 November 2008 instead of three months after year-end as required by the Act.** 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

The Accounting Officer of the Village Council is responsible for the preparation of the financial statements and for ensuring the regularity of the financial transactions. 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 audit as carried out by the said firm, included:

- (a) examination on a test basis of the evidence relevant to the amounts, disclosure and regularity of the financial transactions included in the financial statements;
- (b) assessment of the significant estimates and judgements made by the Accounting Officer of the Village Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the Village Council's circumstances, consistently applied and adequately disclosed; and
- (c) evaluation of the overall adequacy of the presentation of information in the financial statements.

The audit was planned and performed so as to obtain all the information and explanations considered necessary to provide sufficient evidence to give reasonable assurance that:

- the financial statements are free from material misstatement, whether caused by error, fraud or other irregularity;

- in all material respects, the expenditure and income have been applied to purposes intended and
- the financial transactions conform to the authorities which govern them.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Value added tax (VAT)

No VAT returns for the year under review were rendered to the Receiver of Revenue.

No provision for VAT payable or any penalties nor interest has been provided for in the financial statements of the Village Council. This results in an overstatement of income by the VAT amount received and an understatement of the VAT, penalties and interest due.

4.2 P.A.Y.E.

P.A.Y.E. returns for the year under review were rendered to the Directorate: Inland Revenue. However these returns were rendered late.

No provision for P.A.Y.E. payable or any penalties nor interest has been made in the financial statements of the Village Council. This results in an understatement of P.A.Y.E., penalties and interest due.

4.3 Accounts receivable

The accounts receivable could not be verified to the satisfaction of the auditors. The client could not avail the age analysis to the auditors. Furthermore the Village Council wrote off debtors of N\$ 2 824 534 as a result of differences in the age analysis that could not be reconciled.

No further explanations for the adjustment could be provided by the Village Council. The auditors were unable to satisfy themselves of the correctness of the amount disclosed for trade receivables, and due to this fact, they could also not confirm the adequacy of the amount provided for bad debts.

4.4 Consumer deposits

No list for consumer deposits was available at the Village Council. The auditors were unable to verify this amount.

4.5 Salaries and wages

A salary register covering the full period under review could not be provided to the auditors. Personnel files provided to the auditors were incomplete. The auditors were therefore unable to verify increases, overtime and other personnel related issues.

4.6 Internal control and accounting records

As a result of prior year qualifications, the auditors observed the status of the Village Council and found that there were no improvements in the internal control and accounting record keeping of the Village Council. There is an inadequate system of internal control nor are there proper accounting records which the auditors could rely on for audit purposes.

4.7 Bank overdraft

No ministerial approval could be submitted to authorize the overdraft. (See paragraph 7.)

4.8 Investments

The balance for investments as per financial statements and the balance confirmed by the financial institutions do not agree. The difference between the two is N\$ 13 566, resulting in an understatement of income and investments.

5. ACKNOWLEDGEMENT

The assistance and co-operation given by the staff of the Village Council during the audit is appreciated. The efforts made by management to implement the previous year recommendations of the auditors are also 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 01/07/2005				1 136 405
General accounts				
- Non-profitable	1 844 829	3 463 530	(1 618 701)	
- Self-supporting	989 025	1 159 560	(170 535)	
Trade accounts				
- Water	1 707 825	1 653 799	54 026	
Surplus for the year	4 541 679	6 276 889	(1 735 210)	(1 735 210)
Adjustments and utilizations (Note 11 of the annual financial statements)				(598 805)
Accumulated deficit 30/06/2006				(2 824 534)
				(3 423 339)

7. CURRENT BANK ACCOUNT

The calculated unfavourable cash-book balance at 30 June 2006 amounted to N\$ 289 132. The total outstanding cheques at 30 June 2006 amounted to N\$ 92 071, resulting in the bank statement reflecting an unfavourable balance of N\$ 197 061.

In terms of Section 30(v)(i) of the Local Authorities Act, 1992, a Village Council may only borrow money with the prior approval of the Minister of Regional and Local Government, Housing and Rural Development after consultation with the Minister of Finance. No such approval for the overdraft of N\$ 197 061 could be submitted.

8. INVESTMENTS

On 30 June 2006 N\$ 5 083 417 was invested at financial institutions, as follows:

	2006	2005
	N\$	N\$
Commercial banks	5 075 299	4 587 729
Insurance companies	-	500 000
Cenored (Pty) Ltd	8 118	8 118
Totals	5 083 417	5 095 847

The investments were allocated as follows between the Funds:

	2006	2005
	N\$	N\$
Fixed Property Fund	-	-
Capital Reserve Fund	-	-
Housing Fund	-	-
Capital	5 083 418	5 095 847
	5 083 418	5 095 847

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 operations were as follows:

	Water	
	2006	2005
	N\$	N\$
Sales	1 697 460	923 018
Cost of sales – Bulk purchases	(1 288 183)	(1 338 850)
Gross profit/(loss)	409 227	(415 832)
Net revenue/(expenditure)	(355 251)	(272 336)
Net surplus/(deficit)	54 026	(688 168)
Gross profit/(loss) percentage on bulk purchases	(31.8%)	(31.1%)
Net profit/(loss) percentage on bulk purchases	(42.0%)	(51.4%)

10.2 Water distribution results, in cubic meters

No statistics were kept by the Village Council to calculate the distribution losses. As previously recommended the Village Council should implement auxiliary records which will enable the Council to accurately record the cubic meters sold and purchased to enable them to calculate distribution losses.

11. SELF-SUPPORTING SERVICES

11.1 The results for the year under review, compared with the previous year, are as follows:

	2006	2005
	N\$	N\$
Civic buildings	(647 053)	(6 217)
Caravan park	(13 553)	3 219
Sanitation	490 071	(104 272)
	170 535	(107 270)

Council should strive to run all these services on a self-supporting basis.

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

Due to the lack of internal control, no comment regarding these expenses is presented.

13. SUSPENSE ACCOUNTS

There were no uncleared suspense accounts on the balance sheet at 30 June 2006.

14. IRREGULARITIES AND LOSSES

Due to the lack of internal control, no comment regarding these items is presented.

15. CAPITAL PROJECTS

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

Nature of projects/acquisitions	Financed by			Total expenditure 2005/2006
	Revenue account	General capital	External loans	
	N\$	N\$	N\$	N\$
Office equipment	40 945	-	-	40 945
Infrastructure – Single quarters	-	202 855	-	202 855
Water reticulation	-	-	-	-
	40 945	202 855	-	243 800

Except for assets funded through the Revenue account, the other sources of funding could not be verified as reflected in the detailed capital expenditure statement submitted by the Council.

16. BURSARIES

Due to lack of internal control and poor record keeping, no records could be provided to the auditors.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

According to the financial statements no contributions or grants were made and no financial assistance was given during the year.

Due to lack of internal control and poor record keeping, the correctness of this situation could not be confirmed.

18. COMPENSATION PAYMENTS

Due to lack of internal control and poor record keeping, no documents could be provided to the auditors.

19. VISITS TO FOREIGN COUNTRIES

Due to the lack of internal control, no comment regarding these expenses is presented.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

Due to lack of internal control and poor record keeping, no records could be provided to the auditors.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

Due to the lack of internal control, no comment regarding these expenses is presented.

22. TRANSFER OF PROPERTY

Due to lack of internal control and poor record keeping, no documents could be provided to the auditors.

23. TRADE AND OTHER RECEIVABLES/PAYABLES

23.1 Accounts receivable at 30 June were:

	2006	2005
	N\$	N\$
Services, rates and taxes	4 461 060	7 239 638
Provision for bad debts	(250 000)	(250 000)
Total	4 211 060	6 989 638

The trade receivables could not be verified to the satisfaction of the auditors. The client could not avail the age analysis to the auditors. The Village Council wrote off debtors of N\$ 2 824 534 as a result of differences in the age analysis that could not be reconciled. No further explanations for the adjustment could be provided by the Village Council.

This again proves that there is no system of internal control at the Council.

23.2 Accounts payable at 30 June were:

	2006	2005
	N\$	N\$
Trade payables	3 319 464	2 854 804
Provision for leave	456 502	456 502
Provision for audit fees	142 171	142 171
Consumer deposits	91 863	91 863
Totals	4 009 700	3 545 340

No monthly reconciliations for creditors are performed. No lists for consumer deposits and leave pay could be provided to the auditors.

24. ASSESSMENT RATES

Proceeds from assessment rates were N\$ 528 448 (2005 N\$ 1 920 764). The tariffs determined during the year were N\$ 0.15 per dollar per year on the site valuations plus N\$ 0.02 per dollar per year on the valuation of improvements.

25. LOANS

25.1 External loans

The balances due to the Government of Namibia were as follows:

	2006	2005
	N\$	N\$
Capital section	2 202 032	2 250 550
Housing Fund	34 824	34 824
Revenue	14 097	15 816
	2 250 953	2 301 190

No repayments on Government loans were made. These arrear payments are provided for as creditors. It is recommended that Council should reconsider its policies on the repayments of these loans.

25.2 Due to the Village Council

	2006	2005
	N\$	N\$
Housing Fund	1 899 235	1 770 252
	1 899 235	1 770 252

25.3 Loans written off

None

26. SALE OF ERVEN

Due to the lack of internal control and the availability of supporting documentation, this information is not available.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

Due to the lack of internal control and the availability of supporting documentation, this information is not available.

28. TARIFF ADJUSTMENTS

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

29. APPROVALS

29.1 Excess on approved budget

Below is excess expenditure which was not authorised by the Council

Votes	Actual	Budget	Excess
	N\$	N\$	N\$
Council general expenses	284 071	233 200	50 871
Village secretary	703 565	574 087	129 478
Sanitation	439 644	294 289	145 355
Fire brigade	104 373	56 800	47 573
Cemetries	206 524	198 147	8 377

29.2 Internal loans

No new internal loans were granted.

29.3 Direct application of own funds

None

29.4 Revenue written off

Due to the lack of internal control and the availability of supporting documentation, this information is not available.

30. 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\$ 78 893	3	N\$ 291 804	5	N\$ 145 000
Additions	-	-	-	-	-	-
Sub-total	1	78 893	3	291 804	5	145 000
Balance – 30/06	1	78 893	3	291 804	5	145 000

As also reported in previous reports, no records were kept regarding fuel used and kilometers travelled. Council, in future, should keep logbooks for each vehicle that can provide this information.

The sedan reflected above was written off in a car accident. The Council should write off the sedan as it does not exist any more.

31. SPECIAL INVESTIGATIONS

There were special investigations that took place during the period under review by the Anti Corruption Commission and the internal auditors for the Ministry of Regional and Local Government, Housing and Rural Development

32. GENERAL

There is no system of internal control and very limited accounting records 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 this report.

33.2 The following informal queries have been addressed to the chief executive officer:

- VAT accrual
- PAYE
- Accounts receivable
- Consumer deposits
- Salaries and wages
- Internal control and accounting records
- Bank overdrafts
- Investments
- Fixed assets
- Water distribution

34. DISCLAIMED AUDIT OPINION

The accounts of the Village Council of Otavi for the financial year ended 30 June 2006, 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.

I am unable to express an opinion on the financial statements, results of operations and the cash flow of the Council for the year ended 30 June 2006 due to the following reasons:

- No VAT returns have been submitted to the Receiver of Revenue and no provision has been made for such payments and penalties.
- No provision has been made for PAYE late payments and penalties.
- The accounts receivable amount could not be analysed nor verified.
- The consumer deposits could not be verified.
- Salaries and wages could not be audited as no register exists and personnel files were incomplete.
- Internal controls are non-existent.

WINDHOEK, January 2009

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

VILLAGE COUNCIL OF OTAVI
BALANCE SHEET AS AT 30 JUNE

	Note	2006 N\$	2005 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	12 113 154	11 879 707
Investments	3	5 130 502	5 013 608
Loans	4	5 083 417	5 095 847
		1 899 235	1 770 252
Current assets			
Trade and other receivables	5	4 211 060	6 989 638
		4 211 060	6 989 638
TOTAL ASSETS		16 324 214	18 869 345
FUNDS AND LIABILITIES			
Funds and reserves			
Capital outlay	6	9 775 235	12 821 681
Funds and accounts	7	8 169 501	7 149 487
		1 605 734	5 672 194
Long-term liabilities			
	8	2 250 953	2 301 190
Current liabilities			
Cash and bank balances	9	4 298 026	3 746 474
Short-term portion of long-term liabilities	8	288 326	201 134
Trade and other payables	10	-	-
		4 009 700	3 545 340
TOTAL FUNDS AND LIABILITIES		16 324 214	18 869 345

ANNEXURE B

VILLAGE COUNCIL OF OTAVI

INCOME STATEMENT AS AT 30 JUNE

	Note	2006	2005
		N\$	N\$
INCOME		4 541 679	7 115 429
EXPENDITURE		(6 276 889)	(5 515 919)
NET OPERATING PROFIT/(LOSS)		(1 735 210)	1 599 510
INVESTMENT INCOME EARNED FOR REVENUE ACCOUNTS		-	-
NET PROFIT/(LOSS) FOR THE YEAR		(1 735 210)	1 599 510
APPROPRIATION ACCOUNT - Adjustments	11	(2 824 534)	(3 963)
		(4 559 744)	1 595 547
ACCUMULATED FUNDS - Beginning of the year		1 136 405	(459 142)
ACCUMULATED FUNDS - End of the year		(3 423 339)	1 136 405

ANNEXURE C

VILLAGE COUNCIL OF OTAVI

CASH FLOW STATEMENT AS AT 30 JUNE

	<u>Note</u>	<u>2006</u>	<u>2005</u>
		N\$	N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		4 541 679	7 115 429
Cash paid to suppliers		(5 858 485)	(7 231 991)
Cash (utilised)/generated by operations	12	(1 316 806)	(116 562)
Movement in Fund accounts			
- Fund accounts		493 284	174 769
- Capital outlay		1 020 014	5 077 911
Net cash flow from operating activities		196 492	5 136 118
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital expenditure		(116 894)	(918 201)
Change in investments – Decrease/(increase)		12 430	(3 890 717)
Change in secured loans – (Increase)		(128 983)	(431 953)
		(233 447)	(5 240 871)
CASH FLOW FROM FINANCING ACTIVITIES			
Change in long-term liabilities – (Decrease)		(50 237)	(45 103)
		(50 237)	(45 103)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		(87 192)	(149 856)
CASH AND CASH EQUIVALENTS			
- BEGINNING OF THE YEAR		(201 134)	(51 278)
CASH AND CASH EQUIVALENTS			
- END OF THE YEAR		(288 326)	(201 134)

VILLAGE COUNCIL OF OTAVI

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1. ACCOUNTING POLICIES

1.2 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

1.3 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.

1.4 Inventories

Inventories are valued at the lower of landed cost or net realisable value on a first-in first-out basis.

1.5 Internal Funds

The following Funds were created by the Village Council:

1.5.1 Fixed Property Fund

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

1.5.2 Housing 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.

1.5.3 Capital Reserve Fund

This Fund was created to make provision for unforeseen expenditures as approved by the Council.

1.5.4 Renewal Fund

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

VILLAGE COUNCIL OF OTAVI

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

	2006	2005
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Property, vehicles, plant and equipment at cost	5 130 502	5 013 608
3. INVESTMENTS		
INVESTMENTS		
Commercial banks	5 075 299	4 587 729
Insurance companies	-	500 000
Censored	8 118	8 118
Total	5 083 417	5 095 847
ALLOCATED TO FUNDS		
Capital Reserve Fund	-	-
Fixed Property Fund	-	-
Housing Fund	-	-
Capital	5 083 417	5 095 847
	5 083 417	5 095 847
4. LOANS		
LOANS GIVEN AGAINST FIRST MORTGAGE BONDS:		
Housing Fund	1 899 235	1 770 252
	1 899 235	1 770 252
5. TRADE AND OTHER RECEIVABLES		
TRADE DEBTORS		
Services, rates and taxes	4 461 060	7 239 638
Provision for bad debts	(250 000)	(250 000)
	4 211 060	6 989 638
6. CAPITAL OUTLAY		
Loans redeemed	542 918	436 941
Revenue contributions	1 218 596	1 301 179
General Capital contributions	6 407 987	5 411 367
	8 169 501	7 149 487

ANNEXURE D

VILLAGE COUNCIL OF OTAVI

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

	2006 N\$	2005 N\$
7. FUNDS AND ACCOUNTS		
Fixed Property Fund	1 323 242	1 140 932
Capital Reserve Fund	800 048	686 256
Renewal Fund	763 617	637 229
Endowment Fund	30 675	25 413
Housing Fund	2 111 491	2 045 959
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(3 423 339)	1 136 405
	1 605 734	5 672 193
8. LONG-TERM LIABILITIES		
THE GOVERNMENT OF NAMIBIA		
Capital section	2 202 032	2 250 550
Housing Fund	34 824	34 824
Revenue	14 097	15 816
	2 250 953	2 301 190
Short-term portion included in current liabilities	-	-
	2 250 953	2 301 190
9. CASH AND BANK BALANCES		
Bank overdraft	(289 132)	(201 259)
Petty cash	806	125
	(288 326)	(201 134)
10. TRADE AND OTHER PAYABLES		
Trade payables	3 319 464	2 854 804
Provision for leave	456 502	456 502
Provision for audit fees	142 171	142 171
Consumer deposits	91 563	91 863
	4 009 700	3 545 340

ANNEXURE D

VILLAGE COUNCIL OF OTAVI

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

	<u>2006</u>	<u>2005</u>
	N\$	N\$
11. ADJUSTMENTS TO THE APPROPRIATION ACCOUNT		
Redemption income loan	-	1 577
Creditors over provided	-	(5 540)
Trade and other receivables	(2 824 534)	-
	<u>(2 824 534)</u>	<u>(3 963)</u>
12. CASH (UTILISED)/GENERATED BY OPERATIONS		
Net operating profit/(loss) before transfers	(1 735 210)	1 599 510
Adjustments for :		
- Adjustments to appropriation account	(2 824 534)	(3 963)
	<u>(4 559 744)</u>	<u>1 595 547</u>
OPERATING INCOME BEFORE CHANGES IN WORKING CAPITAL		
	<u>(4 559 744)</u>	<u>1 595 547</u>
CHANGES IN WORKING CAPITAL		
Trade and other receivables – (Increase)/decrease	2 778 578	(1 372 517)
Trade and other payables – Increase/(decrease)	464 360	(339 592)
	<u>3 242 938</u>	<u>(1 712 109)</u>
CASH (UTILISED)/GENERATED BY OPERATIONS	<u>(1 316 806)</u>	<u>(116 562)</u>