



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 2009 AND 2010

Published by authority

Price (Vat excluded) N\$ 30.55
Report no 995

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 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, October 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 2009 AND 2010**

1. INTRODUCTION

The accounts of the Town council of Katima Mulilo 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 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 statements were not submitted within the three month period allowed by the Act. **The unsigned financial statements were only submitted to the Office of the Auditor-General during March 2011.** 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: 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

4.1 Internal control and accounting records

As reported previously no sufficient systems of internal control or proper accounting records exists 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 contravenes Section 86 of the Local Authorities Act (Act 23 of 1992) as amended.

4.2 Appropriation account

2010

The appropriation account for 2010 opens correctly in the financial statements submitted. There is however a balance brought forward captured on the computerized system. The system closed with a balance of N\$ 249 877 977 while the financial statements closed with a deficit of (N\$ 19 817 920) resulting in a difference of N\$ 230 060 057.

2009

The opening balance of the Revenue accounts is correctly disclosed in the appropriation account as (N\$ 23 117 748) while the computerized system wrongly opens with an amount of (N\$ 20 387 585) which resulted in a difference of N\$ 2 730 163.

It was also noted that the prior year adjustments with a net figure of N\$ 4 105 524 were passed by way of journals without supporting documentation. Included in this adjustment is an amount of N\$ 3 609 824 which was passed to reconcile the cash-book balance of the currents account.

The closing balance of the account is also incorrect. The financial statements closed with a deficit of (N\$ 17 972 930) while the computerized system closed with a deficit of (N\$ 18 994 672) resulting in a difference of N\$ 1 021 742.

Afore-mentioned is a clear indication that the annual financial statements submitted to this Office were clearly not reconciled with the computerized system.

4.3 Property, plant and equipment

The Council did not update the fixed asset register during the financial years under review. They had an updated register during 2008. This prevented the auditors from performing procedures to verify the valuation and existence of fixed assets as stated in the financial statements. The additions were recorded as capital expenditure but no depreciation was calculated for these years.

Supporting documentation for payments made to the amounts of 2010: N\$ 267 413 and 2009: N\$ 1 750 332 could not be provided. Journal entries related to 2010 to the amount of N\$ 160 096 could not be traced. A payment of N\$ 17 977 was processed on one quotation only during 2009.

A cheque to the amount of N\$ 70 150 was cancelled but was still recorded as addition to fixed assets.

It was also noted that the value of some assets were recorded VAT inclusive to capital outlay.

The auditors observed that no log books for vehicles exist for control purposes.

The above concern is an indication that this weakness may create opportunities for the misuse of Council's vehicles. Cost management of fuel usage on vehicles might not be effective or non-existent.

4.4 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.

4.5 Consumer deposits

The current consumer deposits of N\$ 88 194 for both years (2008: N\$ 88 194) as disclosed in the financial statements are insufficient to cover for its enormous debts outstanding. The current balance represents a mere 0.2% of total debt due for both years.

It was also noted that consumer deposits remained the same for three consecutive years, raising more questions with regard to collection of deposits.

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

4.6 Trade and other payables

The auditors were unable to verify payables because supplier statements amounting to 2010: N\$ 282 089 and 2009: N\$ 209 610 could not be submitted for audit purposes by the Council.

A Namwater account is understated by N\$ 4 822 658 (2009).

According to the auditors the Ministry transferred an amount of N\$ 3 450 000 for the benefit of the Regional Council, but the money was wrongly transferred into the bank account of the Local Authority. When the Town Council tried to rectify the mistake, they transferred N\$ 3 875 751 to the Regional Council, meaning that they transferred N\$ 425 751 more than they should. No explanation for this state of affairs could be provided by the present management.

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

Numerous staff members' leave days, as per the leave reports submitted were at alarming high levels and exceeded the 60 leave days restriction as per Council conditions of service.

4.7 VAT payable

According to the financial statements the Council is in debt with the Receiver of Revenue by 2010: (N\$ 355 356) and 2009: (N\$ 510 373) (2008: N\$ 359 281). The auditors recalculated the VAT for the years under review and concluded that the VAT for 2010 might be misstated by N\$ 355 356 because no information could be provided. The amount payable for the 2009 financial year is understated by approximately N\$ 300 406.

The recalculated debt payable might also not be a true reflection of the VAT account due to incorrect allocations in the expenditure votes and invoices that might be disallowed by the Department of Inland Revenue.

4.8 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. According to the calculations made by the auditors the amount for 2010 is overstated by N\$ 336 967 and the 2009 amount understated by N\$ 81 927.

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.

The auditors detected that PAYE are not regularly paid over to the relevant authorities and that the amount accumulated to N\$ 1 729 907 as at 30 June 2010. This Office is seeing this in a very serious light because the employee might be assessed wrongly by the Receiver of Revenue due to afore-mentioned failure on the side of the Council.

4.9 Provision for bad debts

Council's basis for provision of bad debts disclosed in the financial statements could not be ascertained. The auditors own review, considering the slow repayment by consumers, concluded the provisions were understated by N\$ 10 212 601: 2010 and N\$ 18 389 693: 2009 (N\$ 14 575 772: 2008).

The outstanding debt for 120 days and more were 52%:2010 and (338%): 2009 (93%: 2008).

The magnitude of these under-provisions, 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.

4.10 Trade receivables

The auditors review on the debtors trial balances indicate debtors with credit balances amounting to N\$ 263 738 069: 2010 and N\$ 262 150 906: 2009 which occurred mainly due to system errors.

The annual financial statements do not agree with either the debtors trial balance or the ageing analysis as calculated below:

2009/10		2008/09	
	N\$		N\$
Debtors as per balance sheet	46 916 374	Debtors as per balance sheet	47 078 876
Debtors as per debtors trial balance	(215 722 763)	Debtors as per debtors trial balance	(214 246 920)
Difference between balance sheet and trial balance	262 639 137	Difference between balance sheet and trial balance	261 325 796
Debtors as per balance sheet	46 916 374	Debtors as per balance sheet	47 078 876
Less: Debtors as per age analysis	85 072 292	Plus: Debtors as per age analysis	(14 246 920)
Balance sheet less than ageing	38 155 918	Balance sheet more than ageing	(61 325 796)

This is again a clear indication that financial statements as submitted is not reconciled with any auxiliary records that are available for staff members to use on a regular basis.

Changes in debtors particulars are not properly updated and reflected on the system. This contributes to recovery problems of debts.

The auditors noted that, numerous accounts were opened for one erf, it was also noted that charges on these accounts were duplicated.

4.11 Build Together Fund

The Build Together Programme is administered by the Town Council on behalf of the Ministry of Regional, Local Government and Housing and it should be considered significant as weaknesses were identified with regards to the 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 the Build Together inspection reports and claim sheets for disbursement funds could not be found at the time of the audit.
- Numerous beneficiaries have already passed away but the Finstel system was not updated accordingly and debts are still reflected under these beneficiaries' names.

The accounting system could not provide any information related to transactions within the fund for the 2010 financial year. The movement within the fund was N\$ 129 815.

The audit revealed that the disbursement account for 2009 financial year is understated by N\$ 59 524 due to receipts from debtors that was wrongly allocated. After taking afore-mentioned mistake into account, the repayments as per system still differ with N\$ 137 986 from the receipts as per bank account. Council should look into this difference and rectify the account as needed.

The above concerns indicate the lack of internal control measures in place to administer the Fund with the necessary integrity.

4.12 Bank reconciliations

No evidence could be found that bank reconciliations are being done on a monthly or regular basis. No bank reconciliations for the financial years ended 30 June 2010 and 2009 could be found or submitted by the Council.

The auditors were therefore unable to verify valuation, accuracy and existence of the reconciled negative bank balance as reflected in the financial statements.

4.13 Natis and salary advances

The NATIS receivable reflected in the financial statements in 2008 amounting to N\$ 549 931 was cleared with a journal without any evidence or reasons.

The balance of salary advances amounting to N\$ 672 579 as disclosed in the 2008 report was also cleared with a journal during the 2009 financial year. The auditors were unable to determine how this money was repaid to the Council.

4.14 Reconciliations

Attention is drawn to the fact that annual and monthly reconciliations of control accounts is non existent. The most important control for ensuring the accuracy of the general/detailed ledger is vested in the monthly reconciliation process. 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. 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.

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 01/07/2009				(17 972 930)
General accounts				
- Rates and general	13 675 316	16 301 805	(2 626 489)	
- Non-profitable	247 780	2 194 866	(1 947 086)	
- Self-supporting	5 558 293	1 919 779	3 638 514	
Trade accounts				
- Water	7 961 556	8 246 910	(285 354)	
Deficit for the year	27 442 945	28 663 360	(1 220 415)	(1 220 415)
				(19 193 345)
Adjustments and utilizations (Note 10 of Annexure D)				*(624 575)
Accumulated deficit 30/06/2010				(19 817 920)

	Revenue	Expenditure	Surplus/ (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus 01/07/2008				(23 117 748)
General accounts				
- Rate and general	10 291 520	10 322 597	(31 077)	
- Non-profitable	152 796	2 244 988	(2 092 192)	
- Self-supporting	4 555 032	1 718 550	2 836 482	
Trade accounts				
- Water	5 444 233	4 949 467	494 766	
- Electricity	-	168 686	(168 686)	
Surplus for the year	20 443 581	19 404 288	1 039 293	1 039 293
				(22 078 455)
Adjustments and utilizations (Note 10 of Annexure D)				*4 105 524
Accumulated deficit 30/06/2009				(17 972 930)

* As can be seen in paragraph 4.2 of this report, these adjustments were not properly analyzed by the Council. It also appears that the Council is using the appropriation account rectify or hide accounting errors. The Office of the Auditor-General is very serious in its criticism about the manner in which the adjustments are used by the Council to portray their financial positions.

7. CURRENT BANK ACCOUNT

	2010	2009	2008
	N\$	N\$	N\$
Cash-book balance at 30 June	(302 062)	(1 175 032)	(3 925 697)
Outstanding cheques*	1 694 398	455 464	-
Unexplained difference	-	-	4 128 223
Balance as per bank statement	1 392 336	(719 568)	202 526

* Council was unable to provide the auditors with bank reconciliations. The list of outstanding cheques were prepared by the auditors.

8. INVESTMENTS AND INTEREST PROCEEDS

Institution	2010	2009	2008
	N\$	N\$	N\$
Commercial banks and building societies	3 840 070	8 289 301	4 898 961
Totals	3 840 070	8 289 301	4 898 961

The investments were allocated as follows:

Allocation	2010	2009	2008
	N\$	N\$	N\$
Capital Reserve Fund	384 980	373 325	340 977
Build Together Fund	3 455 090	4 130 869	2 781 707
Revenue	-	3 785 107	1 776 277
	3 840 070	8 289 301	4 898 961

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:

	Electricity		Water	
	2010	2009	2010	2009
	N\$	N\$	N\$	N\$
Sales	-	-	7 739 906	5 207 201
Bulk purchases	-	-	(7 018 770)	(4 456 683)
Gross profit (deficit)	-	-	721 136	750 518
Net expenditure	-	(168 686)	(1 006 490)	(255 753)
Net profit (loss)	-	(168 686)	(285 354)	494 765
Gross profit/(loss) percentages on bulk purchases	-	-	(10.27)	16.84%
Net profit/(loss) percentage on bulk purchases	-	-	(4.07%)	11.10%

When looking at the table above and paragraph 6, the Council is not distributing electricity anymore. Council should provide this Office with information related who is providing and distributing electricity and the financial implication for the Council should also be disclosed in the financial statements.

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

10.2 Water distribution results.

No distribution results for water were available for the years under review. Council is urged to re-implement the auxiliary registers which enabled them to provide water distribution losses for previous years.

11. SELF-SUPPORTING SERVICES

The results for the years under review were as follows:

	Income 2010	Expenses 2010	Surplus 2010	Surplus 2009
	N\$	N\$	N\$	N\$
Cleansing services	3 322 024	985 193	2 336 831	1 447 926
Sewerage	2 236 268	934 585	1 301 683	1 388 555
	5 558 292	1 919 778	3 638 514	2 836 481

	Income 2009	Expenses 2009	Surplus 2009	Surplus/(Loss) 2008
	N\$	N\$	N\$	N\$
Cleansing services	2 627 781	1 179 855	1 447 926	1 411 535
Sewerage	1 927 250	538 695	1 388 555	226 019
	4 555 031	1 718 550	2 836 481	1 637 554

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No unauthorized or avoidable expenditure was identified during the years under review.

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 PROJECTS

Nature of projects/ Acquisitions	Financed by	Total expenditure 2010	Total Expenditure 2009
	Revenue account		
	N\$	N\$	N\$
Council's general expenses	256 655	256 655	-
Fire Brigade	-	-	948 635
Natis	168 523	168 523	
Town clerk	*3 299	3 299	
Town administration	313 323	313 323	72 513
Town treasurer	262 654	262 654	
Town planning	36 800	36 800	-
Streets and storm water	*1 777 947	1 777 947	782 725
Water	394 597	394 597	614 400
	3 213 799	3 213 799	1 803 873

* The income statement for these votes differs with N\$ 3 299 for town clerk and N\$ 69 601 for streets and storm water.

Nature of projects/ acquisitions	Financed by	Total expenditure 2009	Total Expenditure 2008
	Revenue account		
	N\$	N\$	N\$
Council general exp	-	-	228 000
Town administration	72 513	72 513	20 000
Town clerk	-	-	15 000
Town treasurer	-	-	75 000
Fire brigade	948 635	948 635	-
Streets and storm water	782 725	782 725	300 000
	1 803 873	1 803 873	638 000

There were no up to date Fixed Asset Registers for the years under review.

16. BURSARIES

No bursaries were granted 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:

	2010	2009	2008
	N\$	N\$	N\$
Services, rates and taxes	46 916 373	47 078 876	43 363 258
Housing Fund receivables	2 583 383	2 416 468	1 802 272
Other receivables	-	-	1 243 330
Less: Provision for bad debts	(25 938 570)	(25 938 570)	(25 938 570)
Total	23 561 186	23 556 774	20 470 290

23.2 Trade and other payables at 30 June were:

	2010	2009	2008
	N\$	N\$	N\$
Trade payables	38 537 153	40 375 426	36 304 755
Consumer deposits	88 194	88 194	88 124
VAT	355 356	510 373	374 631
Provisions	749 818	749 818	1 182 568
Totals	39 730 521	41 723 811	37 950 078

Consumer deposits as reflected is considered as inadequate by the auditors bearing in mind the concerns raised in paragraph 4.10.

The provision for leave balance of 2009 financial year was just roll forward to the financial year ended 30 June 2010. It is therefore evident that the Council did not perform any review of this provision during 2010.

24. ASSESSMENT RATES

	2010	2009	2008
	N\$	N\$	N\$
Net surplus from assessment rates	4 132 673	3 447 929	2 958 251
Tariffs per N\$1			
Valuation per annum			
- Land	0.078048	0.074331	0.064636
- Improvements	0.048519	0.046209	0.042009

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\$ 2 583 383 for 2010 and N\$ 2 416 468 for 2009 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 could be done since only printouts from the Finstel system could be provided by the Town Council and copies of original budgets and relevant Ministry 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 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 or disclosed in the annual financial statements for both years although inventories did exist.

31. GENERAL

There is no 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

32.1 Formal queries are embodied in this report.

32.2 The following informal queries have been addressed to the chief executive officer by way of a management letter:

- Special funds and Capital outlay
- Statutory matters – Financial statements and minutes of meetings
- Liabilities
- Fixed assets
- Inventories
- Investments
- Revenue/Accounts receivable
- Payroll
- Cash and bank
- Expenditure
- General Segregation
 Filing and record keeping
 Reconciliations
 Journals

33. DISCLAIMED AUDIT OPINION

The accounts of the Town Council of Katima Mulilo for the financial years ended 30 June 2010 and 2009, 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 due to the following reasons:

- There was no sufficient system of internal control or proper accounting records on which the auditors could rely.
- The appropriation account for 2010 in the financial statements closed with a deficit of N\$ (19 817 920), while the system closed with a balance of N\$ 249 877 977 resulting in a difference of N\$ 230 060 057.
- The appropriation account for 2009 also differs with an amount of N\$ 2 730 163 between the computerized system and the financial statements. Furthermore prior year adjustments with a net figure of N\$ 4 105 524 were passed by way of journals without supporting documentation. Included in these adjustments is an amount of N\$ 3 309 824 which was passed to reconcile the cash-book balance of current account. The closing balances were also not reconciled. The financial statements closed with a deficit of N\$ (17 972 930) while the system closed with a deficit of N\$ (18 994 672) resulting in a difference of N\$ 1 021 742
- The Council did not update the fixed asset register for both years under review. Supporting documentation related to capital expenditure to the amounts of 2010: N\$ 267 413 and 2009: N\$ 1 750 332 could not be provided. Journal entries related to 2010 to the amount of N\$ 160 096 could not be traced. A cheque to the amount of N\$ 70 150 was cancelled but was still recorded as additions to fixed assets.
- No inventories are disclosed in the financial statements for both years. The auditors were unable to calculate the estimated value at the year-ends.
- Consumer deposits are insufficient.

- The auditors were unable to verify trade payables to the amounts of 2010:N\$ 282 089 and 2009: N\$ 209 610.
- A Namwater account is understated by N\$ 4 822 658 for the 2009 financial year.
- The Ministry transferred an amount of N\$ 3 450 000 for the benefit of the Regional Council but was wrongly transferred into the bank account of the Local Authority. The Local Authority transferred an amount of N\$ 3 875 751 to the Regional Council, meaning that they transferred N\$ 425 751 more than they should have.
- The payroll for 2010 is overstated by N\$ 336 967 and understated by N\$ 81 927 for 2009.
- PAYE deductions are not paid over to the relevant authorities and as at 30 June 2010 this amount accumulate to N\$ 1 729 907.
- Provision for bad debts were understated by N\$ 10 212 601 for 2010 and N\$ 18 389 693 for 2009.
- The debtors as per balance sheet differs with the trial balance with N\$ 262 639 137 for 2010 and by N\$ 261 325 796 for 2009. The debtors as per balance sheets differ with the age analysis by N\$ 38 155 918 for 2010 and N\$ 61 325 796 for 2009.
- The Build Together disbursement account for 2009 is understated by N\$ 59 524. After taking the aforementioned into account there is still a difference of N\$ 137 986 between the system and the receipts as per bank account. The accounting system could not provide information related to transactions for 2010.
- Bank reconciliations for the years could not be provided.
- The NATIS debtors account related to 2008 financial year closed with a balance of N\$ 549 931. This account was closed with a journal without any evidence.
- The salary advance account with a balance of N\$ 672 579 at the end of the 2008 financial year was cleared with a journal during 2009. The auditors were unable to determine if any of the advances were re-paid to the Council.
- Monthly reconciliations of control accounts is non-existent.

WINDHOEK, October 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

TOWN COUNCIL OF KATIMA MULILO

BALANCE SHEETS AT 30 JUNE

	Notes	2010 N\$	2009 N\$	2008 N\$
ASSETS				
Non-current assets				
Property, plant and equipment	2	12 279 624	13 515 055	8 320 842
Investments	3	8 439 554	5 225 754	3 421 881
		3 840 070	8 289 301	4 898 961
Current assets				
Trade and other receivables	4	23 565 686	23 557 274	20 470 790
Cash and cash equivalents	5	23 561 186	23 556 774	20 470 290
		4 500	500	500
TOTAL ASSETS				
		35 845 310	37 072 329	28 791 632
FUNDS AND LIABILITIES				
Funds and reserves				
Capital outlay	6	(4 187 273)	(5 826 514)	(13 084 143)
Funds and accounts	7	8 439 554	5 225 754	3 421 881
		(12 626 827)	(11 052 268)	(16 506 024)
Current liabilities				
Bank overdraft	5	40 032 583	42 898 843	41 875 775
Trade and other payables	8	302 062	1 175 032	3 925 697
		39 730 521	41 723 811	37 950 078
TOTAL FUNDS AND LIABILITIES				
		35 845 310	37 072 329	28 791 632

TOWN COUNCIL OF KATIMA MULILO

INCOME STATEMENTS FOR THE YEARS ENDED 30 JUNE

	<u>Note</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
		N\$	N\$	N\$
INCOME		27 324 777	20 274 578	18 478 987
EXPENDITURE		<u>(28 663 360)</u>	<u>(19 404 288)</u>	<u>(21 790 765)</u>
NET OPERATING (LOSS) INCOME		(1 338 583)	870 290	(3 311 778)
INVESTMENT INCOME EARNED FOR REVENUE ACCOUNTS		<u>118 168</u>	<u>169 003</u>	<u>179 530</u>
NET (LOSS) INCOME FOR THE YEAR		(1 220 415)	1 039 293	(3 132 248)
APPROPRIATION ACCOUNT	9	<u>(624 575)</u>	<u>4 105 524</u>	<u>(14 759 736)</u>
		(1 844 990)	5 144 818	(17 891 984)
REVENUE ACCOUNT - Beginning of the year		<u>(17 972 930)</u>	<u>(23 117 748)</u>	<u>(5 225 764)</u>
REVENUE ACCOUNT - End of the year		<u>(19 817 920)</u>	<u>(17 972 930)</u>	<u>(23 117 748)</u>

TOWN COUNCIL OF KATIMA MULILO

CASH FLOW STATEMENTS FOR THE YEARS ENDED 30 JUNE

		2010	2009	2008
		N\$	N\$	N\$
CASH FLOW FROM OPERATING ACTIVITIES				
Cash receipts from customers		27 324 777	20 274 578	18 478 987
Cash paid to suppliers		(31 285 637)	(14 611 515)	(21 567 298)
Cash utilized by operations	10	(3 960 860)	5 663 063	(3 088 311)
Investment income		118 168	169 003	179 530
Movement in Fund accounts				
- Fund accounts		270 431	308 938	2 479 771
- Capital outlay – increase		(3 213 800)	(1 803 873)	(82 988)
Net cash flow from operating activities		(6 786 061)	4 337 131	(511 998)
CASH FLOW FROM INVESTING ACTIVITIES				
Net capital expenditure		3 213 800	1 803 873	82 988
Change in investments – (Increase)/decrease		4 449 231	(3 390 340)	(2 145 190)
		7 663 031	(1 586 467)	(2 062 202)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS				
		876 970	2 750 664	(2 574 200)
CASH AND CASH EQUIVALENTS				
- Beginning of the year		(1 174 532)	(3 925 197)	(1 350 997)
CASH AND CASH EQUIVALENTS				
- End of the year	5	(297 562)	(1 174 532)	(3 925 197)

TOWN COUNCIL OF KATIMA MULILO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEARS ENDED 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 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 marked instruments, net of 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)

	2010	2009	2008
	N\$	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT			
Property development, vehicles, plant and equipment	8 439 554	5 225 754	3 421 881
Total	8 439 554	5 225 754	3 421 881
3. INVESTMENTS			
Commercial banks and building societies	3 840 070	8 289 301	4 898 961
Total	3 840 070	8 289 301	4 898 961
The investments were allocated as follows:			
Build Together Fund	3 455 090	4 130 869	2 781 707
Capital reserve fund	384 980	373 325	340 978
Revenue	-	3 785 107	1 776 276
Total	3 840 070	8 289 301	4 898 961
4. TRADE AND OTHER RECEIVABLES			
Services, rates and taxes	46 916 373	47 078 876	43 363 258
Build Together Fund receivables	2 583 383	2 416 468	1 802 272
Sundry debtors	-	-	1 243 330
Less: Provision for doubtful debts	(25 938 570)	(25 938 570)	(25 938 570)
	23 561 186	23 556 774	20 470 290
5. CASH AND BANK BALANCES			
Current bank account	(302 062)	(1 175 032)	(3 925 697)
Petty cash	4 500	500	500
	(297 562)	(1 174 532)	(3 925 197)

TOWN COUNCIL OF KATIMA MULILO

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

	2010	2009	2008
	N\$	N\$	N\$
6. CAPITAL OUTLAY			
Revenue contributions	7 466 734	4 252 934	2 449 061
General Capital contributions	972 820	972 820	972 820
	8 439 554	5 225 754	3 421 881
7. FUNDS AND ACCOUNTS			
Capital Reserve Fund	384 979	373 325	340 978
Housing Fund – Build Together Fund	6 806 114	6 547 337	6 270 746
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(19 817 920)	(17 972 930)	(23 117 748)
	(12 626 827)	(11 052 268)	(16 506 024)
8. TRADE AND OTHER PAYABLES			
Trade payables	38 537 153	40 375 426	36 304 755
Provisions	749 818	749 818	1 182 568
VAT control account	355 356	510 373	374 631
Consumer deposits	88 194	88 194	88 124
	39 730 521	41 723 811	37 950 078
9. ADJUSTMENTS TO APPROPRIATION ACCOUNT			
Prior year expenditure adjustments	679 601	1 950 346	-
Investments adjustments	-	-	(662 868)
Prior year income adjustments	(55 026)	(6 073 423)	-
Provision for bad debts	-	-	(14 235 297)
Sundry adjustments	-	17 552	36 066
Revenue adjustment	-	-	102 363
	624 575	(4 105 525)	(14 759 736)

TOWN COUNCIL OF KATIMA MULILO

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

	<u>2010</u> N\$	<u>2009</u> N\$	<u>2008</u> N\$
10. CASH UTILISED BY OPERATIONS			
NET OPERATING (DEFICIT) SURPLUS BEFORE TRANSFERS	(1 220 415)	1 039 293	(3 132 248)
ADJUSTMENTS FOR:			
- Adjustments to appropriation account	(624 575)	4 105 524	(14 759 736)
- Investment income	(118 168)	(169 003)	(179 530)
OPERATING (LOSS) INCOME BEFORE CHANGES IN WORKING CAPITAL	<u>(1 963 158)</u>	<u>4 975 814</u>	<u>(18 071 514)</u>
CHANGES IN WORKING CAPITAL			
Trade and other receivables – decrease / (increase)	(4 412)	(3 086 484)	10 491 265
Trade and other payables – increase / (decrease)	(1 993 290)	3 773 733	4 491 938
	<u>(1 997 702)</u>	<u>687 249</u>	<u>14 983 203</u>
CASH UTILISED BY OPERATIONS	<u>(3 960 860)</u>	<u>5 663 063</u>	<u>(3 088 311)</u>