



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF RUNDU
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 Town Council of Rundu 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, December 2009

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

1. INTRODUCTION

The accounts of the Town Council of Rundu 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 Town 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 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 **except that they were only submitted on 9 May 2009 instead of the 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

Management's responsibility for the financial statements

The Accounting Officer of the Municipality 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 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 judgement, 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 of 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

4.1 Distribution losses

As also reported in the previous years, the percentage distribution losses for water are unacceptable high. Council is busy implementing steps to control these losses. (See paragraph 10)

Water loss on cubic meters sold - 40,9% (2007: 39,7%)

4.2 Trade and other receivables

The average collection period of trade receivables, before taking the provision for bad debts into account, is 524,5 days (2007: 487,8 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 92,1 days (2007: 76,6 days). As previously reported, 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 approximately N\$ 4.2 million.

4.3 Inventories

The auditors did not observe the counting of the inventories on 30 June 2008, as they were not appointed at that stage. There were no alternative practical audit procedures that they could perform to confirm the existence of the inventories on hand at year-end.

4.4 Bank reconciliation

No proper bank reconciliation could be provided for audit purposes. The reconciled bank statement balance reflected a favourable balance of N\$ 60 227 whereas the bank statement reflected a favourable balance of N\$ 286 476. The difference of N\$ 226 249 was carried forward from the prior year.

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Town 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 deficit on 01/07/2007				(4 953 287)
General accounts				
- Rates and general	5 170 542	5 184 768	(14 226)	
- Non-profitable	7 622 681	4 939 347	2 683 334	
- Self-supporting	4 764 144	4 654 975	109 169	
Trade account				
- Water	14 459 372	10 090 477	4 368 895	
Profit for the year	32 016 739	24 869 567	7 147 172	7 147 172
				2 193 885
Adjustments and utilizations. (See note 11 annexure D)				(5 536 715)
Accumulated deficit on 30/06/2008				(3 342 830)

7. CURRENT BANK ACCOUNT

	2008	2007
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	(1 024 279)	278 550
Outstanding cheques - Stated as trade payables	1 255 743	-
Balance per balance sheet	231 464	278 550
Outstanding deposits	(171 237)	-
Unexplained difference	226 249	445 939
Balance as per bank statement	286 476	724 489

No proper bank reconciliation could be provided for audit purposes. The Council is urged to reconcile their bank account on a monthly basis.

8. INVESTMENTS

The investments as at 30 June were as follows:

Institution	2008	2007
	N\$	N\$
Commercial banks	4 059 434	3 347 689
Insurance companies	-	7 927
Totals	4 059 434	3 355 616

The investments were allocated as follows:

Allocation	2008	2007
	N\$	N\$
Build Together Fund	3 792 447	2 775 409
Revenue	266 987	580 207
	4 059 434	3 355 616

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in note 8 in Annexure D.

10. TRADE ACCOUNT

10.1 The results of water operations were as follows:

	2008	2007
	N\$	N\$
Sales	13 956 914	13 454 218
Cost of bulk purchases	(8 014 231)	(11 419 145)
Gross profit	5 942 683	2 035 073
Net expenditure	(1 573 788)	(925 093)
Net profit	4 368 895	1 109 980
Gross profit percentages on bulk purchases	42.58%	15.1%
Net profit percentage on bulk purchases	31.3%	8.3%

10.2 Water distribution results, in cubic meters

	2008	2007
	Units	Units
Sales	1 344 310	1 877 850
Purchases	2 276 031	3 115 835
Gross loss	(931 721)	(1 237 985)
Percentage loss in units	(40.9%)	(39.7%)

Council explained that the losses are due to the infrastructure of the distribution system, which in some places consists of three lines. Some part of the loss is due to unauthorised connections and the larger part is due to the age of the distribution system. Council is now busy introducing measures to determine where the losses occur by introducing meters for areas, to reconcile sales to those usages and will thereafter put in place remedial actions at those places.

11. SELF-SUPPORTING SERVICES

11.1 The result for the year under review is as follows:

	Income 2008	Expenses 2008	Surplus/ (deficit) 2008	Surplus/ (deficit) 2007
	N\$	N\$	N\$	N\$
Housing	375 262	48 508	326 754	166 709
Open markets	274 574	1 267 053	(992 479)	(738 143)
Refuse removal	1 928 500	1 859 393	69 107	141 444
Sewerage	1 685 267	794 105	891 162	994 093
Licenses and vehicle registration	500 540	685 915	(185 375)	397 689
	4 764 143	4 654 974	109 169	961 792

Apart from the open markets and vehicle registrations, the Village Council has turned the loss making operations to profit centres.

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No such expenses were revealed during the audit.

13. SUSPENSE ACCOUNTS

Suspense accounts are cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

No irregularities or losses were revealed during the audit.

15. CAPITAL PROJECTS

Nature of projects/acquisitions	Financed by		Total expenditure 2007/2008	Total expenditure 2006/2007
	Revenue account	External loans		
	N\$	N\$	N\$	N\$
Streets, stormwater and sidewalks	1 015 273	-	1 015 273	615 089
Town engineer	21 622	-	21 622	29 764
Town planning	628 043	-	628 043	84 877
Town secretary	-	-	-	33 085
Strategic executive finance	86 854	-	86 854	85 954
Civic buildings	-	-	-	62 703
Open markets	3 601	-	3 601	1 964
HIV - Aids	-	-	-	10 425
Mayoral expenses	1 011	-	1 011	-
Town clerk	28 469	-	28 469	-
Workshop	6 204	-	6 204	-
Sewerage	2 179	-	2 179	-
	1 793 256	-	1 793 256	923 861

16. BURSARIES

There were no such expenses.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID.

There were no such expenses.

18. COMPENSATION PAYMENTS

There were no such expenses.

19. VISITS TO FOREIGN COUNTRIES

No visits to foreign countries took place.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

There were no claims against the local authority.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

There were no such expenses.

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	36 362 747	29 924 703
Other receivables	2 457 811	3 441 131
Suspense accounts	34 031	52 194
	38 854 589	33 418 028
Provision for bad debts	(29 990 551)	(25 223 271)
Total	8 864 038	8 194 757

The average collection period of trade receivables, before taking the provision for bad debts into account, is 524,4 days (2007: 487,8 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 92,1 days (2007: 76,6 days). As previously reported, 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 approximately N\$ 4.2 million.

23.2 Trade and other payables at 30 June were:

	2008	2007
	N\$	N\$
Trade payables	8 094 768	11 714 241
Suspense account	2 596 610	250
Provisions	1 163 293	994 038
Consumer deposits	12 258	11 679
Totals	11 866 929	12 720 208

Included in trade payables is an amount of N\$ 1 255 743 that represents outstanding cheques on the bank reconciliation.

24. ASSESSMENT RATES

	2008	2007
	N\$	N\$
The proceeds from assessment rates were	3 275 905	2 415 173
Tariffs per N\$1 valuation per annum		
- Residential and Church properties		
- Land	0.0303	0.0303
- Improvements	0.0047	0.0047
Tariffs per N\$1 valuation per annum		
- Government/Institutional properties		
- Land	0.0303	0.0303
- Improvements	0.0047	0.0047
Tariffs per N\$1 valuation per annum		
- Commercial/Industrial/Business		
- Land	0.0369	0.0369
- Improvements	0.0061	0.0061
Tariffs per N\$1 valuation per annum		
- Land zoned for Agricultural use		
- Land	0.0182	0.0182
- Improvements	0.2310	0.2310

25. LOANS

25.1 External loans

	2008	2007
	N\$	N\$
Commercial Bank	107 612	238 373

Redemption payments are up to date. Loan assets were capitalised and no loan assets have been disposed of before the loan was redeemed. Loan monies were used for the purposes they were obtained for.

25.2 Due to the Town Council

	2008	2007
	N\$	N\$
Build together advances - Included in trade and other receivables	2 121 464	2 416 517

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\$ 2 477 089 (2007: N\$ 851 229).

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:

	Sedan		LDV's, 4x4's and Combi's		Other	
	Number	Value	Number	Value	Number	Value
		N\$		N\$		N\$
Balance - 01/07/07	1	1	9	454 529	15	125 061
Additions	-	-	-	-	-	-
Sub-total	1	1	9	454 529	15	125 061
Depreciation	-	-	-	(36 264)	-	(125 046)
Balance - 30/06/08	1	1	9	418 265	15	15

No records were kept regarding fuel used and kilometres travelled. Council, in future, should keep logbooks for each vehicle that can provide this information.

30.2 Inventory

Inventory on hand amounted to N\$ 1 481 711 at 30 June 2008 (2007: N\$ 1 129 924).

31. SPECIAL INVESTIGATIONS

All special investigations were completed and reported upon.

32. GENERAL

There is a sufficient system of internal control at the Town 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 Informal queries

None

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Rundu 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.

The opinion has been qualified due to the following reasons:

- The provision for bad debts is understated by approximately N\$ 4.2 million.
- The value of inventories could not be confirmed.
- The actual bank balance differs with N\$ 226 249 from the reconciled balance.

Except for the above-mentioned issues, in my opinion, the financial statements fairly present the financial position of the Town 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, December 2009

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

TOWN COUNCIL OF RUNDU
BALANCE SHEET AT 30 JUNE

	Note	2008	2007
		N\$	N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	27 964 630	27 848 485
Investments	3	23 905 196	24 492 869
		4 059 434	3 355 616
Current assets			
Trade and other receivables	4	10 577 213	9 603 231
Inventories	5	8 864 038	8 194 757
Bank and cash	6	1 481 711	1 129 924
		231 464	278 550
TOTAL ASSETS		38 541 843	37 451 716
FUNDS AND LIABILITIES			
Funds and reserves			
Capital outlay	7	26 567 302	24 493 135
Funds and accounts	8	23 797 584	24 254 496
		2 769 718	238 639
Non-current liabilities			
Long-term liabilities	9	107 612	238 373
Current liabilities			
Trade and other payables	10	11 866 929	12 720 208
TOTAL FUNDS AND LIABILITIES		38 541 843	37 451 716

TOWN COUNCIL OF RUNDU

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2008</u>	<u>2007</u>
		N\$	N\$
INCOME		31 951 070	27 858 641
EXPENDITURE		<u>(24 869 566)</u>	<u>(25 065 992)</u>
NET OPERATING PROFIT		7 081 504	2 792 649
INTEREST EARNED FOR REVENUE ACCOUNTS		<u>65 668</u>	<u>135 663</u>
NET PROFIT FOR THE YEAR		7 147 172	2 928 312
APPROPRIATION ACCOUNT	11	<u>(5 536 715)</u>	<u>(6 543 965)</u>
		1 610 457	(3 615 653)
REVENUE ACCOUNT - Beginning of the year		<u>(4 953 287)</u>	<u>(1 337 634)</u>
REVENUE ACCOUNT - End of the year		<u>(3 342 830)</u>	<u>(4 953 287)</u>

TOWN COUNCIL OF RUNDU

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2008 N\$	2007 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		31 951 070	27 858 641
Cash paid to suppliers		<u>(32 280 628)</u>	<u>(30 059 128)</u>
Cash utilised by operations	12	(329 558)	(2 200 487)
Investment income		65 668	135 663
Increase in Fund accounts		920 622	276 023
Decrease in capital outlay		<u>(456 912)</u>	<u>(1 267 079)</u>
Net cash flow from operating activities		<u>199 820</u>	<u>(3 055 880)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital expenditure		587 673	1 366 417
(Increase)/decrease in investments		<u>(703 818)</u>	<u>1 817 716</u>
		<u>(116 145)</u>	<u>3 184 133</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Decrease in long-term loans		<u>(130 761)</u>	<u>(99 338)</u>
		<u>(130 761)</u>	<u>(99 338)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(47 086)	28 915
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR		<u>278 550</u>	<u>249 635</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	6	<u>231 464</u>	<u>278 550</u>

TOWN COUNCIL OF RUNDU

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 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, grants from Government and interest on investments and loans.

	<u>2008</u>	<u>2007</u>
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Loan assets	508 856	508 856
Income assets	4 262 535	3 010 385
General capital assets	19 133 805	20 973 628
	<hr/>	<hr/>
Total	23 905 196	24 492 869
	<hr/>	<hr/>
3. INVESTMENTS		
INVESTMENTS		
Commercial banks	4 059 434	3 347 689
Insurance companies	-	7 927
	<hr/>	<hr/>
Total	4 059 434	3 355 616
	<hr/>	<hr/>
ALLOCATED AS FOLLOWS		
Build Together Fund	3 792 447	2 775 409
Revenue	266 987	580 207
	<hr/>	<hr/>
	4 059 434	3 355 616
	<hr/>	<hr/>

TOWN COUNCIL OF RUNDU

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

	<u>2008</u>	<u>2007</u>
	N\$	N\$
4. TRADE AND OTHER RECEIVABLES		
Services, rates and taxes	36 362 747	29 924 703
Other receivables	2 457 811	3 441 131
Suspense accounts	34 031	52 194
	<u>38 854 589</u>	<u>33 418 028</u>
Provision for bad debts	<u>(29 990 551)</u>	<u>(25 223 271)</u>
	<u>8 864 038</u>	<u>8 194 757</u>
5. INVENTORIES		
Stores	<u>1 481 711</u>	<u>1 129 924</u>
6. CASH AND BANK BALANCES		
Current account	<u>231 464</u>	<u>278 550</u>
7. CAPITAL OUTLAY		
Loans redeemed	401 244	270 483
Revenue contributions	4 262 535	3 010 385
General Capital contributions	19 133 805	20 973 628
	<u>23 797 584</u>	<u>24 254 496</u>
8. FUNDS AND ACCOUNTS		
Build Together Fund	6 112 548	5 191 926
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	<u>(3 342 830)</u>	<u>(4 953 287)</u>
	<u>2 769 718</u>	<u>238 639</u>
9. LONG-TERM LIABILITIES		
Commercial Bank	<u>107 612</u>	<u>238 373</u>

TOWN COUNCIL OF RUNDU

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

	2008	2007
	N\$	N\$
10. TRADE AND OTHER PAYABLES		
Trade payables	8 094 768	11 714 241
Suspense account	2 596 610	250
Provisions	1 163 293	994 038
Consumer deposits	12 258	11 679
	11 866 929	12 720 208
11. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Accounting fees prior year	-	(59 986)
Correction of debtors	(396 431)	(535 742)
Correction of opening balances	51 011	-
Inventory adjustment	-	63 746
Previous year correction of journals	(424 014)	-
Provision for audit fees correction	-	155 715
Provision for bad debts	(4 767 281)	(6 366 650)
Stale cheques reversed	-	198 952
	(5 536 715)	(6 543 965)
12. CASH UTILISED BY OPERATIONS		
Net operating profit before transfers	7 147 172	2 928 312
Adjustments for:		
- Adjustments to appropriation account	(5 536 715)	(6 543 965)
- Investment income	(65 668)	(135 663)
OPERATING INCOME BEFORE CHANGES IN WORKING CAPITAL	1 544 789	(3 751 316)
CHANGES IN WORKING CAPITAL		
(Increase)/decrease in trade and other receivables	(669 281)	2 594 795
Increase in inventories	(351 787)	(654 945)
Decrease in trade and other payables	(853 279)	(389 021)
	(1 874 347)	1 550 829
CASH UTILISED BY OPERATIONS	(329 558)	(2 200 487)