



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF RUNDU

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 Rundu 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, June 2012

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

1. INTRODUCTION

The accounts of the Town Council of Rundu 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, (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 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, **except that they were only submitted on 05 December 2011, instead of three months after the 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, Annexure A, is a true reflection of the originals.

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 based 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 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 auditors' judgement, including on 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 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 control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as overall presentation of the financial statements.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Appropriation Account

According to the balance sheet submitted by the Council, the accumulated deficit amounts to (N\$ 2 141 437) but according to the computerized system the deficit is only (N\$ 576 353). This resulted in a material difference of N\$ 1 565 084. Council should in future, reconcile their financial statements with the computerized system before submitting them to the Office of the Auditor-General.

4.2 Recoverability of debtors

A provision for bad and doubtful debts of N\$ 47 737 759 (2012: N\$ 42 115 820) was made by the Town Council. According to the auditors review and considering slow repayment by consumers, they concluded that the provision is underprovided by N\$ 11 261 518 for 2011 (2010: N\$ 6 421 566).

Furthermore, outstanding debt at 120 days and more for the financial year represents 110% (2010: 103%) of the total debts of the Council.

The magnitude of this under-provision, highlight serious concerns on the debt collection controls and measures over these assets of the Council. As a result of the above the current valuation of accounts receivables are materially misstated in the annual financial statements.

An immaterial difference of N\$ 107 805 was found compared to the annual financial statements and debtors age analysis for the year ended 30 June 2011.

4.3 Build Together Fund

Special Funds such as the Build Together Programme are administered by the Town Council on behalf of the relevant line Ministry and it should be considered significant if weaknesses are identified with regards to administration thereof.

This Fund has its own peculiar specifications with respect to the way in which the Fund is to be managed and utilized as stipulated by the relevant Ministry. The following shortcomings were detected by the auditors:

- * During the audit of the Build Together Fund, it was found that no proper control was exercised, in terms of monthly reconciliations by the Town Council. A material difference of N\$ 1 601 944 was found compared to the balance in the annual financial statements and the computerized system report.
- * The Town Council could not provide the auditors with three (3) customer files during the period of the audit. Numerous customer loan balances selected for testing did not agree to the approved loan balances as per agreements in the customer personal files and the payments are not updated nor followed up by the Town Council. The account of a certain resident indicates a zero balance on the computerized system while he still has an outstanding balance.
- * The Revolving Fund of Sauyema was also combined with Build Together Fund for the year under review.

4.4 Investments

During the audit the auditors found that the interest of N\$ 132 663 on the investment account was not accounted for in the cash-book for the year under review.

4.5 Inventory

No stock sheets were provided by the Town Council and costing prices were not updated on the finstel system. No proper stock control system is in place, which may have a negative effect on the long-term operation of the Town Council for the year ended 30 June 2011.

The auditors did not observe the counting of stock on 30 June 2011, as they were not appointed at that time. There were no alternative practical audit procedures that the auditors could perform to confirm the existence and value of stock on hand at year-end.

4.6 Consumer deposits

No list for consumer deposits could be provided to the auditors. The consumer deposits are clearly inadequate.

	2011	2010
	N\$	N\$
Debt outstanding	53 359 698	47 193 913
Consumer deposits	12 830	12 251
Percentage of deposits against outstanding debts	0.02%	0.03%

4.7 Source documents

Numerous important source documents for expenditures incurred by the Town Council could not be submitted at the time of the audit. This prevented the auditors from performing the required audit procedures to ascertain the accuracy, measurement and existence of expenditure incurred.

There were wrong allocations posted by the Council in the cash-book and no VAT was extracted from numerous invoices for the year under review.

No insurance contract could be provided by the Town Council and they only paid on quotations received for the year under review.

4.8 Fixed assets

The Council's current fixed asset register was maintained during the year but a material difference of N\$ 3 304 267 was found, due to the depreciation that was calculated on land and buildings. No policy was provided why they have depreciated the land and buildings for the year under review.

The fixed assets additions amounted to N\$ 69 565 of prior year was still included in the current years' fixed assets register as such.

No updating was done on the fixed asset register and therefore a difference of N\$ 151 730 occurred between the capital statement and the register.

Numerous important source documents of the asset additions could not be found and payments were done on quotations requested and received. Invoices and assets recorded in the fixed asset register were not correctly classified.

4.9 Value-Added-Tax

The annual financial statements of the Town Council portray a VAT receivable balance of N\$ 1 919 036 from Inland Revenue. A material difference of N\$ 2 135 624 was found on the auditors' reconciliation for the year under review because according to calculations, the Receiver of Revenue owes the Council an amount of N\$ 4 054 660.

A VAT statement of account dated 30/06/2011 revealed a credit balance of N\$ 2 893 compared to the annual financial statements balance of N\$ 1 919 036.

The auditors' recalculation revealed a balance of N\$ 849 133 receivable from the Inland Revenue, due to the fact that a material difference of N\$ 1 069 903 was found compared to the annual financial statements balance of N\$ 1 919 036 for the year under review.

The current receivable might not even be a true reflection due to the statements from Inland Revenue. The Council is urged to reconcile their financial statements with the Receiver of Revenue at least every second month.

4.10 Trade and other payables

4.10.1 Creditors

Although a breakdown of the accrued creditors were provided and the auditors selected a sample for testing and based on worked done and evidence obtained, the auditors could not satisfy themselves to the accuracy and completeness of the creditors, due to VAT which amounted to N\$ 79 911 that was included in the accrued balances for the year under review.

4.10.2 Provision for audit fees

The auditors' recalculated provision for audit fees concluded that it is overstated by N\$ 46 268.

4.10.3 Provision for Leave Pay

The staff leave days accumulated to more than 60 days and no Human Resource policy was provided by the Council to determine how many days should the staff take over to next year. Due to the above-mentioned it was proven in the past that fraud risk increases significantly under circumstances when employees are not encourage to take leave appropriately or where they are unwilling to take leave.

While the Council personnel rules states that only leave payouts up to this threshold would be disbursed but the practice of taking leave should be encouraged in line with the stipulation of Section 23(5) of the Labour Act, 2007 (Act 11 of 2007).

4.10.4 Provision for Regional Council

No provision for Regional Council payments or any other supporting documents were provided by the Town Council, due to the fact that the auditors could not test and satisfy themselves to the closing balance of N\$ 120 422 stated in the annual financial statements, as the balance remained constant since prior year.

4.11 Payroll

Due to the lack of explanation a material difference of N\$ 1 080 117 was found on the auditors' reconciliation payroll compared to the earnings reports for the year under review.

No employment contracts were found in the personal files of the sample employees selected for testing during the time of audit.

4.12 Bank reconciliation

The bank reconciliations were performed on excel and the auditors could not satisfy themselves to the completeness and accuracy of the bank recon due to the unexplained net difference of N\$ 83 777 and the differences were posted to the suspense account in the balance sheet for the year under review.

4.13 Recognition of accounts receivables and services income

4.13.1 Surcharges royalties

A material difference of N\$ 980 556 was found during the auditors' reconciliation and it could be due to the outstanding months of July 2010, December 2010, May 2011 and June 2011 for the year under review.

4.13.2 Assessment rates

The Erf no: 447 of the Government of Namibia was not recorded on the system or registered and the Omashare River Lodge was charged on GRN/Institutional rates instead of the Commercial/Industrial/Business rates for the year under review.

4.13.3 Road Fund repayment

During the audit the auditors detected a material difference of N\$ 1 652 995 related to claims from the Road Fund Administration that was paid directly to the construction company account and these expenses were not accounted for in the books of the Council for the year under review.

4.13.4 Permission to Occupy

During the audit the auditors detected a difference of N\$ 511 263 and no explanation was provided or any supporting evidence was provided to substantiate the difference for the year under review.

4.13.5 Sale of erven

During the audit the auditors detected a difference of N\$ 6 593 202, due to payments that was processed on the system and no evidence of the journal entries were found of these difference, it could be that the balance reflected in the annual financial statements consists of the old payments and direct payments that were posted to this account for the year under review.

4.13.6 House rental

No customer list for rental houses could be provided by the Town Council and no explanation was given of the transactions of direct levies posted in the ledger for the year under review.

4.13.7 Open market

No customer list or breakdown could be provided by the Town Council and no explanation was given of the sample selected for testing of the receipts posted in the ledger for the year under review.

4.13.8 NATIS

During the audit the auditors detected a material difference of N\$ 172 901, due to the fact that VAT was inclusive when processing the cash-book.

4.13.9 Business registration certificate

No customer list or breakdown could be provided by the Town Council and no explanation was given of the sample selected for testing of the receipts posted in the ledger for the year under review.

4.13.10 Sewerage and sanitation

Most of the customers were charged on the wrong tariffs rates which do not agree to the Government Gazette for the year under review.

4.13.11 Water

Kazumbo FK, Maria Pinto and Rundu State Hospital meter readings does not agree to the meter readings recorded on the finstel system.

4.14 Suspense accounts

4.14.1 Bank fault on Regional Council

As reported in prior year, these are monies transferred from the Build Together account to Okavango Regional Council but no decision or any agreement was taken by both parties either to pay back the monies to the Town Council for the year under review.

A difference of N\$ 35 660 was found between the amount transferred from the bank statement and the annual financial statements for the year under review.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

	Revenue	Expenditure	Surplus/ (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus as at 01/07/2010				2 634 072
General Services				
Rate and general	7 810 400	11 436 210	(3 625 810)	
Non-profitable	13 096 745	8 352 437	4 744 308	
Self-supporting	6 028 574	9 916 373	(3 887 799)	
Trade Accounts				
Water	18 207 213	17 107 430	1 099 783	
	45 142 932	46 812 450	(1 669 518)	(1 669 518)
Surplus for the year (Adjustments and utilizations detailed in Note 9 of the financial statements.)				964 554 (3 105 991)
Accumulated deficit 30/06/2011				(2 141 437)

7. CURRENT BANK ACCOUNT

The balance sheet reflected an unfavourable cash-book balance for 2011: N\$ 904 479 (2010: N\$ 289 282 - unfavourable), which is also the reconciled balance. The bank statements reflected a favourable balance for 2011: N\$ 883 880 (2010: N\$ 2 476 958 - favourable), mainly due to outstanding cheques at year end.

	2011	2010
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	(904 479)	(289 282)
Outstanding cheques - Stated as trade payables	-	586 679
Balance as per balance sheet	(904 479)	297 397
Debit orders and bank charges on bank statements not in cash-book	83 777	(46 505)
Unexplained net difference and adjustments on the reconciliation	1 704 582	2 226 065
Balance as per bank statements	883 880	2 476 957

8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June the investments were as follows:

	2011	2010
	N\$	N\$
Investments were allocated to the following Funds:		
Bank	1 395 691	4 106 807
	1 395 691	4 106 807
Investment interest for 2011: N\$ 21 987 (2010: N\$ 30 615) were earned for the year.		

	Investment	Interest	Investment
	2011	2011	2010
	N\$	N\$	N\$
Housing Fund (Built Together Fund)	1 395 691	-	3 177 247
Revenue	-	21 987	929 560
Total	1 395 691	21 987	4 106 807

9. FUND ACCOUNTS

The position of the Fund accounts at the end of the year is shown in Note 2 of Annexure D.

10. TRADE ACCOUNTS

10.1 The results of operations of water were as follows:

	2011	2010
	N\$	N\$
Sales	17 664 637	16 676 037
Cost of bulk purchases	(14 119 417)	(12 003 094)
Gross profit	3 545 220	4 672 943
Expenses (net)	(2 445 437)	(2 881 322)
Net surplus	1 099 783	1 791 621
Gross profit % on cost of sales	25.1%	38.9%
Net profit % on cost of sales	7.8%	14.9%

10.2 The distribution losses for water could not be determined due to the inadequate record keeping.

11. SELF-SUPPORTING SERVICES

The net results of self supporting services were as follows:

	Income 2011	Expenses 2011	Surplus/ (Loss) 2011	Surplus/ (Loss) 2010
	N\$	N\$	N\$	N\$
Housing	394 835	217 548	177 287	24 963
Open markets	176 486	1 424 482	(1 247 997)	(1 013 954)
Licenses and vehicle registration	759 129	986 500	(227 371)	35 574
Cleansing services	2 655 973	6 017 865	(3 361 891)	(1 161 428)
Sewerage	2 042 151	1 269 978	772 173	695 743
Total	6 028 574	9 916 373	(3 887 799)	(1 419 102)

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorized and avoidable expenditure was revealed during the audit.

13. SUSPENSE ACCOUNTS

There were three suspense accounts with a total balance of 2011: N\$ 1 841 434 for 2011 (2010: N\$ 3 573 300) accounted for in suspense accounts during the year under review.

14. IRREGULARITIES AND LOSSES

No irregularities or losses were revealed by the audit for the year under review.

15. CAPITAL PROJECTS

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

	Financed by	Total expenditure 2011	Total expenditure 2010
	Revenue account		
	N\$	N\$	N\$
Protective services	24 147	24 147	-
Town engineer	122 392	122 392	313 812
Town planning	148 730	148 730	1 003 306
Town secretary	16 513	16 513	13 780
Strategic executive finance	407 535	407 535	-
Civic buildings	483 603	483 603	48 044
Open markets	39 105	39 105	7 670
Mayoral expenses	28 691	28 691	195 823
Town clerk	13 475	13 475	19 165
Parks and cemetery	243 478	243 478	-
Workshop	13 891	13 891	-
Sewerage	270 018	270 018	-
Community services	5 000	5 000	1 410
Refuse removal	2 097 761	2 097 761	10 937
Streets, storm water and sidewalks	2 262 287	2 262 287	1 532 108
Council's expenses	10 979	10 979	283 300
Water	42 998	42 998	67 588
Total	6 230 603	6 230 603	3 496 943

15.1 The income statements reflect an amount of N\$ 6 230 603. The capital statement reflects an amount of N\$ 9 541 506 for capital expenditure, which N\$ 3 310 902 more than the contribution from income. The difference could not be explained by the Council.

16. BURSARIES

No bursaries were granted during the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

The audit revealed that there were no contributions, grants or financial aid received from the Government

18. COMPENSATION PAYMENTS

Employees compensation amounted to N\$ 65 719 for 2011 (2010: N\$ 43 221) for the year under review.

19. VISITS TO FOREIGN COUNTRIES

No foreign visits were undertaken during the year under review (2010: N\$ 83 968).

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims were made against the Local Authority during the year under review.

21. GIFTS / DONATIONS BY/TO THE LOCAL AUTHORITY

A donation to the value of N\$ 13 727 were made (2010: N\$ 18 014) for the year under review.

22. TRANSFER OF PROPERTY TO / FROM GOVERNMENT

No properties were transferred from the Ministry of Local Government and Housing for the year under review.

23. DEBTORS AND CREDITORS

23.1 Debtors at 30 June were:

	2011	2010
	N\$	N\$
Services, rates and taxes	53 359 698	47 193 913
Other receivables	3 959 096	5 013 443
Suspense accounts	1 841 434	3 573 300
	59 160 228	55 780 656
Less: Provision for bad debts	(47 737 760)	(42 115 820)
Total	11 422 468	13 664 836

23.2 Creditors at 30 June were:

	2011	2010
	N\$	N\$
Trade payables	8 013 203	6 092 181
Provisions	2 333 012	2 380 872
Consumer deposits	12 830	12 250
Prepaid received in advance - cashier error	4 835	-
Income project nam 343	-	3 294 630
Total	10 363 880	11 779 933

24. ASSESSMENT RATES

	2011	2010
	N\$	N\$
Net proceeds from assessment rates were	6 475 922	6 540 057
Tariffs per N\$ 1 valuation per annum - Business Valuation per annum		
- Land	0.0369	0.0369
- Improvements	0.0061	0.0061
Tariffs per N\$ 1 valuation per annum - Residential Valuation per annum		
- Land	0.0303	0.0303
- Improvements	0.0047	0.0047

25. LOANS

25.1 External loans

No external loans were outstanding for the current year (2010: N\$ nil).

25.2 Internal loans

No internal loans were advanced or received during the year under review.

25.3 Housing loans

The amount advanced in favour of housing loans under the Build Together programmed are reflected at N\$ 1 831 384 for 2011 (2010: N\$ 1 929 485).

26. SALE OF ERVEN

The income credited to the income statement amounted to N\$ 3 423 213 for the year under review (2010: N\$ 5 332 150).

27. PROPERTY SOLD ON INSTALMENT BASIS

No details of houses that were sold on an instalment basis during the years under review could be provided.

28. TARIFF ADJUSTMENTS

All tariff adjustments were in accordance with the relevant Official Government Gazette, although some customers rates were not appropriately adjusted.

29. APPROVALS

29.1 Excess on approved budget

All budget excesses were approved.

30. STOCK AND EQUIPMENT

30.1 Motor vehicles and values thereof:

No proper record was kept for the vehicles sold and disposal for the year and to determine fuel consumption during the year under review.

31. SPECIAL INVESTIGATIONS

The auditors are not aware of any special investigation concluded on the affairs of the Council.

32. GENERAL

32.1 Internal controls

The accounting and internal controls were found to be inadequate. Proper segregation of duties is not feasible due to the small number of staff employed. While increased management involvement reduces risks, the risk arises that management and Council override existing controls, a potentially dangerous practice, which the Council should vigilantly guard against.

33. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report.

Informal queries addressed to the Town Clerk consist of:

- * Special funds and capital outlay.
- * Lack of supporting documentation.
- * Liabilities.
- * Inadequate inventory control.
- * Fixed assets.
- * Control and accounting of housing funds.
- * Accounts receivable.
- * Unorganised filing and recordkeeping system.
- * Payroll.
- * Inadequate consumer deposits.
- * Cash and bank.
- * Long overdue debtors' accounts and monies long outstanding becoming doubtful.
- * Revenue/income services.
- * Expenditure.
- * Annual financial statements do not agree with the computerized system.

34. DISCLAIMED AUDIT OPINION

The accounts of the Town Council of Rundu for the financial year ended 30 June 2011, summarized in Annexure A to D, were audited by me in terms of provisions of Section 85 of the Local Authorities Act, 1992 read with Section 25(1) of the State Finance Act, 1991.

I am unable to express an opinion on the financial statements due to the following reasons:

- * The provision for bad and doubtful debts is under stated by N\$ 11 261 518.
- * An immaterial difference of N\$ 107 805 was found when comparing to the annual financial statements and debtors age analysis.

- * During the audit of the Build Together Fund it was discovered that no proper control was exercised, in terms of monthly reconciliations between the financial statements and the computerized system of the Town Council. A material difference of N\$ 1 601 944 was found when comparing the balance in the annual financial statements and the Finstel report for the year under review.
- * During the audit it was discovered that the interest of N\$ 132 663 on the investment account was not accounted for.
- * The Council's current fixed asset register was maintained during the year, but a material difference of N\$ 3 304 267 was found, due to the depreciation that was calculated on land and buildings. No policy could be provided why the Council depreciated the land and buildings.
- * The fixed assets additions amounted to N\$ 69 565 of prior year was still included as additions in the current year's fixed assets register. The fixed asset register and the capital statement of the Council differs with N\$ 151 730.
- * The annual financial statements of the Town Council portray a VAT receivable balance of N\$ 1 919 036 from Inland Revenue. A material difference of N\$ 2 135 624 was found on when the auditors reconciled the account for the year under review because they are of the opinion that the amount should be N\$ 4 054 660.
- * A VAT statement dated 30 June 2011 revealed a credit balance of N\$ 2 893 compared to the annual financial statements' balance of N\$ 1 919 036.
- * The auditors recalculation related to VAT revealed a balance of N\$ 849 133 receivable from the Inland Revenue, while the annual financial statements discloses a balance of N\$ 1 919 036.
- * The auditors recalculation of the provision for audit fees revealed that the provision is overstated with N\$ 46 268.
- * No provision was made for the 5% assessment rate collected that must be paid to the Regional Council nor were any other supporting documents provided by the Town Council. Due to the afore-mentioned the auditors could not test and satisfy themselves to the correctness of the closing balance of N\$ 120 422 as disclosed in the financial statements of the Council.
- * The auditors detected a material difference of N\$ 1 080 117 when reconciling the payroll to the earnings reports for year under review.
- * A material difference of N\$ 980 556 related to surcharges on royalties was found by the auditors.
- * During the audit the auditors detected a material difference of N\$ 1 652 995 related to claims from Road Fund Administration that was paid directly to a construction company but these monies were not accounted for in the accounts of the Council.
- * During the audit the auditors detected a difference of N\$ 511 263 related to permission to occupy but no explanation could be provided by the Council nor could they provide supporting evidence to substantiate the difference.
- * During the audit the auditors detected a difference of N\$ 6 593 202 related to sale of erven due to payments that was processed on the system but no journal entries were found that relates to the difference.

- * During the audit the auditors detected a material difference of N\$ 172 901 related to NATIS receipts due to the fact that VAT was inclusive when the cash-book was processed.
- * The income statements reflect an amount of N\$ 6 230 604 related to capital expenditures. The capital statement however reflects an amount of N\$ 9 541 506 which N\$ 3 310 902 is more than the contribution from income. The difference could not be explained by the Council. (See paragraph 15.1)
- * According to the balance sheet submitted by the Council, the accumulated deficit amounts to (N\$ 2 141 437) but according to the computerized system the deficit is only (N\$ 576 353).
- * When the auditors reperform the bank reconciliation, they ended with a difference of N\$ 83 777 from the Council's reconciliation.

WINDHOEK, June 2012

**JUNIAS ETUNA KANDJEKE
AUDITOR GENERAL**

TOWN COUNCIL OF RUNDU

BALANCE SHEET ON 30 JUNE

	Notes	2011 N\$	2010 N\$
ASSETS			
Non-current assets			
Property, Plant and Equipment	3	31 493 378	25 922 885
Investments	4	1 395 691	4 106 807
Current assets			
Accounts receivables	5	11 422 468	13 664 836
Inventories	7	3 352 206	3 090 983
Cash and cash equivalents	8	-	297 397
TOTAL ASSETS		47 663 743	47 082 908
EQUITY AND LIABILITIES			
Funds			
Funds and Accounts	2	31 493 378	25 922 885
Accumulated funds	2	4 902 006	9 380 090
Current liabilities			
Accounts Payables	6	10 363 880	11 779 933
Bank overdraft	8	904 479	-
TOTAL EQUITY AND LIABILITIES		47 663 743	47 082 908

TOWN COUNCIL OF RUNDU

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Notes</u>	<u>2011</u> N\$	<u>2010</u> N\$
INCOME		45 119 256	43 367 906
EXPENDITURE		<u>(46 812 450)</u>	<u>(34 137 757)</u>
NET OPERATING (LOSS) / PROFIT		(1 693 194)	9 230 149
INVESTMENT INTEREST EARNED		<u>23 676</u>	<u>31 512</u>
NET (LOSS) / PROFIT		(1 669 518)	9 261 661
ADJUSTMENTS	9	(3 105 991)	(4 083 640)
NET (LOSS) / PROFIT for the year		<u>(4 775 509)</u>	<u>5 178 021</u>
APPROPRIATION ACCOUNT AT BEGINNING OF THE YEAR		2 634 072	(2 543 949)
APPROPRIATION ACCOUNT AT END OF YEAR		<u>(2 141 437)</u>	<u>2 634 072</u>

TOWN COUNCIL OF RUNDU

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Notes</u>	<u>2011</u> N\$	<u>2010</u> N\$
Cash receipts from customers		45 119 256	43 367 906
Cash paid to suppliers		(49 353 349)	(42 931 457)
<i>Cash (utilised) / generated by operations</i>	11	(4 234 093)	436 449
Investment income		23 676	31 512
Movements in funds		5 867 918	744 123
- Funds accounts		297 425	300 814
- Capital outlay		5 570 493	443 309
<i>Net cash flow from operating activities</i>		1 657 501	1 212 084
<i>CASH FLOW FROM INVESTING ACTIVITIES</i>		(2 859 377)	(1 307 477)
(Increase) / decrease in net capital expenditure		(5 570 493)	(440 388)
Decrease / (Increase) in investments		2 711 116	(867 089)
<i>CASH FLOW FROM FINANCING ACTIVITIES</i>		-	(2 921)
Decrease / (increase) / decrease in long-term loans		-	(2 921)
<i>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</i>		(1 201 876)	(98 314)
Cash and cash equivalents at beginning of year		297 397	395 711
Cash and cash equivalents at end of year		(904 479)	297 397

TOWN COUNCIL OF RUNDU

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE

1 ACCOUNTING POLICIES**1.1 Basis of presentation**

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment, marketable securities and investment properties where appropriate.

1.2 Property, plant and equipment and depreciation

All plant and equipment are initially recorded at cost. Cost includes all costs directly attributable to bringing the assets to working condition for their intended use. All other plant and equipment are stated at historical cost or valuation where applicable.

No depreciation is calculated on property, plant and equipment.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimation recoverable amount, the assets or cash generating units are written down to their recoverable value.

1.3 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in current liabilities.

1.4 Build Together Fund

The purpose of this Fund is to provide for housing loans. Income to this Fund is transferred from the general income statement account, external loans from Government and interest on investments and loans.

	2011	2010
	N\$	N\$
2. OWN FUNDS		
2.1 Financing of capital		
Contribution from:	31 493 378	25 922 885
Loans redeemed	-	-
Revenue contributions	17 338 166	10 137 734
General capital contributions	14 155 211	15 785 151
2.2 Funds	4 902 006	9 380 090
Built Together Fund	7 043 443	6 746 018
Accumulated (deficit)/surplus	(2 141 437)	2 634 072
TOTAL FUNDS	36 395 384	35 302 975

TOWN COUNCIL OF RUNDU

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

	2011 N\$	2010 N\$
3. FIXED ASSETS		
Financed from:		
Revenue account	17 338 167	10 137 733
General capital assets	14 155 211	15 785 152
	31 493 378	25 922 885
4. INVESTMENTS		
Commercial banks	1 395 691	4 106 807
	1 395 691	4 106 807
Comprising of:		
Build Together Fund	1 395 691	4 106 807
	1 395 691	4 106 807
5. ACCOUNTS RECEIVABLE		
Services, rates and taxes	53 359 698	47 193 913
Other receivables	3 959 096	5 013 443
Suspense accounts	1 841 434	3 573 300
	59 160 228	55 780 656
Less: Provision for bad debts	(47 737 760)	(42 115 820)
Sundry debtors	-	-
	11 422 468	13 664 836
6. ACCOUNTS PAYABLES		
Trade payables	8 013 203	6 092 181
Provisions	2 333 012	2 380 872
Consumer deposits	12 830	12 250
Payments received in advance - cashier error	4 835	-
Income project nam 343	-	3 294 630
	10 363 880	11 779 933
7. Inventories		
Stores	3 352 206	3 090 983
	3 352 206	3 090 983
8. CASH AND BANK BALANCES		
Current bank account	(904 479)	297 397
	(904 479)	297 397

TOWN COUNCIL OF RUNDU

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

	2011	2010
	N\$	N\$
9. ADJUSTMENTS AND UTILIZATIONS		
Correction of audit costs	-	(113 717)
Prior year expenses	(64 503)	(51 266)
Adjustment of previous year debtors	(52 737)	(74 112)
Staled cheques written back	-	29 557
Adjustment of provision for bad debts	(6 061 021)	(4 858 295)
Debt recovered	-	989 840
Surplus year end	1 956 292	-
Store correction	(559 185)	-
Unknown	1 675 163	-
Deficit per appropriation account and Council's balance sheet	-	(5 647)
	(3 105 991)	(4 083 640)
10. CASH UTILISED BY OPERATIONS		
Cash (absorbed) by operations		
Net profit before investment interest and adjustments.	(1 669 518)	9 261 661
Suspense account	-	-
Adjustment on appropriation account	(3 105 991)	(4 083 640)
Unknown adjustment	297 427	-
Investment income	(23 676)	(31 512)
OPERATING INCOME BEFORE CHANGES IN WORKING CAPITAL	(4 799 185)	5 146 509
Changes in working capital		
Decrease / (increase) in accounts receivable	2 242 368	(7 129 895)
Increase in inventories	(261 223)	(762 404)
(Decrease) / increase in accounts payable	(1 416 053)	3 182 239
	565 092	(4 710 060)
CASH (UTILISED) / GENERATED BY OPERATIONS	(4 234 093)	436 449