



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF RUACANA

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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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 Ruacana for the financial year ended 30 June 2011, 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 2012

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE TOWN COUNCIL OF RUACANA
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2011**

1. INTRODUCTION

The accounts of the Town Council of Ruacana for the year ended 30 June 2011 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 has been appointed in terms of Section 26(2) of the State Finance Act, 1991, to audit the accounts of the Town Council on behalf of the Auditor-General and under his supervision.

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

2. FINANCIAL STATEMENTS

The Town 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. The following annexures are also attached to this report:

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 Town 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 OBSERVATIONS AND COMMENTS

4.1 Property, plant and equipment

The auditors did not obtain sufficient audit evidence with regard to the existence, accuracy and valuation of property, plant and equipment at year-end as there was no supporting documents for the sampled additions amounting to N\$ 4 198 448. These assets/projects were still under construction and not yet completed as accounted for.

4.2 Inventories

The auditors did not obtain sufficient audit evidence with regard to the completeness, existence and valuation of inventories as the auditors could not verify the physical quantities at year-end because they did not attend the stock-taking.

4.3 Creditors

Commitments were treated as liabilities in the financial records. As a result the creditors at year-end are overstated by N\$ 3 971 004.

4.4 Build Together – Outstanding debtors

The outstanding Build Together debtors amounted to N\$ 389 519 as at year-end. The balance as per listing provided, amounts to N\$ 196 730. The difference of N\$ 192 789 could not be explained. The existence, completeness, accuracy and valuation of this balance could thus not be ascertained.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

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

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus 01/07/2010				1 266 845
General accounts				
Non-profitable services	9 597 422	10 059 699	(462 277)	
Self-supporting services	3 376 681	2 437 846	938 835	
Trade accounts				
Water	2 978 630	2 876 893	101 737	
Deficit for the year	15 952 733	15 374 438	578 295	578 295
Adjustments and appropriations (Note 8, Annexure D)				1 845 140 (645 960)
Accumulated surplus 30/06/2011				1 199 180

7. CURRENT BANK ACCOUNT

The unfavourable cash-book balance on the current bank account amounted to N\$ 729 570 (2010: N\$ 765 620). The financial statements however, reflects an unfavourable balance of N\$ 618 019. The difference of N\$ 111 551 could not be explained. Outstanding cheques amounted to N\$ 1 515 553 (2010: N\$ 642 739) which resulted in a favourable bank statement balance of N\$ 786 487 (2010: N\$ 122 881).

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June and the interest thereon were as follows:

Institution	2011		2010	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	6 749 593	219 038	1 597 721	56 438
	6 749 593	219 038	1 597 721	56 438
Distribution				
Salary Reserve Fund	229 345	-	183 429	-
Build Together Housing Fund	994 637	35 634	393 623	8 316
Revenue	5 525 611	183 404	1 020 669	48 122
	6 749 593	219 038	1 597 721	56 438

9. FUND ACCOUNTS

The position of internal Funds and Reserves is shown in note 6 at Annexure D.

10. TRADE ACCOUNTS

10.1 Operating results

The results for the financial year under review and the previous year were as follows:

	Electricity		Water	
	2011	2010	2011	2010
	N\$	N\$	N\$	N\$
Sales	-	-	1 263 475	1 076 680
Cost of bulk purchases	-	-	(1 084 011)	(810 528)
Gross profit	-	-	179 464	266 152
Other income/ (expenses)	-	-	(77 730)	(64 045)
NET PROFIT	-	-	101 734	202 107
Gross profit on bulk purchases	-	-	17%	33%
Net profit percentage on bulk purchases	-	-	9%	25%

Net profit decreased by N\$ 100 373. The Council should investigate reasons for the decrease and implement preventative measures.

10.2 Distribution losses were as follows:

Water and electricity distribution losses, in cubic metres (m³) and kilowatts, were as follows:

	Water		Electricity	
	2011	2010	2011	2010
Sold	m ³ 137 334	m ³ 103 862	-	-
Bought	151 609	115 306	-	-
Distribution loss	(14 275)	(11 444)	-	-
Loss as percentage of units bought	9.42%	9.92%	-	-

11. SELF-SUPPORTING EXTERNAL SERVICES

The net result of these services, compared with the previous year, is as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2011	2011	2011	2010
Sewerage	N\$	N\$	N\$	N\$
	3 376 681	2 437 846	938 835	(13 853)
	3 376 681	2 437 846	938 835	(13 853)

The above table shows that the self-supporting services indicate a major improvement compared to the loss in the prior year.

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed.

13. SUSPENSE ACCOUNTS

No suspense accounts are disclosed in the financial statements of the Council.

14. IRREGULARITIES AND LOSSES

14.1 No irregularities by employees were reported by the Council nor were any detected during the audit.

14.2 No losses were reported or detected during the audit.

15. CAPITAL PROJECTS

Capital expenditure for the 2011 financial year amounted to N\$ 10 790 880 (2010: N\$ 3 087 806) and comprises the following:

	Financed by		Total expenditure 2011	Total expenditure 2010
	Capital Account	Revenue account		
	N\$	N\$	N\$	N\$
General administration	912 213	463 673	1 375 886	126 527
Health services	-	5 574	5 574	2 700
Town planning	-	5 979 098	5 979 098	2 958 579
Sewerage	-	2 197 870	2 197 870	-
Water	-	1 232 452	1 232 452	-
	912 213	9 878 667	*10 790 880	3 087 806

* See paragraph 4.1

16. STUDY LOANS/BURSARIES

Bursaries amounting to N\$ 5 458 were granted to best performing learners from the surrounding schools to assist in buying school uniforms, books and stationeries during the year.

Bursaries amounting to N\$ 19 391 were granted to employees to further their studies.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

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

18. COMPENSATION PAYMENTS

Compensation payments amounting to N\$ 4 605 were made during the year.

19. VISITS TO FOREIGN COUNTRIES

No visits to foreign countries were undertaken.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

21. GIFTS AND DONATIONS BY THE LOCAL AUTHORITY

Council donated food items amounting to N\$ 4 191 to the Etunda Irrigation Scheme for flood relief.

22. TRANSFER OF PROPERTY TO/FROM THE TOWN COUNCIL

No property was transferred to/or from the Council.

23. DEBTORS/CREDITORS

23.1 Debtors on 30 June 2011 comprise the following:

	2011	2010
	N\$	N\$
Consumers	3 393 548	2 836 017
Inland Revenue	566 213	616 674
Temporary advance to Build Together buyers	886 379	61 599
Build Together Fund – Advances	2 457 181	2 624 518
Outstanding debtors	389 519	145 090
	7 692 840	6 283 898
Less: Provision for bad debts	(2 977 561)	(2 377 517)
	4 715 279	3 906 381

The provision for bad and doubtful debts is understated by a calculated amount of N\$ 105 518. Supporting documentation for debtors amounting to N\$ 192 789 could not be made available for verification.

The average collection period of trade receivables, before taking the provision for bad debts into account, is 318 days (2010: 347 days). The Council should attend to the arrears as a matter of urgency.

The Receiver of Revenue disallowed expenditure relating to the financial year. Furthermore, penalties and interest were charged and the above stated balance was not fully recovered subsequent to year-end. An amount of N\$ 105 615 was not recovered. However, a VAT amount of N\$ 35 573 was resubmitted in the subsequent returns due to it being a valid claimable VAT.

23.2 Creditors on 30 June 2011 comprise the following:

	2011	2010
	N\$	N\$
Trade payables	282 253	40 868
Provisions for audit fees	60 000	60 000
Consumer deposits	57 173	25 970
Other provisions	*3 971 004	-
Provision for regional council levies	72 278	32 500
Retention: Oshikoto Phase2	29 492	29 492
	4 472 200	188 830

* These provisions relates to commitments rather than liabilities as at year end. Creditors are thus overstated in the annual financial statements.

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 814 761 (2010: N\$ 717 531), of which an amount of N\$ 39 778 (2010: N\$ 11 709) was paid to the Regional Council.

The gazetted tariffs were as follows:

N\$ 0.0420 (2010: N\$ 0.0420) on site values per year and N\$ 0.0173 (2010: N\$0.0173) on improvements per year.

25. LOANS

25.1 There was no external loans outstanding at year-end.

25.2 Due to Town Council

	2011	2010
	N\$	N\$
Build together advances-Included in trade and other receivables	2 457 181	2 624 518

26. SALE OF ERVEN

The proceeds of erven and plots sold were:

	2011	2010
	N\$	N\$
Ervens sold 107 (2010 : 64)	1 070 281	585 758
Property (Houses) sold 35 (2010: quantity unavailable)	360 800	110 000

27. PROPERTY SOLD ON AN INSTALMENT BASIS

Ervens and houses sold on an instalment basis amounted to N\$ 1 070 281 and N\$ 60 000 respectively.

28. TARIFF ADJUSTMENTS

Tariff adjustments were applied in accordance with the relevant Official Government Notices except for the Site rentals which was not changed from the 2009/10 rate of N\$ 250 to the 2010 rate of N\$ 300.

29. APPROVALS

There was no over-expenditure recorded during the year.

30. STOCK AND EQUIPMENT

30.1 Motor vehicles

	Sedan vehicles		LDV and kombi's		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value	Number	Value
On hand 01/07/2010	1	N\$ 76 696	2	N\$ -	4	N\$ 1 076 954
Acquisitions	-	-	2	1 230 336	-	-
		76 696		1 230 336		1 076 954
Depreciation		(19 174)		(246 067)		(123 179)
On hand 30/06/2011	1	57 522	4	984 269	4	953 775

30.2 Inventory

Inventories amount to N\$ 170 947 (2010: N\$ 125 442). No stock listing and reconciliations could be availed to the auditors for verification. The auditors did not attend the stock count because they were not appointed at the time, and thus could not verify the completeness and existence of stocks at year-end.

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year.

32. GENERAL

The accounting and internal controls applied by the Council are satisfactory. Proper segregation of duties is hindered by the small number of staff employed.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 Informal queries addressed to the Chief Executive Officer, by way of a management letter, consisted of:

- Provision for audit fees
- Provision for bad debts
- Bank reconciliation
- VAT recoverability
- Creditors
- Expenses
- Insurance of assets

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Ruacana for the financial year ended 30 June 2011, summarized in Annexure 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:

- Property, plant and equipment is overstated by N\$ 4 198 448.
- Inventories to the value of N\$ 170 947 could not be verified because the auditors did not attend the stock count.
- Creditors were overstated by N\$ 3 971 004.
- An unexplained difference of N\$ 192 789 was found between the outstanding debtors listing of the Build Together Fund and the financial statements.

Except for the above mentioned issues, the financial statements fairly present the financial position of the Town Council as at 30 June 2011, and the results of its operations and cash flow for the year then ended and in the manner required by the Local Authorities Act, 1992, and the State Finance Act, 1991.

WINDHOEK, February 2012

**JUNIAS ETUNAKANDJEKE
AUDITOR-GENERAL**

TOWN COUNCIL OF RUACANA

BALANCE SHEET AS AT 30 JUNE 2011

	Notes	2011 N\$	2010 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	26 826 601	13 177 271
Investments	3	20 077 008	11 579 550
		6 749 593	1 597 721
Current assets			
Accounts receivable	4	4 886 387	4 031 833
Stock		4 715 279	3 906 381
Bank	5	170 947	125 441
		161	11
TOTAL ASSETS		31 712 988	17 209 104
EQUITY AND LIABILITIES			
Equity			
Funds and accounts	6.2	26 233 249	16 254 654
Accumulated surplus		4 957 061	3 408 259
Capital outlay	6.1	1 199 180	1 266 845
		20 077 008	11 579 550
Current liabilities			
Accounts payable	7	5 479 739	954 450
Bank overdraft	5	4 861 720	188 830
		618 019	765 620
TOTAL EQUITY AND LIABILITIES		31 712 988	17 209 104

TOWN COUNCIL OF RUACANA

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	<u>Note</u>	<u>2011</u>	<u>2010</u>
		N\$	N\$
INCOME		15 769 329	9 557 095
EXPENDITURE		<u>(15 374 438)</u>	<u>(9 426 638)</u>
OPERATING PROFIT FOR THE YEAR		394 891	130 457
Interest earned		183 404	48 122
NET PROFIT FOR THE YEAR		<u>578 295</u>	<u>178 579</u>
Add : Appropriation and adjustments	8	<u>(645 960)</u>	<u>(368 029)</u>
RETAINED LOSS FOR THE YEAR		(67 665)	(189 450)
30 June 2010		<u>1 266 845</u>	<u>1 456 295</u>
30 June 2011		<u>1 199 180</u>	<u>1 266 845</u>

TOWN COUNCIL OF RUACANA

CASHFLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 N\$	2010 N\$
Cash flow from operating activities			
Cash receipts from customers		15 769 329	9 557 095
Cash paid to suppliers		(12 201 912)	(10 932 731)
Cash generated from operations	9	3 567 417	(1 375 636)
Investment income		183 404	48 122
Net cash flow from operating activities		3 750 821	(1 327 514)
Cash flow from investing activities			
Net capital expenditure in property, plant and equipment		(8 497 458)	(1 834 984)
Increase in investment		(5 151 872)	(253 096)
Net cash flow from investing activities		(13 649 330)	(2 088 080)
Cash flow from financing activities			
Change in revenue funds		1 548 802	724 101
Increase in capital outlay		8 497 458	1 834 984
Net cash flow from financing activities		10 046 260	2 559 085
Net increase/(decrease) in cash and cash equivalents		147 751	(856 509)
Cash and cash equivalents at the beginning of the year		(765 609)	90 900
Cash and cash equivalents at the end of the year		(617 858)	(765 609)

RUACANA TOWN COUNCIL

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements set out in Annexures A, B and C, are prepared on the historical cost basis and incorporate the following principal accounting policies which are consistent with those applied in the prior year.

1.2 Property, plant and equipment

Property, plant and equipment acquired are stated at a cost or at valuation where assets have been acquired by grant or by donations, less depreciation written off over the expected useful lives as determined by the 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.

1.3 Fund accounts

The following Funds were maintained by the Council in terms of Sections 58(1) and 80(4) of the Local Authorities Act (Act 23 of 1992):

1.3.1 Build Together Fund

The purpose of the Build Together Fund is to provide for housing loans to the low income inhabitants. Income for these Funds is derived from interest earned on secured housing loans and investments.

	<u>2011</u>	<u>2010</u>
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Consists of :		
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment	<u>20 077 008</u>	<u>11 579 550</u>
Financed by :		
Capital assets	2 156 371	1 536 500
Revenue account	17 920 637	10 043 050
	<u>20 077 008</u>	<u>11 579 550</u>
3. INVESTMENTS		
Fixed deposits and money on call	<u>6 749 593</u>	<u>1 597 721</u>

RUACANA TOWN COUNCIL

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

	2011	2010
	N\$	N\$
4. TRADE AND OTHER RECEIVABLES		
Consumers	3 393 548	2 836 017
Inland Revenue - VAT	566 213	616 674
Temp Advances to Build Together buyers.	886 379	61 599
Outstanding debtors	389 519	145 090
Build Together Fund - Advances	2 457 181	2 624 518
	7 692 840	6 283 898
<i>Less :</i>		
Provision for doubtful debts	(2 977 561)	(2 377 517)
	4 715 279	3 906 380
5. CASH AND CASH BALANCES		
Bank and cash balances	161	11
Bank overdraft	(618 019)	(765 620)
	(617 858)	(765 609)
6. FUNDS AND ACCOUNTS		
6.1 Financing of capital		
Contributions ex revenue	17 920 637	10 043 050
Contributions revenue	2 156 371	1 536 500
	20 077 008	11 579 550
Accumulated Funds	1 199 180	1 266 845
6.2 Internal Funds		
Salary Reserve Fund	229 344	183 429
Build Together Fund	4 727 717	3 224 830
	4 957 061	3 408 259
	26 233 249	16 254 655

RUACANA TOWN COUNCIL

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

	2011	2010
	N\$	N\$
7. TRADE AND OTHER PAYABLES		
Trade payables	282 254	40 868
Provisions for audit fees	60 000	60 000
Consumer deposits	57 173	25 970
Outstanding debtors – Build Together	389 519	-
Provision for Regional Council levies	72 278	32 500
Retention : Oshikoto Phase2	29 492	29 492
Retention : Gwetu	587 179	-
Retention : Mavinga	1 155 631	-
Retention : Zone 4	986 035	-
Retention : Gwetu	1 242 159	-
	4 861 720	188 830
8. ADJUSTMENTS AND APPROPRIATIONS		
Adjustment: provision for bad debts & salary reserve	(645 960)	(368 029)
	(645 960)	(368 029)
9. CASH UTILISED IN OPERATIONS		
NET OPERATING PROFIT BEFORE TRANSFERS	394 891	130 457
Adjustments for:		
- Adjustments to appropriation account	(645 961)	(368 029)
Operating deficit before changes in working capital	(251 069)	(237 572)
Changes in working capital		
(Increase)/decrease in trade and other payables	4 672 890	(627 713)
(Increase) in inventories	(45 506)	(61 215)
(Increase) in trade and other receivables	(808 898)	(449 136)
	3 818 486	(1 138 064)
Cash generated by operations	3 567 417	(1 375 636)