



REPUBLIC OF NAMIBIA



AUDIT REPORT ON THE ACCOUNTS OF THE

VILLAGE COUNCIL OF KOËS

FOR THE FINANCIAL YEARS ENDED 30 JUNE 2009 AND 2010

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REPUBLIC OF NAMIBIA



TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY

I have the honour to submit herewith my report on the accounts of the Village Council of Koës for the financial years ended 30 June 2009 and 2010, in terms of Article 127(2) of the Namibian Constitution. The report is transmitted to the Honourable Minister of Finance in terms of Section 27(1) of the State Finance Act, 1991, (Act 31 of 1991) to be laid upon the Table of the National Assembly in terms of Section 27(4) of the Act.

WINDHOEK, July 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
VILLAGE COUNCIL OF KOËS
FOR THE FINANCIAL YEARS ENDED 30 JUNE 2009 AND 2010**

1. INTRODUCTION

The accounts of the Village Council of Koës for the years ended 30 June 2009 and 2010 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 Village Council on behalf of the Auditor-General and under his supervision.

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

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 the financial statements were only submitted on 28 November 2012 instead of within 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 Village 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 misstatements, 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 misstatements.

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 OBSERVATION AND COMMENTS

4.1 Internal control and accounting records

The system of internal control for the financial years under review was not sufficient for the auditors to rely upon for audit purposes.

As can be seen in the comments hereafter, certain balance sheet items are clearly not correct and unless the errors/weaknesses identified are rectified in the financial systems and records the annual financial statements cannot be seen as a fair reflection of the financial position of the Council.

4.2 Property, plant and equipment

The fixed asset register and the general ledger does not agree with an amount of N\$ 1 116 037: 2010 and N\$ 450 511: 2009. The fixed asset register is clearly outdated and incomplete. Currently it does not reflect the true value of the Council's assets. The Council is urged to reconcile the general ledger with the fixed asset register to reflect the true value of the Council's assets.

4.3 Trade and other receivables

2010

The average collection period of trade receivables is 361 days (2009: Not available). As previously reported, Council should attend to the arrears as a matter of urgency.

Based on an average of 60 days outstanding, the auditors are of the opinion that the provision for bad debts is understated by approximately N\$ 1 889 001.

2009

Due to the incomplete financial statements presented for audit purposes, the provision for bad debts could not be tested by the auditors to their satisfaction.

4.4 Inventories

The Council did not provide for any inventories in the annual financial statements for the years under review.

4.5 Arrear external loans

The instalments on external loans from Central Government for the years under review were not paid. No provision for interest on arrear payments has been made.

4.6 Trade and other payables

No list of trade and other payables were available for audit purposes for the years under review. The auditors were thus unable to test trade and other payables or unrecorded payables.

4.7 VAT and P.A.Y.E. returns

Not all VAT and P.A.Y.E. returns were submit timeously to the Directorate: Inland Revenue for the years under review. No provision for penalties and interest has been made in the financial statements.

4.8 Consumer deposits

No lists for consumer deposits were available at the Village Council for the years under review. Therefore, the auditors were unable to verify these amounts.

Consumer deposits are not sufficient to cover one month's charges.

4.9 Provision for bonuses and severance pay on retirement

No provisions have been raised for the above items for the years under review. The auditors could not establish the amounts which should have been provided for.

4.10 Build Together advances

No list of Build Together advances amounted to N\$ 2 282 927: 2010 and N\$ 2 286 389: 2009 were available for audit purposes.

4.11 Bank reconciliation

No bank reconciliation was available for audit purposes for the years under review.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

The results of the operations of, and transactions on the Revenue account for the years were as follows:

2010

	Revenue	Expenditure	Surplus/ (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit on 01/07/2009				(1 319 638)
General accounts				
- Non-profitable services	3 237 388	2 788 404	448 984	
- Self-supporting services	433 026	587 811	(154 785)	
Trade accounts				
- Water	668 523	931 726	(263 203)	
- Electricity	1 051 428	1 417 767	(366 339)	
Deficit for the year	5 390 365	5 725 708	(335 343)	(335 343)
Adjustments and utilisations (See note 11, Annexure D)				(1 654 981) 166 277
Accumulated deficit on 30/06/2010				(1 488 704)

2009

	Revenue	Expenditure	Surplus/ (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit on 01/07/2008				(899 901)
General accounts				
- Non-profitable services	2 831 430	3 301 663	(470 233)	
- Self-supporting services	405 794	719 184	(313 390)	
Trade accounts				
- Water	436 733	1 029 220	(592 487)	
- Electricity	1 292 541	965 449	327 092	
Deficit for the year	4 966 498	6 015 516	(1 049 018)	(1 049 018)
Adjustments and utilisations (See note 11, Annexure D)				(1 948 919) 629 281
Accumulated deficit on 30/06/2009				(1 319 638)

7. CURRENT BANK ACCOUNT

	2010	2009	2008
	N\$	N\$	N\$
Cash-book balance at 30 June - Balance sheet	(145 337)	(34 821)	(302 000)
Outstanding cheques	-	-	341 327
Unknown reconciling items	242 127	79 365	-
Balance as per bank statement	96 790	44 544	39 327

No bank reconciliation could be provided by the Council.

8. INVESTMENTS

The investments as at 30 June were as follows:

Institution	2010	2009	2008
	N\$	N\$	N\$
Commercial banks	316 461	578 787	787 091
Distribution			
Leave Reserve Fund	-	-	51 925
Build Together Fund	316 461	578 787	735 166
	316 461	578 787	787 091

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

No income statements were available for water or electricity for audit purposes for the years under review.

10.2 Distribution results

No distribution results were available for the years under review.

11. SELF-SUPPORTING SERVICES

11.1 The results for the years under review are as follows:

Service	Income 2010	Expenses 2010	Surplus/ (deficit) 2010	Surplus/ (deficit) 2009
	N\$	N\$	N\$	N\$
Cleansing services	153 562	265 624	(112 062)	(177 709)
Townlands	60 322	150 972	(90 650)	(107 566)
Sewerage	219 142	171 215	47 927	(28 115)
	433 026	587 811	(154 785)	(313 390)

Service	Income 2009	Expenses 2009	Surplus/ (deficit) 2009	Surplus/ (deficit) 2008
	N\$	N\$	N\$	N\$
Cleansing services	145 036	322 745	(177 709)	(60 258)
Townlands	52 729	160 295	(107 566)	26 606
Sewerage	208 029	236 144	(28 115)	(38 093)
	405 794	719 184	(313 390)	(71 745)

As reported in the previous years, Council must turn the loss making services into self-supporting services.

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

There were no such expenses.

13. SUSPENSE ACCOUNTS

Suspense accounts are cleared on a regular basis during the years under review.

14. IRREGULARITIES AND LOSSES

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

15. CAPITAL PROJECTS

Financing of assets

Not all income statements were available for audit purposes, thus reliable figures in this regard are not available.

Council should ensure that assets financed through the income statement, should be properly recorded as capital outlay.

16. STUDY LOANS/BURSARIES

No bursaries were granted during the years under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

	2010	2009	2008
	N\$	N\$	N\$
Contribution from Government	1 497 602	1 533 000	1 200 000

18. COMPENSATION PAYMENTS

No compensation payments were claimed from the Village Council during the years under review.

19. VISITS TO FOREIGN COUNTRIES

Council did not pay for any visits to foreign countries during the years under review.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

There were no claims against the Local Authority.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

No gifts and donations were allocated or paid during the years under review.

22. TRANSFER OF PROPERTY

There were no sales recorded for the years under review.

23. TRADE AND OTHER RECEIVABLES/TRADE AND OTHER PAYABLES

23.1 Trade and other receivables at 30 June were:

	2010	2009	2008
	N\$	N\$	N\$
Consumers	2 265 026	1 741 537	1 339 755
Suspense accounts	-	-	9 035
VAT receivable	89 914	163 023	-
	2 354 940	1 904 560	1 348 790
Provision for bad debts	(817 985)	(817 985)	(817 985)
Total	1 536 955	1 086 575	530 805

23.2 Trade and other payables at 30 June were:

	2010	2009	2008
	N\$	N\$	N\$
Trade payables	800 614	577 095	127 090
Consumer and other deposits	7 815	8 180	8 180
Provisions	176 792	144 712	-
Suspense accounts	-	91 258	-
Totals	985 221	821 245	135 270

24. ASSESSMENT RATES

	2010	2009	2008
	N\$	N\$	N\$
The net proceeds from assessment rates were	55 443	55 458	-

The correctness of assessment rates levied and collected could not be verified. No documentation regarding the tariffs or the approval thereof was available at the Village Council.

25. LOANS

25.1 External loans

	2010	2009	2008
	N\$	N\$	N\$
Government of Namibia			
- Other loans	551 846	597 433	597 433
- Housing loans	49 802	49 802	49 802
Total outstanding	601 648	647 235	647 235

No payments on these loans were made and the repayment schedules were not available for audit purposes.

25.2 Internal loans

There were no internal loans

25.3 Due to the Village Council

	2010	2009	2008
	N\$	N\$	N\$
Housing Fund	-	613	1 433
Build Together Fund	2 282 927	2 286 389	1 305 925
Total outstanding	2 282 927	2 287 002	1 307 358

25.4 Loans written off

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

26. SALE OF ERVEN

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

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

Properties sold on instalment basis have been properly recorded for the years under review.

28. TARIFF ADJUSTMENTS

No approval for tariff adjustments could be provided to the auditors for the years under review.

29. APPROVALS

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

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles and values thereof

The auditors could not obtain satisfactory information regarding the movement of motor vehicles for the years under review.

30.2 Inventory

The Council did not provide for any inventories in the annual financial statements.

31. SPECIAL INVESTIGATIONS

There were no special investigations for the years under review.

32. GENERAL

The accounting and internal controls for the years under review are not satisfactory, except where indicated otherwise in this report. Proper segregation of duties is not feasible due to the small number of staff employed. While increased management involvement does reduce risks, the risk arises that management and Council override existing controls, a potentially dangerous practice which the Village Council should vigilantly guard against. The integrity of staff in appropriate positions should however be reviewed to ensure that qualified personnel are employed in respective positions.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 Informal queries were discussed with the Village Council.

34. DISCLAIMED AUDIT OPINION

The accounts of the Koës Village Council for the financial years ended 30 June 2009 and 2010, summarised in Annexures A to D, were audited by me in terms of Section 85 of the Local Authority act, 1992, read with Section 25 (1) (b) of the State Finance Act, 1991.

I am unable to express an audit opinion due to the following reasons:

Internal control and accounting records

There was no sufficient system of internal control for the years under review at the Village Council on which the auditors could rely upon for audit purposes.

Property, plant and equipment

The fixed asset register and the general ledger does not agree with an amount of N\$ 1 116 037: 2010 and N\$ 450 511: 2009.

Trade and other receivables

Based on an average of 60 days outstanding, the auditors are of the opinion that the provision for bad debts is understated by approximately N\$ 1 889 001 for the 2010 financial year.

Due to the incomplete financial statements for 2009 presented for audit purposes, the provision for bad debts could not be tested by the auditors to their satisfaction.

Arrear external loans

The instalments on external loans from Central Government were not paid for the years under review. No provision for interest on arrear payments has been made.

Trade and other payables

No list of trade and other payables for the years under review were available for audit purposes. The auditors were thus unable to test trade and other payables or unrecorded payables.

VAT and P.A.Y.E. returns

Not all VAT and P.A.Y.E. returns were submitted timeously to the Directorate: Inland Revenue for the years under review. No provision for penalties and interest has been made in the financial statements.

Provision for bonuses and severance pay on retirement

No provisions have been raised for the above items. The auditors could not establish the amounts which should have been provided for.

Build Together advances

No list of Build Together advances amounting to N\$ 2 282 927: 2010 and N\$ 2 286 389: 2009 was available for audit purposes.

Bank reconciliation

No bank reconciliation was available for audit purposes for the years under review.

WINDHOEK, July 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR- GENERAL**

VILLAGE COUNCIL OF KOËS

BALANCE SHEET AT 30 JUNE

	Notes	2010 N\$	2009 N\$	2008 N\$
ASSETS				
Non-current assets				
		6 188 383	5 711 917	4 176 045
Property, plant and equipment	2	3 588 995	2 846 128	2 081 596
Investments	3	316 461	578 787	787 091
Loans receivable	4	2 282 927	2 287 002	1 307 358
Current assets				
		1 538 088	1 086 606	542 757
Trade and other receivables	5	1 536 955	1 086 575	530 805
Inventories		-	-	11 921
Petty cash	6	1 133	31	31
TOTAL ASSETS				
		7 726 471	6 798 523	4 718 802
FUNDS AND LIABILITIES				
Funds and reserves				
		5 994 265	5 295 222	3 634 277
Capital outlay	7	3 124 507	2 336 054	1 571 522
Funds and accounts	8	2 869 758	2 959 168	2 062 755
Non-current liabilities				
Long-term loans	9	601 648	647 235	647 235
Current liabilities				
		1 130 558	856 066	437 290
Trade and other payables	10	985 221	821 245	135 270
Bank overdraft	6	145 337	34 821	302 020
TOTAL FUNDS AND LIABILITIES				
		7 726 471	6 798 523	4 718 802

VILLAGE COUNCIL OF KOËS

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
		N\$	N\$	N\$
INCOME		5 390 264	4 965 592	3 207 333
EXPENDITURE		5 725 708	6 015 516	3 393 334
NET OPERATING DEFICIT		(335 444)	(1 049 924)	(186 001)
INTEREST ON INVESTMENTS		101	906	-
NET OPERATING DEFICIT AFTER INTEREST		(335 343)	(1 049 018)	(186 001)
APPROPRIATION ACCOUNT	11	166 277	629 281	(833 647)
NET DEFICIT AFTER APPROPRIATIONS		(169 066)	(419 737)	(1 019 648)
REVENUE ACCOUNT – Beginning of year		(1 319 638)	(899 901)	119 747
REVENUE ACCOUNT – End of year		(1 488 704)	(1 319 638)	(899 901)

VILLAGE COUNCIL OF KOËS

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2010 N\$	2009 N\$	2008 N\$
CASH FLOW FROM OPERATING ACTIVITIES				
Cash receipts from customers		5 390 264	4 965 592	3 207 333
Cash paid to suppliers		(5 845 835)	(5 244 109)	(3 874 245)
Cash utilised by operations	12	(455 571)	(278 517)	(666 912)
Investment income		101	906	-
Increase in Fund accounts		79 656	1 316 150	875 892
Increase in Capital outlay		788 453	764 532	370 770
Net cash flow from operating activities		412 639	1 803 071	579 750
CASH FLOW FROM INVESTING ACTIVITIES				
Net capital expenditure		(742 867)	(764 532)	(361 624)
Change in investments		262 326	208 304	(32 654)
Change in loans receivable		4 075	(979 644)	(420 942)
		(475 466)	(1 535 872)	(815 220)
CASH FLOW FROM FINANCING ACTIVITIES				
Decrease in long-term liabilities		(45 587)	-	-
NET CHANGE IN CASH AND CASH EQUIVALENTS		(109 414)	267 199	(235 470)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		(34 790)	(301 989)	(66 519)
CASH AND CASH EQUIVALENTS - END OF YEAR		(144 204)	(34 790)	(301 989)

VILLAGE COUNCIL OF KOËS

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 D 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. No provision for depreciation is made.

1.3 Internal Funds

Internal Funds were created as follows by Council:

1.3.1 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.

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.

1.3.2 Capital Development Fund

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

1.3.3 Fixed Property Fund

Proceeds on the sale of property developed by the Village Council accumulate to this Fund. Interest earned on loans for the sale of land as well as interest earned on internal loans and investments accumulate to this Fund, which is used to develop properties.

1.3.4 Leave Reserve Fund

This Reserve Fund provides for payment of leave credit as needed and the policy is that the balance available in the Fund should meet the total leave credits as at 30 June each year.

1.3.5 Build Together Housing Fund

The purpose of this Fund is to provide loans to applicants who want to build or buy houses with the help of the community. The instalments received for the payment of these loans are reinvested in this Fund.

VILLAGE COUNCIL OF KOËS

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

	2010	2009	2008
	N\$	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT			
Total	3 588 995	2 846 128	2 081 596
3. INVESTMENTS			
INVESTMENTS			
Commercial banks	316 461	578 787	787 091
ALLOCATED AS FOLLOWS			
Leave Reserve Fund	-	-	51 925
Build Together Fund	316 461	578 787	735 166
	316 461	578 787	787 091
4. LOANS RECEIVABLE			
Housing Fund	-	613	1 433
Build Together Fund	2 282 927	2 286 389	1 305 925
	2 282 927	2 287 002	1 307 358
5. TRADE AND OTHER RECEIVABLES			
Consumers	2 265 026	1 741 537	1 339 755
Suspense accounts	-	-	9 035
VAT receivable	89 914	163 023	-
	2 354 940	1 904 560	1 348 790
Provision for bad debts	(817 985)	(817 985)	(817 985)
	1 536 955	1 086 575	530 805
6. BANK AND CASH			
Current account	(145 337)	(34 821)	(302 020)
Petty cash	1 133	31	31
	(144 204)	(34 790)	(301 989)

VILLAGE COUNCIL OF KOËS

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

	2010	2009	2008
	N\$	N\$	N\$
7. CAPITAL OUTLAY			
Loans redeemed	282 689	237 102	237 102
Revenue contributions	2 696 782	1 953 916	1 189 384
General capital contributions	145 036	145 036	145 036
	3 124 507	2 336 054	1 571 522
8. FUNDS, ACCOUNTS AND RESERVES			
Build Together Fund	3 933 989	3 858 752	2 453 790
Leave Reserve Fund	169 989	-	97 950
Capital Development Fund	-	168 410	165 158
Fixed Property Fund	38 410	38 053	37 319
Housing Fund	216 074	213 591	208 439
Revenue account kept in compliance with Section 86(1) of the Local Authority Act, 1992.	(1 488 704)	(1 319 638)	(899 901)
	2 869 758	2 959 168	2 062 755
9. LONG-TERM LIABILITIES			
Government of Namibia			
- Other loans	551 846	597 433	597 433
- Housing loans	49 802	49 802	49 802
	601 648	647 235	647 235
10. TRADE AND OTHER PAYABLES			
Trade payables	800 614	577 095	127 090
Consumer and other deposits	7 815	8 180	8 180
Provisions	176 792	144 712	-
Suspense accounts	-	91 258	-
	985 221	821 245	135 270
11. ADJUSTMENTS TO APPROPRIATION ACCOUNT			
Provision for bad debts	-	-	(817 985)
Prior year adjustments	-	-	(15 662)
Unexplained differences	166 277	629 281	-
	166 277	629 281	(833 647)

VILLAGE COUNCIL OF KOËS

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

	2010	2009	2008
	N\$	N\$	N\$
12. CASH UTILISED BY OPERATIONS			
Net operating deficit before interest and transfers	(335 444)	(1 049 924)	(186 001)
Adjustments for:			
- Adjustments to appropriation account	166 277	629 281	(833 647)
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	(169 167)	(420 643)	(1 019 648)
CHANGES IN WORKING CAPITAL			
Trade and other receivables	(450 380)	(555 770)	350 743
Inventory	-	11 921	(11 921)
Trade and other payables	163 976	685 975	13 914
	(286 404)	142 126	352 736
CASH UTILISED BY OPERATIONS	(455 571)	(278 517)	(666 912)