



**REPUBLIC OF NAMIBIA**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE**

# **TOWN COUNCIL OF KATIMA MULILO**

**FOR THE FINANCIAL YEARS ENDED 30 JUNE 2007 AND 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 Katima Mulilo for the financial years ended 30 June 2007 and 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, January 2011**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE  
TOWN COUNCIL OF KATIMA MULILO  
FOR THE FINANCIAL YEARS ENDED 30 JUNE 2007 AND 2008**

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**1. INTRODUCTION**

The accounts of the Town Council of Katima Mulilo for the years ended 30 June 2007 and 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 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 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 the financial statements for 2008 were only signed on a date later than the three months as stipulated by 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 sheets at Annexure A are a true reflection of the original signed by the Accounting Officer.

The financial statements also include:

- Annexure B: Abridged income statements
- Annexure C: Cash flow statements
- 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 the 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 complies with ethical requirements and plans and performs 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 judgement, including the assessment

of the risks of material misstatements in 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**

Paragraphs marked with an \* includes both two years

##### **4.1 Internal control and accounting records \***

There were no sufficient systems of internal control and proper accounting records at the Town Council on which the auditors could rely upon for audit purposes.

The Council's state of recordkeeping and filing leave much to desire and clearly are ineffective and contravene the requirements laid out in the Local Authorities Act.

##### **4.2 Property, plant and equipment \***

The Council's fixed asset register provides inadequate asset descriptions and this prevented the auditors from performing procedures to verify the valuation and existence of fixed assets as stated in the financial statements.

Incorrect allocations of capital expenditure amounting to N\$ 196 675. These expenses are related to the 2007/08 financial year and were detected by the auditors in the income statements. It was also noted that numerous asset values were posted and allocated VAT inclusive to capital outlay. This is incorrect and should be redefined during the next year.

The auditors also observed and noted that no log books for vehicle were maintained for the years under review. Due to above mentioned vehicles are used in an uncontrolled manner. A physical inspection by the auditors on vehicles indicated that numerous vehicles were damaged and bumped which requires avoidable expenditure towards repairs.

The above concerns highlight weaknesses with regards to the use of Council vehicles while cost management of fuel usage on vehicles might not be effective.

##### **4.3 Inventories \***

No inventories for store materials are reflected in the financial statements of the Council. The auditors were unable to calculate the estimated value on hand at 30 June due to the poor record keeping at the Town Council.

Council should ensure that Inventory on hand at financial year-ends should be counted, valued and disclosed in the annual financial statements.

##### **4.4 Consumer deposits \***

The current consumer deposits reflected in the Council financial statements are insufficient to cover for its enormous debts outstanding. The balance for both years represents a mere 0.2% of total debt due.

Council should ensure that consumer deposits are collected from consumers and be reviewed on an annual basis to ensure the adequacy thereof.

#### **4.5 Trade and other payables**

The audit revealed, unrecorded liabilities for both the financial years and although amounts were considered to be immaterial, this solidifies the auditors concern of the lack of completion of supplier reconciliations on a regular basis.

##### **2008**

Due to the lack of proper supplier reconciliations, unrecorded liabilities of N\$ 91 712 were found by the auditors.

Again, the Nampower liability of N\$ 922 795 could not be substantiated with supporting documentations.

The Council did not revise its leave provision during the 2007/2008 financial year and instead used the same amount of the previous financial year which reflects an incorrect financial obligation.

It was also noted that 81% of employees, leave days, as per the leave reports submitted, were at alarming high levels and exceeded the 60 leave days. This practice is in contradiction with the Council's conditions of service.

##### **2007**

Due to the lack of proper supplier reconciliations, unrecorded liabilities of N\$ 74 274 were found by the auditors.

The Nampower liability of N\$ 922 795 could not be substantiated with supporting documentations.

#### **4.6 VAT receivable**

##### **2008**

The annual financial statements of the Council portray a VAT receivable balance from Inland Revenue. This receivable, however, does not account for the revised returns and amendments made by the consultants contracted to conduct a VAT review audit. The auditors recalculated the amount receivable and ended up with a figure of N\$ 359 281 which differs with N\$ 15 350 from the balance sheet figure.

The current debt receivable might not even be a true reflection taken into account incorrect VAT allocations into the expenditure votes. (See paragraph 4.2).

#### **4.7 Payroll \***

Unexplained differences were found on the auditors' payroll reconciliations from the earnings reports compared to the payroll costs stated in the annual financial statements. Differences of N\$ 781 278: 2008 and N\$ 4 245 363: 2007 were found.

Due to the lack of internal reconciliations, Council was unable to provide explanations for these significant differences which were mainly caused by the lack of filing of payroll earnings reports. Council should rectify these mistakes and take remedial steps where necessary during the next year.

The auditors detected that PAYE are not regularly paid over to the relevant authorities and accumulated to an amount of just over N\$ 807 717. This excludes January and February 2008.

#### **4.8 Provision for bad debts \***

The Council's basis for the calculation of provision of bad debts as disclosed in the financial statements could not be ascertained. The auditors, were of the opinion, that taking into consideration the slow repayment rate by consumers, the provision is understated by N\$ 14 575 772: 2009 and N\$ 25 316 010: 2007 (N\$ 19 864 314: 2006).

Outstanding debts for 120 days and more were 93% of consumer debtors for both years under review.

The magnitude of these under-provisions, highlight serious concerns on the debt collection controls and measures of the Council that is in place. As a result of the above the auditors are of the opinion that receivables are materially misstated in the annual financial statements.

#### **4.9 Build Together Fund \***

The Build Together Programme are administered by the Town Council on behalf of the Ministry of Regional Local Government, Housing and Rural Development and it should be considered significant as weaknesses were identified with regards to administration thereof.

This fund has its own peculiar specifications with respect to the way in which the fund are to be managed and utilized as stipulated by the Ministry. The following control weaknesses were detected by the auditors:

- The Finstel system was not properly updated to reflect the loan debts of beneficiaries as funds were disbursed over the years.
- Poor repayments by beneficiaries. Council should re-define its collection strategies to ensure this trend does not continue.
- Numerous supporting documentations like Build Together inspection and reports claim sheets for disbursement of funds could not be found at the time of the audit.
- Three files, on the sample of thirteen tested, (23%) could not be provided by the Council.
- Numerous beneficiaries have already passed away but the computerized system was not updated accordingly and debts are still reflected.

Above-mentioned is a clear indication of internal control measures not in place and therefore the Council is not able to administer the Fund with the necessary integrity.

#### **4.10 Bank reconciliations \***

The auditors could not find any evidence that bank reconciliations are being done on a monthly or regular basis. Bank reconciliations, at year-end, for both the financial years under review could be submitted for audit purposes.

Therefore, the auditors were unable to verify the valuation, accuracy and existence of the overdraft balance reflected in the financial statements.

#### **4.11 Opening balances**

##### **2007**

The Council's 2007 financial year take on balances from the previous year was materially misstated by an amount of N\$ 1 690 610. The appropriation account brought forward balance, as per computerized system, reflects an amount of N\$ 3 931 011 while the audited financial statements of 2006 financial year reflect a balance of N\$ 5 621 621.

#### 4.12 Fruitless expenditure

2007

Council appointed external consultants to perform a VAT review audit and to file revised returns with the view to obtain a saving for unclaimed VAT refunds.

A review of the consultant's contracts with the Council revealed that it stipulates that a contingency fee of 20% on the VAT inputs will be charged as compensation. On completion of the VAT audit the Council paid N\$ 1 913 561 towards the consultants whilst it received N\$ 2 066 711 as a nett refund from Inland Revenue. The net income of N\$ 153 150 did not material effect the cash flow situation of the council and are regarded as wasteful exercise for the Council.

#### 4.13 Reconciliations \*

The absence of annual and monthly reconciliations of control accounts were noticed. The lack of following up reconciling items were indentified and should be performed. This is the most important control measure for ensuring the accuracy of the general/detailed ledger. In general, the audit revealed that annual and monthly general ledger reconciliations are neither performed nor reviewed or are performed too late to constitute an effective control measure. The reconciliations that are performed are often not reviewed by persons in senior positions. Also of concern are the significant numbers of reconciling items that are not properly cleared. The reconciliations in the following account areas were affected:

- Accounts payables and expenses
- Bank and cash
- Payroll

#### 5. ACKNOWLEDGEMENT

The assistance and co-operation of the staff of the Town Council of Katima Mulilo 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 01/07/2007				(5 225 764)
General accounts				
- Rates and general	6 521 372	9 284 232	(2 762 860)	
- Non-profitable	123 601	753 406	(629 805)	
- Self-supporting	4 306 342	2 668 788	1 637 554	
Trade accounts				
- Water	7 691 195	9 048 170	(1 356 975)	
- Electricity	16 007	36 169	(20 162)	
Deficit for the year	18 658 517	21 790 765	(3 132 248)	(3 132 248)
				(8 358 012)
Adjustments and utilizations (Note 9 of Annexure D)				(14 759 736)
Accumulated deficit 30/06/2008				<b>(23 117 748)</b>

	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>	<b>Balance</b>
	N\$	N\$	N\$	N\$
Accumulated surplus 01/07/2006				5 621 621
General accounts				
- Rate and general	4 347 100	12 095 421	(7 748 321)	
- Non-profitable	91 832	999 344	(907 512)	
- Self-supporting	4 425 448	1 522 386	2 903 062	
Trade accounts				
- Water	7 206 444	7 953 400	(746 956)	
- Electricity	32 073	113 389	(81 316)	
Deficit for the year	16 102 897	22 683 940	(6 581 043)	(6 581 043)
				(959 422)
Adjustments and utilizations (Note 9 of Annexure D)				(4 266 342)
Accumulated deficit 30/06/2007				<b>(5 225 764)</b>

## 7. CURRENT BANK ACCOUNT

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	N\$	N\$	N\$
(Unfavorable)/favourable cash-book balance at 30 June	(3 925 697)	(1 351 497)	738 536
Outstanding cheques	-	-	76 532
Outstanding deposits	-	-	-
Unexplained difference*	4 128 223	2 942 370	(104 848)
Balance as per bank statement	<b>202 526</b>	<b>1 590 873</b>	<b>710 220</b>

\* Council was unable to provide the auditors with bank reconciliations.

## 8. INVESTMENTS AND INTEREST PROCEEDS

<b>Institution</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	N\$	N\$	N\$
Commercial banks and building societies	4 898 961	2 753 771	4 345 868
NORED investment*	-	-	-
<b>Totals</b>	<b>4 898 961</b>	<b>2 753 771</b>	<b>4 345 868</b>



The investments were allocated as follows:

<b>Allocation</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	N\$	N\$	N\$
Capital reserve fund	340 977	9 660	6 648
Build Together Fund	2 781 707	788 190	269 163
Other funds	-	-	3 970 923
Revenue	1 776 277	1 955 921	99 134
	<b>4 898 961</b>	<b>2 753 771</b>	<b>4 345 868</b>

\* No information could be obtained on Council's investment share in NORED.

## 9. FUND ACCOUNTS

The position of the funds and accounts at year-end is reflected in note 7 in Annexure D.

## 10. TRADE ACCOUNTS

### 10.1 The results of electricity and water operations were as follows:

	<b>Electricity</b>		<b>Water</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	N\$	N\$	N\$	N\$
Sales	1200	-	7 452 601	7 027 496
Bulk purchases	-	-	(8 718 949)	(7 454 054)
Gross profit/(deficit)	1200	-	(1 266 348)	(426 558)
Net expenditure	(21 363)	(81 316)	(90 627)	(320 398)
<b>Net profit (loss)</b>	<b>(20 163)</b>	<b>(81 316)</b>	<b>(1 356 975)</b>	<b>(746 956)</b>
Gross (loss) percentages on bulk purchases	N/A	N/A	(14.52%)	(5.72%)
Net (loss) percentage on bulk purchases	N/A	N/A	(15.56%)	(10.02%)

	<b>Electricity</b>		<b>Water</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	N\$	N\$	N\$	N\$
Sales	-	3 581 188	7 009 770	3 680 665
Bulk purchases	-	-	(7 454 054)	(6 035 303)
Gross profit/(loss)	-	3 581 188	(444 284)	( 2 354 638)
Net expenditure	(81 316)	(282 799)	(302 672)	(275 529)
<b>Net loss</b>	<b>(81 316)</b>	<b>3 298 389</b>	<b>(746 956)</b>	<b>(2 630 167)</b>
Gross (loss) percentages on bulk purchases	N/A	N/A	(5.96%)	(39.01%)
Net (loss) percentage on bulk purchases	N/A	N/A	(10.02%)	(43.58%)

It was concerning to note that charges on electricity are still levied while Council has transferred electricity services over to NORED.

## 10.2 Water distribution results, in cubic meters

	Electricity		Water	
	2008	2007	2008	2007
	Kw	Kw	m <sup>2</sup>	m <sup>2</sup>
Units sold*	-	-	1 399 672	901 562
Units bought*	-	-	(1 408 508)	(1 512 694)
<b>Net distribution loss</b>	-	-	<b>(8 836)</b>	<b>(611 132)</b>
Percentage distribution losses on units bought	-	-	(22%)	-

	Electricity		Water	
	2007	2006	2007	2006
	Kw	Kw	m <sup>2</sup>	m <sup>2</sup>
Units sold*	-	-	901 562	-
Units bought*	-	-	(1 512 694)	-
<b>Net distribution loss</b>	-	-	<b>(611 132)</b>	-
Percentage distribution losses on units bought	-	-	(40.40%)	-

\* Where no information was disclosed, statistics reports were not available.

## 11. SELF-SUPPORTING SERVICES

### 11.1 The results for the year under review are as follows:

	Income 2008	Expenses 2008	Surplus 2008	Surplus 2007
	N\$	N\$	N\$	N\$
Cleansing services	2 445 929	1 034 394	1 411 535	1 873 516
Sewerage	1 860 413	1 634 394	226 019	1 029 546
	<b>4 306 342</b>	<b>2 668 788</b>	<b>1 637 554</b>	<b>2 903 062</b>

	Income 2007	Expenses 2007	Surplus 2007	Surplus/(Loss) 2006
	N\$	N\$	N\$	N\$
Cleansing services	2 592 159	718 643	1 873 516	(1 068 651)
Sewerage	1 833 289	803 743	1 029 546	514
	<b>4 425 448</b>	<b>1 522 386</b>	<b>2 903 062</b>	<b>(1 068 137)</b>

## 12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No unauthorized expenditure was identified during the years under review. The auditors are however of the opinion that an amount of N\$ 1 913 561 that was paid to a consulting firm to conduct a VAT review were avoidable. After the review exercise VAT to the amount of N\$ 2 066 711 was recovered. This means that the Council made a net return of only N\$ 153 150 out of the exercise. The amount paid was based on a contingency fee that was calculated on 20% of VAT inputs. The auditors calculations indicated that if the fee was calculated on the refunds the Council could have saved more than N\$ 1.5 million.

### 13. SUSPENSE ACCOUNTS

No suspense accounts were disclosed in the annual financial statements for the years under review.

### 14. IRREGULARITIES AND LOSSES

No irregularities and losses were identified during the years under review.

### 15. Capital Project

The following differences were noted between the annual financial statements submitted by the Council and the fixed asset register that was made available to the auditors:

#### 2008

<b>Vote charged</b>	<b>Expenditure according to financial statements</b>	<b>Expenditure according to the fixed asset register</b>	<b>Financial statements (over)/under stated</b>
	N\$	N\$	N\$
Council general expenses	194 174	228 000	33 826
Town administration	71 402	20 000	(51 402)
Town treasurer	16 440	75 000	58 560
Streets and storm water	300 000	300 000	-
Town Clerk	-	15 000	15 000
<b>Total</b>	<b>582 016</b>	<b>638 000</b>	<b>55 984</b>

#### 2007

<b>Vote charged</b>	<b>Expenditure according to financial statements</b>	<b>Expenditure according to the fixed asset register</b>	<b>Financial statements (over)/under stated</b>
	N\$	N\$	N\$
Town clerk	1 720	-	(1 720)
Town administration	9 935	57 424	47 489
Town treasurer	19 012	-	(19 012)
Town planning	20	-	(20)
Community service, parks and cemetery	4 480	-	( 4 480)
Streets and storm water	869 585	614 400	(255 185)
<b>Total</b>	<b>904 752</b>	<b>671 824</b>	<b>(232 928)</b>

### 16. BURSARIES

No bursaries were granted during the year during the years under review.

### 17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID.

No contributions, grants and financial aid were received during the years under review.

### 18. COMPENSATION PAYMENTS

No compensation payments were made by the Town Council during the years under review.

## 19. VISITS TO FOREIGN COUNTRIES

No foreign visits were undertaken during the years under review.

## 20. CLAIMS AGAINST THE LOCAL AUTHORITY

There were no claims against the Council.

## 21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

There were no gifts or donations by or to the Local Authority

## 22. TRANSFER OF PROPERTY

No properties were sold or transferred by the Town Council for the years under review.

## 23. TRADE AND OTHER RECEIVABLES/ PAYABLES

### 23.1 Trade and other receivables at 30 June were:

	2008	2007	2006
	N\$	N\$	N\$
Services, rates and taxes	43 363 258	39 702 746	39 561 697
Housing Fund receivables	1 802 272	1 882 501	-
Other receivables	1 243 330	1 046 115	237 682
VAT Control Account	-	33 466	2 532 210
Less: Deposits/payments in advance	-	-	(1 912 528)
Less: Provision for bad debts	(25 938 570)	(11 703 273)	(11 703 273)
<b>Total</b>	<b>20 470 290</b>	<b>30 961 555</b>	<b>28 715 788</b>

### 23.2 Trade and other payables at 30 June were:

	2008	2007	2006
	N\$	N\$	N\$
Trade and other payables	36 304 755	32 183 388	28 641 237
Consumer deposits	88 124	92 184	-
VAT	374 631	-	-
Provisions	1 182 568	1 182 568	669 679
<b>Totals</b>	<b>37 950 078</b>	<b>33 458 140</b>	<b>29 310 916</b>

Consumer deposits as reflected has been considered inadequate by the auditors bearing in mind the concerns as raised in paragraph 4.4.

The provision for leave balance of 2007 financial year was just roll forward to the financial year ended 30 June 2008. Council performed no review of this provision during 2008 financial year

## 24. ASSESSMENT RATES

	2008	2007	2006
	N\$	N\$	N\$
Net surplus from assessment rates	2 958 251	2 748 087	1 193 729
Tariffs per N\$1 Valuation per annum			
- Land	0.064636	0.064636	0.05876
- Improvements	0.042009	0.042009	0.03819

## 25. LOANS

### 25.1 External loans

No external loans were entered into during the years under review.

### 25.2 Internal loans

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

### 25.3 Housing loans

The amount advanced in favour of housing loans under the Build Together programme are reflected at N\$ 1 802 272 for 2008 and N\$ 1 882 501 for 2007 (2006: -) in the annual financial statements.

## 26. SALE OF ERVEN

There was no sale of erven register at the Town Council for the financial years under review.

## 27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

No property was sold on instalment basis for the years under review.

## 28. TARIFF ADJUSTMENTS

Tariffs adjustments were done in accordance with the Official Government gazette.

## 29. APPROVALS

### 29.1 Excess on approved budget

No comparison of budget figures to actual figures could be done since only printouts from the computerized system could be provided by the Town Council and copies of original budgets and relevant Ministerial approvals could not be obtained thus reliance on the validity and accuracy on budgets figures could not be ascertained.

### 29.2 Internal loans

There were no internal loans for the years under review.

### 29.3 Revenue written off

No revenue was written off.

### **30. INVENTORY AND EQUIPMENT**

#### **30.1 Motor vehicles and values thereof:**

There was no auxiliary register related to the usage and control over motor vehicles for the years under review. The auditors could only obtain a list on vehicles registered under the Council's name.

#### **30.2 Inventory**

No inventory on stores materials were recorded and disclosed in the annual financial statements of both years although these existed. It is recommended that stock takings be conducted regularly and that the value of these stock be disclosed in the financial statements of the Council.

### **31. GENERAL**

There is not a sufficient system of internal control at the Town Council for the years under review. 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.

### **32. FORMAL AND INFORMAL QUERIES**

The following issues were brought to the attention of the management of the Town Council by way of a management letter.

- Pior years audit reports
- Special funds and capital outlay
- Statutory matters
- Liabilities
- Fixed assets
- Inventory
- Investments
- Revenue/accounts receivable
- Payroll
- Cash at bank
- Expenditure
- General

### **33. DISCLAIMED AUDIT OPINION**

The accounts of the Town Council of Katima Mulilo for the financial years ended 30 June 2007 and 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.

I am unable to express an opinion on the financial statements, results of operations and the cash flow of the Council for the years ended 30 June 2007 and 2008 due to the following reasons:

- Insufficient systems of internal controls. No proper accounting records were kept at the Town Council.
- Fixed assets understated by an amount of N\$ 196 675 for the 2008 financial year.
- No inventory values for store materials were reflected in the financial statements of the Council.
- Consumer deposits reflected in the annual financial statements were insufficient. The consumer deposits are only 0.2% of the total outstanding debt.
- Unrecorded liabilities of N\$ 91 712 for 2008 and N\$ 74 274 for 2007 were found. Nampower creditor balance of N\$ 922 795 as at June 2008 could also not be verified.

- Unexplained significant payroll reconciliation differences of N\$ 781 278 for 2008 and N\$ 4 245 363 for 2007 was detected.
- Provision for doubtful debts are understated by N\$ 14 575 772 for 2008 and N\$ 4 245 363 for 2007 respectively.
- The auditors could not perform audit procedures on the current bank account balance of the Council due to lack of completion of the bank reconciliations.
- Opening balances of the accumulated fund was incorrectly brought forward during the 2007 financial year by an amount of N\$ 1 690 610.

**WINDHOEK, January 2011**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

## TOWN COUNCIL OF KATIMA MULILO

## BALANCE SHEETS AT 30 JUNE

	Notes	2008 N\$	2007 N\$	2006 N\$
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	2	8 320 842	6 258 640	6 036 478
Investments	3	3 421 881	3 504 869	1 690 610
		4 898 961	2 753 771	4 345 868
<b>Current assets</b>				
Trade and other receivables	4	20 470 790	30 962 055	29 454 324
Cash and cash equivalents	5	20 470 290	30 961 555	28 715 788
		500	500	738 536
<b>TOTAL ASSETS</b>		<b>28 791 632</b>	<b>37 220 695</b>	<b>35 490 802</b>
<b>FUNDS AND LIABILITIES</b>				
<b>Funds and reserves</b>				
Capital outlay	6	(13 084 143)	2 411 058	6 179 886
Funds and accounts	7	3 421 881	3 504 869	-
		(16 506 024)	(1 093 811)	6 179 886
<b>Current liabilities</b>				
Bank overdraft	5	41 875 775	34 809 637	29 310 916
Trade and other payables	8	3 925 697	1 351 497	-
		37 950 078	33 458 140	29 310 916
<b>TOTAL FUNDS AND LIABILITIES</b>		<b>28 791 632</b>	<b>37 220 695</b>	<b>35 490 802</b>



## TOWN COUNCIL OF KATIMA MULILO

## INCOME STATEMENTS FOR THE YEARS ENDED 30 JUNE

	Note	2008 N\$	2007 N\$	2006 N\$
INCOME		18 478 987	15 932 691	17 028 365
EXPENDITURE		(21 790 765)	(22 683 940)	(17 125 757)
NET OPERATING (LOSS) INCOME		(3 311 778)	(6 751 249)	(97 392)
INVESTMENT INCOME EARNED FOR REVENUE ACCOUNTS		179 530	170 206	-
NET (LOSS) INCOME FOR THE YEAR		(3 132 248)	(6 581 043)	(97 392)
APPROPRIATION ACCOUNT	10	(14 759 736)	(4 266 342)	4 617 008
		(17 891 984)	(10 847 385)	4 519 616
REVENUE ACCOUNT - Beginning of the year		(5 225 764)	5 621 621	1 102 005
REVENUE ACCOUNT - End of the year		<b>(23 117 748)</b>	<b>(5 225 764)</b>	<b>5 621 621</b>

## TOWN COUNCIL OF KATIMA MULILO

## CASH FLOW STATEMENTS FOR THE YEARS ENDED 30 JUNE

	Notes	2008 N\$	2007 N\$	2006 N\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Cash receipt from customers		18 478 987	15 932 691	17 028 365
Cash paid to suppliers		(21 567 298)	(25 048 825)	(16 447 033)
Cash utilized by operations	11	(3 088 311)	(9 116 134)	581 332
Investment income		179 530	170 206	-
Movement in fund accounts:				
- Increase/(decrease) in fund accounts		2 479 771	3 573 688	(150 000)
- Increase in capital outlay		(82 988)	3 504 869	-
Net cash flow from operating activities		(511 998)	(1 867 371)	431 332
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Nett capital (expenditure)/income		82 988	(1 814 259)	239 697
(Increase)/decrease in investments		(2 145 190)	1 592 097	(159 397)
		(2 062 202)	(222 162)	80 300
<b>NET(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		(2 574 200)	(2 089 533)	511 632
<b>CASH AND CASH EQUIVALENTS</b>				
- At the beginning of the year		(1 350 997)	738 536	226 904
- At the end of the year	5	<b>(3 925 197)</b>	<b>(1 350 997)</b>	<b>738 536</b>

TOWN COUNCIL OF KATIMA MULILO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEARS ENDED 30 JUNE

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**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 bring the assets to working condition for their intended use. All other plant and equipment are stated at historical cost or valuation where applicable.

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 estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

**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 with bank overdrafts. In the balance sheet, bank overdrafts are included in current liabilities.

**1.4 Internal Funds**

The following Funds were created by the Town Council:

**1.4.1 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.

**1.4.2 Capital Reserve Fund**

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

## TOWN COUNCIL OF KATIMA MULILO

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	N\$	N\$	N\$
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>			
Property development, vehicles, plant and equipment	3 421 881	3 504 869	1 690 610
Total	<b>3 421 881</b>	<b>3 504 869</b>	<b>1 690 610</b>
<b>3. INVESTMENTS</b>			
Commercial banks and building societies	4 898 961	2 753 771	2 303 810
Investment – Insurance company	-	-	2 042 058
Total	<b>4 898 961</b>	<b>2 753 771</b>	<b>4 345 868</b>
The investments were allocated as follows:			
Build Together Fund	2 781 707	788 190	269 163
Capital Reserve Fund	340 978	9 660	6 648
Revenue	1 776 276	1 955 920	4 070 057
Total	<b>4 898 961</b>	<b>2 753 771</b>	<b>4 345 868</b>
<b>4. TRADE AND OTHER RECEIVABLES</b>			
Services, rates and taxes	43 363 258	39 702 746	39 561 697
Build Together Fund receivables	1 802 272	1 882 501	-
Staff advances	1 243 330	1 046 115	237 682
VAT control account	-	33 466	2 532 210
Less: Provision for doubtful debts	(25 938 570)	(11 703 273)	(11 703 273)
Less: Deposits/payments in advance	-	-	(1 912 528)
	<b>20 470 290</b>	<b>30 961 555</b>	<b>28 715 788</b>
<b>5. CASH AND BANK BALANCES</b>			
Current bank account	(3 925 697)	( 1 351 497)	738 536
Petty cash	500	500	-
	<b>(3 925 197)</b>	<b>(1 350 997)</b>	<b>738 536</b>

## TOWN COUNCIL OF KATIMA MULILO

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

	2008	2007	2006
	N\$	N\$	N\$
<b>6. CAPITAL OUTLAY</b>			
Revenue contributions	2 449 061	2 275 659	-
General Capital contributions	972 820	1 229 210	-
	<b>3 421 881</b>	<b>3 504 869</b>	<b>-</b>
<b>7. FUNDS AND ACCOUNTS</b>			
Capital Reserve Fund	340 978	9 660	8 265
Housing Fund – Build Together Fund	6 270 746	4 122 293	550 000
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(23 117 748)	(5 225 764)	5 621 621
	<b>(16 506 024)</b>	<b>(1 093 811)</b>	<b>6 179 886</b>
<b>8. TRADE AND OTHER PAYABLES</b>			
Trade payables	36 304 755	32 183 388	28 958 166
Provisions	1 182 568	1 182 568	352 750
VAT control account	374 631	-	-
Consumer deposits	88 124	92 184	-
	<b>37 950 078</b>	<b>33 458 140</b>	<b>29 310 916</b>
<b>9. ADJUSTMENTS TO APPROPRIATION ACCOUNT</b>			
Balancing figure-unexplained	-	( 1 380)	4 617 008
Investments adjustments	(662 868)	( 2 042 058)	-
Expenditure adjustment	-	(1 143 012)	-
Provision for bad debts	(14 235 297)	-	-
Sundry adjustments	36 066	(118 685)	-
Assets sold	-	716 669	-
Revenue adjustment	102 363	12 734	-
Take-on balances difference	-	(1 690 610)	-
	<b>(14 759 736)</b>	<b>( 4 266 342)</b>	<b>4 617 008</b>

## TOWN COUNCIL OF KATIMA MULILO

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	N\$	N\$	N\$
<b>10. CASH UTILISED BY OPERATIONS</b>			
NET OPERATING (DEFICIT) BEFORE TRANSFERS	(3 132 248)	(6 581 043)	(97 392)
ADJUSTMENTS FOR:			
- Adjustments to appropriation Account	(14 759 736)	(4 266 342)	4 617 008
- Investment income	(179 530)	(170 206)	-
OPERATING (LOSS)/INCOME BEFORE HANGES IN WORKING CAPITAL	<u>(18 071 514)</u>	<u>(11 017 591)</u>	<u>4 519 616</u>
CHANGES IN WORKING CAPITAL			
Trade and other receivables – Decrease/(increase)	10 491 265	(2 245 767)	(2 650 064)
Trade and other payables – Increase/(decrease)	4 491 938	4 147 224	(1 288 220)
	<u>14 983 203</u>	<u>1 901 457</u>	<u>(3 938 284)</u>
<b>CASH UTILISED BY OPERATIONS</b>	<b><u>( 3 088 311)</u></b>	<b><u>(9 116 134)</u></b>	<b><u>581 332</u></b>