



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF KHORIXAS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Published by authority

Price (Vat excluded) N\$ 29.73

Report no 1011

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 Khorixas for the financial year ended 30 June 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, November 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE COUNCIL OF KHORIXAS
FOR THE FINANCIAL YEAR ENDED
30 June 2010**

1. INTRODUCTION

The above accounts of the Council of Khorixas for the year ended 30 June 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 BDO has been appointed in terms of Section 26(2) of the State Finance Act, 1991, to audit the accounts of the Council on behalf of the Auditor-General and under his supervision.

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

2. FINANCIAL STATEMENTS

The Council's financial statements were submitted to the Auditor-General by the Accounting Officer in compliance with Section 87(1) of the Local Authorities Act, 1992, **except that they were only submitted on 17 March 2011 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. The following annexures are also attached to this report:

Annexure B: Abridged income statement
Annexure C: Cash flow statement
Annexure D: Notes to the financial statements

3. SCOPE OF THE AUDIT

Management's responsibility for the financial statements

The Accounting Officer of the Town Council is responsible for the preparation and fair presentation of the financial statements and for ensuring the regularity of the financial transactions. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

It is the responsibility of the Auditor-General to form an independent opinion, based on the audit, on those statements and on the regularity of the financial transactions included in them to report his opinion to National Assembly. The said firm conducted the audit in accordance with the International Standards on Auditing. Those standards require that the firm complies with ethical requirements and plans and performs the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness

of the entity's internal controls. An audit also includes evaluating the appropriateness of the 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 Financial results

The Council made a deficit of N\$ 1 208 233 (2009: N\$ 2 943 381), before any adjustments during the financial year. The Council should determine the causes for the deficit and implement measures to return to profitability again. (Also refer to paragraph 4.9.)

4.2 Fixed Assets

The items on the fixed asset register are not coded and dated as to when they were purchased. The descriptions are not adequate to enable identification of the assets. As a result the auditors could not trace selected assets to the fixed asset register.

The auditors could also not verify additions to the general capital category amounting to N\$ 6 270 031 as supporting documentations could not be provided by the Council. Furthermore a credit journal to revenue assets, reversing previous debit entries, to the amount of N\$ 121 912 could not be verified.

The Council did not depreciate the additions purchased from revenue during the year, thus the value of the assets is overstated.

A sample of assets with a value of N\$ 253 302 could not be physically verified as they were auctioned during the financial year but they were however not removed from the fixed asset register.

4.3 Value Added Tax

Included in trade and other receivables is an amount of N\$ 1 793 815 for VAT receivable. No reconciliation of this amount could be provided to the auditors to verify the accuracy, existence and valuation of the amount.

The Council has also not been submitting correct VAT returns as they have not been recording zero rated and exempted income and expenditure items. Returns for 09/2009 to 05/2010 were also not submitted on time thus causing the Council to suffer penalties and interest on late returns submitted.

There is a material difference of N\$ 1 273 926 between the Receiver of Revenue statement and the ledger at year-end. When conducting the audit and taking into consideration VAT returns submitted after year-end there was still a difference of N\$ 569 704.

4.4 Funds - Build Together and Capital Development

The total movement in the Build Together Fund was N\$ 1 525 413. According to the auditors the expected movement was N\$ 2 059 056, leaving a difference of N\$ 533 643. Furthermore they could also not rely on the Build Together loan debtors listing because the Council admitted that the computerized system was last updated during 2006. Therefore no updated records regarding new loans or the repayments thereof were available for audit purposes.

Interest on investments to the amount of N\$ 439 578 was incorrectly allocated to revenue instead of the Capital Development Fund. The Council should rectify this wrong allocation during the next financial year.

4.5 Trade and other receivables

The Council did not perform proper year-end procedures related to debtors. The audit revealed a material difference of N\$ 1 350 628 between the ledger and the age analysis. The auditors could thus not perform any other work on the trade receivables or the provision for bad debts balances. Thus no assurance could be obtained regarding the existence, completeness, accuracy and valuation of these balances.

A suspense account relating to receipts that are not reflected on the bank statements amounting to N\$ 809 476 were not cleared as at year-end, and could not be supported by documentation.

4.6 Consumer deposit

The Council could not provide a listing of consumer deposits to reconcile the amount of N\$ 39 468 as disclosed in the financial statements. The existence, accuracy and completeness of this balance could thus not be ascertained.

4.7 Trade and other payables

As reported in the previous years, Cenored made overpayments to the Town Council amounting to N\$ 680 000 during the financial years 2004/05 and 2005/06.

It was agreed that the Council will not receive a surcharge for the period of 5 years, from the year of the last payment, as Cenored will be recovering the amounts due to them.

No adjustment was made in the financial statements to reflect the Cenored liability. The resulting income has also not been recorded.

As reported in the previous year, the Council could not provide supporting documentation for creditors amounting to N\$ 158 200. No authentic leave pay register could be provided by the Council to ascertain the correctness of the provision for leave to the amount of N\$ 151 997. The Namwater account is materially misstated by N\$ 1 418 141.

A suspense account related to direct deposits made, with a balance of N\$ 1 367 344, was not cleared as at year-end.

The Council has raised a provision for accounting fees with a balance of N\$ 32 818 which is not permitted by the international accounting standards.

An unrecorded liability test revealed that creditors are understated by at least N\$ 140 476.

4.8 Provision for bonuses

No provision for bonuses has been raised. The effect of this non provision could be material.

4.9 Liquidity Position

A temporary advance to revenue of N\$ 2 919 089 (2009: N\$ 991 913) was made during the year under review. As also reported previously, a negative current ratio still exists, which indicates a possible crisis position.

4.10 Water purchases and sales

The water purchases as per the Namwater statements for the current financial year and the water expense in the financial statements differ. The water expense and the net deficit for the year are understated by N\$ 2 944 917.

It must again be reported that the Council only accounts for the income on the basic charge, which they receive from Namwater as refund as agreed. The rest of the water income is collected by Namwater in an effort to reduce the outstanding monies due to them. However, the Council should be accounting for water sales in full, and not just account for the basic charges as the income belongs to the Council. This treatment by the Council of the water sales has resulted in the understatement of income. The Council is urged to correct this accounting error which will portray a more correct picture of the Councils' financial status.

4.11 Payroll

The Payroll records could not be reconciled to the general ledger. A material difference of N\$ 193 521 was found. The correctness of the leave gratuity payment expense amounting to N\$ 273 445 could not be verified. Pension Fund contributions also appear to be materially misstated by N\$ 157 822. The auditors could not ascertain the completeness and existence of these expenses.

4.12 Expenses

During the audit the following problems were identified related to current expenditures:

Description of expense	Amount	Problem identified
	N\$	
Material and stores	106 052	Lack of supporting documents
Salaries	88 284	Misallocation
Repair and maintenance - Vehicles	189 255	Lack of supporting documentation
Repair of construction machines	78 653	Lack of supporting documentation
Consulting fees	139 978	Misallocation

It should be reminded that the above is only a summary of the sample selected for audit purposes and not a full picture.

4.13 Income

4.13.1 Lack of proper income listings

The following required income listings could not be provided:

	N\$
House rental income	1 015 402
Business rental	232 773
Sale of even	163 790

4.13.2 Lack of supporting documentation

The correctness of the rent received, related to letting of machinery to the amount of N\$ 110 577 and sand deliveries to the amount of N\$ 128 033, could not be confirmed due to a lack of documentation.

4.13.3 Surcharge income - Censored

The surcharged revenue as disclosed in the financial statements of the Council is understated by N\$ 112 737.

4.13.4 Investment income

Interest received on investments, as disclosed in the financial statements of the Council, is understated by N\$ 95 699.

4.14 Bank and Cash

Stale cheques amounting to N\$ 711 289 were not written back. Furthermore, the Council could not provide a list of cancelled receipts and certain daily cash up sheets. The existence, completion and accuracy of bank and cash could thus not be ascertained.

4.15 Stock

The Council has expensed stock instead of recording it as stock on hand.

4.16 Appropriation account

Revenue adjustments of N\$ 1 245 529 in the appropriation account could not be supported by appropriate documentation.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

The results of the various operations and transactions on the Revenue Account for the year are as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit 01/07/2009				(13 504 270)
General services				
Non-profitable	838 359	7 064 509	(6 226 150)	
Self-supporting	5 607 071	446 177	5 160 894	
Trade accounts				
Electricity	175 862	65 895	109 967	
Water	498 825	751 769	(252 944)	
Deficit for the year	7 120 117	8 328 350	(1 208 233)	(1 208 233)
Adjustments and appropriations (Note 9, Annexure D)				(14 712 503) (379 892)
Accumulated deficit 30/06/2010				(15 092 395)

Although the accumulated deficit is less than the prior year, it remains extremely high and the Council should investigate the causes and implement measures to rescue the financial position of the Council.

7. CURRENT BANK ACCOUNT

The favourable bank statement balance of the current bank account amounted to N\$ 375 595 (2009: N\$ 368 743) and an unfavourable cash-book balance was N\$ 516 462 (2009: N\$ 93 754 - favourable). Outstanding cheques at 30 June 2010 amounted to N\$ 895 979 (2009: N\$ 287 410).

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2010 were as follows:

Institution	2010	2009
	Investment	Investment
	N\$	N\$
Invested at:		
Commercial banks	6 512 737	13 166 383
	6 512 737	13 166 383
Distribution		
Capital Development Fund	4 410 477	12 684 549
Housing Fund (Build Together)	2 102 260	481 834
	6 512 737	13 166 383

Interest amounting to N\$ 439 578 has been allocated to revenue. (Also refer to paragraph 4.13.4.)

9. FUND ACCOUNTS

The position of internal Funds and Reserves is shown in note 5 at annexure D.

10. TRADE ACCOUNTS

10.1 Operating results

The results for the financial year under review and the previous year were as follows:

	Electricity		Water	
	2010	2009	2010	2009
	N\$	N\$	N\$	N\$
Sales	-	-	*450 265	888 961
Cost of bulk purchases	(65 895)	(76 623)	(56 703)	(2 586 743)
Gross profit	(65 895)	(76 623)	393 562	(1 697 782)
Other income/ (expenses)	175 862	79 251	(646 506)	(556 916)
Net (loss)/surplus	109 967	2 628	(252 944)	(2 254 698)
Gross (loss)/ profit on bulk purchases	-	-	694.1%	(43.9%)
Net (loss)/surplus percentage on bulk purchases	-	-	(456.1%)	(87.16%)

* The Council has not been recording all water sales income as a result of the arrangement they have with Namwater. This has resulted in an understatement of the water sales figure in current year. (Please see paragraph 4.10.)

10.2 Distribution results

As reported in prior years, no statistics were kept by the Council to calculate the distribution results. The Council is advised to record the cubic meters sold and purchased to calculate distribution results.

11. SELF-SUPPORTING EXTERNAL SERVICES

The net result of these services, compared with the previous year, is as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2010	2010	2010	2009
	N\$	N\$	N\$	N\$
Public Health	536 489	222 623	313 866	(164 335)
Sewerage	1 092 358	-	1 092 358	1 036 872
Town Planning	1 415 379	189 486	1 225 893	1 248 487
Cleaving services	711 491	-	711 491	492 174
Rates & Taxes	1 851 354	34 068	1 817 286	-
	5 607 071	446 177	5 160 894	2 613 197

The Council has successfully maintained all the services profitable.

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorised or avoidable expenditure was revealed during the audit.

13. SUSPENSE ACCOUNTS

Suspense accounts were not reconciled on a regular basis and suspense accounts amounting to N\$ 809 476 (debit balance) and N\$ 1 367 344 (credit balance) were not cleared at year-end. Both the suspense accounts are related to uncleared entries on the bank account.

14. IRREGULARITIES AND LOSSES

- 14.1 Cash shortage of N\$4 558 was reported during the period. No other irregularities or losses were identified during the period.

15. CAPITAL PROJECTS

Capital expenditure for the 2010 financial year amounted to N\$ 7 057 033 (2009: N\$ 9 034 052) and comprises the following:

	Financed by			
	Capital 2010	Revenue	Total 2010	Total 2009
	N\$	N\$	N\$	N\$
Public health	1 040 060	-	1 040 060	37 856
Human Resources and public relations	-	13 637	13 637	-
Water	3 157 376	-	3 157 376	5 369 446
Town Clerks	-	880	880	22 504
Town Planning	1 213 030	-	1 213 030	3 031 422
Streets	869 565	-	869 565	323 807
Town treasurer	-	9 773	9 773	-
Work shop	-	685 847	685 847	-
Sewerage	66 865	-	66 865	249 017
	6 346 896	710 137	7 057 033	9 034 052

16. BURSARIES

No bursaries were granted during the year.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

The Council could not provide supporting documentation(s) for contributions made amounting to N\$ 5000. No grants were made and no financial assistance was given during the year.

18. COMPENSATION PAYMENTS

No compensation payments were paid during the year.

19. VISITS TO FOREIGN COUNTRIES

The Council undertook a visit to Sweden, to participate in exchange programs for Councils to exchange ideas and learn from one another.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

21. GIFTS AND DONATIONS BY/TO THE LOCAL AUTHORITY

21.1 No donations were received by the Council during the year under review. No supporting documentation could be obtained for donations made by the Council to the amount of N\$ 1 254. It is also unknown who the beneficiaries were.

22. TRANSFER OF PROPERTY TO/FROM THE GOVERNMENT

No property was transferred to/or from the Government.

23. DEBTORS/CREDITORS

23.1 Debtors on 30 June 2010 comprise the following:

	2010	2009
	N\$	N\$
Receiver of Revenue	1 793 815	824 564
Services	21 344 796	20 561 075
Suspense account	812 753	1 229 951
	23 951 364	22 615 590
Less: Provision for bad debts	(20 909 124)	(19 391 159)
	3 042 240	3 224 431

The auditors could not perform any audit tests/procedures due to a material difference between the debtors listing, age analysis and the financial statements. (Also refer to paragraph 4.5.)

23.2 Creditors on 30 June 2010 comprise the following:

	2010	2009
	N\$	N\$
Trade Creditors	158 270	158 336
Consumer Deposits	39 468	39 768
Suspense Account	1 367 344	2 327 592
Provision for Regional Council	152 374	176 807
Provision for Accrued Creditors	38 361	225 784
Provision for Accounting Fees	32 818	81 520
Provision for leave	151 997	62 282
Provision for Namwater	12 758 453	12 758 453
	14 699 085	15 830 542

No supporting documentation could be obtained for the trade creditors of N\$ 158 200.

Included in the suspense account is also a direct deposit account which is not cleared timeously to consumer debtors accounts.

No listing for consumer deposits could be provided to the auditor. Namwater account is materially misstated by N\$1 418 141. (Also refer to paragraph 4.7.)

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 1 851 354 (2009: N\$ 1 769 011), of which an amount of N\$ 34 068 (2009: N\$ 88 473) was paid to the Regional Council. Tariffs determined during the year were N\$ 0.1498 (2009: N\$ 0.1303) per dollar per year on site valuations, N\$ 0.0327 (2009: N\$ 0.0284) per dollar per year on the valuation of improvements.

The Council has not updated the billing system with the current year tariff on value of improvements as gazetted, this may have resulted in a possible understatement in rates and taxes income.

25. LOANS

25.1 No external loans, excluding the Housing Fund, was due by the Council 30 June 2010 (2009: N\$ 104 802). This agrees with amortisation tables. Loan assets have been capitalised and no loan assets were disposed of before the loan was redeemed. Loan monies were used for the purpose they were obtained.

25.2 No Internal loans existed as at 30 June 2010.

25.3 Housing Fund loans due to the Council were as follows:

	2010	2009
	N\$	N\$
Interest rates from 9% to 12%.	2 365 222	2 460 235

The Council could not provide the auditors with a list of these advances.

26. SALE OF ERVEN

The proceeds of erven and plots sold were N\$ 163 790 (209: N\$ 241 765) and were allocated to the vote Town planning. The Council could not provide a list of ervens sold during the period.

27. PROPERTY SOLD ON AN INSTALMENT BASIS

No properties were sold on an instalment basis during the year.

28. TARIFF ADJUSTMENTS

Tariff adjustments were applied in accordance with the relevant Official Government Notices.

29. APPROVALS

No bad debts were written off during the current year.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles

	Sedan		LDV's		Heavy Vehicles	
	Number	Value	Number	Value	Number	Value
		N\$		N\$		N\$
Balance - 01/07/2009	3	202 863	10	433 933	14	690 240
Plus: Additions	1	185 847	1	500 000	-	-
Sub-total	4	388 410	11	933 933	14	690 240
Less: Depreciation		(24 168)		(132 482)		(172 560)
Balance - 30/06/2010	4	364 242	11	801 451	14	517 680

No auxiliary records were kept to calculate the fuel consumption per vehicle for the year under review. It is recommended that such registers be implemented and maintained on a monthly basis. This will enable the Council to control the usage of their vehicles.

30.2 Motor vehicle accidents

No vehicle accidents were reported during the year.

30.3 Inventory

No stock count was performed at year end and consequently no stock balance is reflected in the balance sheet.

31. SPECIAL INVESTIGATIONS

No special investigations were commissioned by the Council.

32. GENERAL

There is not a sufficient system of internal control at the Town Council. Proper segregation of duties is not possible due to the small number of staff employed. While increased management involvement does reduce risk it also increase the risk that management and the Council could override existing controls, this is a potentially dangerous practice, which the Council should vigilantly guard against.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 Informal queries reported to the Accounting Officer and Town Clerk by way of a management letter were the following:

- VAT.
- Debtors and provision for bad debts.
- Provision for bonus.
- Fixed assets.
- Consumer deposits.
- Suspense accounts (Direct deposits and receipts not on bank statements).
- Build together debtors.
- Lack of supporting documentation for journals passed.
- Rates and taxes.
- Water sales and purchases.
- Income from sale of erven, house rental and business rental.
- Electricity surcharges.
- Income from rental of machinery and sand deliveries.
- Expenses not supported by valid documentation.
- Payroll expense.
- Accounts payable.
- Funds – Build together and Capital Reserve Funds.

34. DISCLAIMER OF OPINION

The accounts of the Town Council of Khorixas for the financial year ended 30 June 2010 summarised in Annexure A to D were audited in terms of the provisions of Section 85 of the Local Authorities Act, 1992, read with Section 25(1) (b) of the State Finance Act, 1991.

The disclaimer of audit opinion has been issued due to the following reasons:

- The fixed asset register is not coded and dated as to when the purchases were made. Therefore auditors could not trace assets to the fixed asset register. Fixed asset additions amounting to N\$ 6 270 031 could not be supported by valid supporting documentation. Furthermore a journal to revenue assets to the amount of N\$ 121 912 could not be verified. A sample of assets with a value of N\$ 253 302 could not be physically verified due to fact that they were auctioned during the year but they were not removed from the fixed asset register.
- VAT receivable to an amount of N\$ 1 793 815 could not be reconciled. A difference of N\$ 1 273 926 was observed between the Receiver of Revenue statement and the General ledger at year-end.
- No supporting documentation could be provided to substantiate the movement in the Build together and Capital reserve Funds.
- The auditor could not perform work on debtors due to improper year end procedures performed that resulted in a material difference of N\$ 1 350 628 between the ledger and the age analysis.
- A suspense account balance of N\$ 809 476 (debit balance) was not cleared at year end.
- The Council could not provide a detailed list of consumer debtors; therefore the auditor could not verify the balance of N\$ 39 648.
- No supporting documentation could be provided to support a trade creditors balance of N\$ 158 200.
- A suspense account balance of N\$ 1 367 344 (credit balance) was not cleared at year end.
- The Council raised a provision for accounting fees which is not permitted by the accounting standards.
- Namwater creditor's account is materially misstated by N\$ 1 418 141.
- The correctness of the provision for leave to the amount of N\$ 151 997 could not be ascertained due to a lack of documentation.

- An unrecorded liability test revealed an understatement of at least N\$ 140 476.
- Water expense is materially understated by N\$ 2 944 917.
- Payroll could not be reconciled to general ledger by N\$ 193 856.
- Pension fund contributions appears to be materially misstated by N\$ 157 822.
- Leave gratuity to the amount of N\$ 273 445 paid to employees who were still employed by the Council, could not be verified
- Stale cheques amounting to N\$ 711 289 were not written back.
- Materials and stores amounting to N\$ 106 052 could not be supported by valid documentation.
- Salaries amounting to N\$ 88 284 were misallocated.
- Vehicle repairs and maintenance amounting to N\$ 189 255 could not be supported by valid documentation.
- Construction machinery repair costs amounting to N\$ 78 653 could not be supported by valid documentation.
- An expenditure amounting to N\$ 139 978 were wrongly allocated to Consulting fees.
- The following income listings could not be provided and therefore the correctness of the revenue received cannot be confirmed.

	N\$
House rental income	1 015 402
Business rental	232 773
Sale of even	163 790

- The Council only accounted for the basic charge on water as income for the Council. Water sale has not been accounted for by the Council, hence it is materially understated.
- Investment income per ledger does not agree to the investment schedule by N\$ 95 698.
- Rates and taxes income is understated as the Council has not increased the tariff on the value of improvements as gazetted.
- Electricity surcharge is understated by N\$ 112 736.
- Income from rental of machinery amounting to N\$ 110 577 could not be supported by any documentation.
- Income from sand deliveries amounting to N\$ 128 033 could not be supported by any documentation.
- A journal related to a revenue adjustment amounting to N\$ 1 245 529 was passed against the appropriation account, however it could not be supported by valid documentation.
- A possible liquidity /going concern crisis exist.

WINDHOEK, November 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

TOWN COUNCIL OF KHORIXAS

ANNEXURE A

BALANCE SHEET AS AT 30 JUNE 2010

ASSETS	Notes	2010 N\$	2009 N\$
Non-current assets		32 619 710	33 905 359
Property, plant and equipment	2	23 741 751	18 278 742
Loans	3	2 365 222	2 460 234
Investments	4	6 512 737	13 166 383
Current assets		3 042 240	3 318 185
Trade and other receivables	5	2 229 487	1 994 480
Suspense accounts	7	812 753	1 229 951
Cash and cash equivalents		-	93 754
TOTAL ASSETS		35 661 950	37 223 544
EQUITY AND LIABILITIES			
Equity		20 446 403	21 288 200
Capital outlay	6.1	23 741 751	18 173 940
Funds accounts and reserves	6.2	(3 295 348)	3 114 260
Non-current liabilities			
Long-term liabilities		-	104 802
Current liabilities		15 215 547	15 830 542
Trade and other payables	8	13 331 741	13 502 950
Suspense account – Direct deposits	9	1 367 344	2 327 592
Bank overdraft		516 462	-
TOTAL EQUITY AND LIABILITIES		35 661 950	37 223 544

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	<u>Note</u>	<u>2010</u>	<u>2009</u>
		N\$	N\$
INCOME		6 680 539	6 101 539
EXPENDITURE		<u>(8 328 350)</u>	<u>(9 044 920)</u>
OPERATING LOSS FOR THE YEAR		(1 647 811)	(2 943 381)
INVESTMENT INTEREST EARNED FOR FUND ACCOUNTS		<u>439 578</u>	<u>-</u>
NET LOSS FOR THE YEAR		(1 208 233)	(2 943 381)
Add : Appropriation and adjustments	9	<u>(379 892)</u>	<u>(1 718 653)</u>
RETAINED SURPLUS/(LOSS) FOR THE YEAR		(1 588 125)	(4 662 034)
30 June 2009		<u>(13 504 270)</u>	<u>(8 842 236)</u>
30 June 2010		<u>(15 092 395)</u>	<u>(13 504 270)</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 N\$	2009 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		6 680 539	6 101 539
Cash paid to suppliers		(9 657 508)	(8 602 418)
Cash utilised from customers	10	(2 976 969)	(2 500 879)
Finance costs		(4 865)	
Investment income		439 578	-
<i>Net Cash (Utilised)/generated by operating activities</i>		<u>(2 542 256)</u>	<u>(2 500 879)</u>
CASH GENERATED BY INVESTING ACTIVITIES			
		1 285 649	(7 353 559)
Purchase of property, plant and equipment		(5 463 009)	(8 080 503)
Decrease in advances		95 012	(228 519)
Decrease in investments		6 653 646	955 463
CASH UTILIZED BY FINANCING ACTIVITIES			
		646 391	9 722 590
(Decrease)/Increase in revenue fund		746 328	9 847 257
Decrease in long term liabilities(non-cash)		(3 488)	-
Decrease in long term liabilities		(96 449)	(124 667)
Net (decrease)/increase in cash and cash equivalents		(610 216)	(131 848)
Cash and cash equivalents at the beginning of the year		93 754	225 602
Cash and cash equivalents at the end of the year		<u>(516 462)</u>	<u>93 754</u>

TOWN COUNCIL OF KHORIXAS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)**1. ACCOUNTING POLICIES****1.1 Introduction**

The annual financial statements set out in Annexures A to C were prepared on the historical cost basis and incorporate the following principal accounting policies, which are consistent in all material aspects with those applied in the previous year.

1.2 Property, plant and equipment

All property, 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.

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 against bank overdrafts.

1.4 Internal Funds

The following funds were created by the Town Council:

1.4.1 Build Together Fund

The purpose of this Fund is to provide for housing loan assistance to low income earners in the society. The low income earners are expected to provide their house plans and are vetted for qualification before the funds are disbursed. This is a revolving fund, the low income earners are expected to repay these loans on a monthly basis for a period of up to twenty years, at an interest rate of five percent per annum. Income for the Fund is derived from interest earned on secured housing loans and investments.

1.4.2 Capital Development Fund

Proceeds from the sale of land developed by the Council as well as interest earned on investments accumulate in this Fund. Costs incurred on the development of land are charged to this account.

TOWN COUNCIL OF KHORIXAS

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

	2010	2009
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Consists of :		
Property, plant and equipment	23 741 751	18 278 742
Financed by :		
Revenue account	7 062 634	6 460 054
General capital	16 679 117	11 260 646
Loans assets	-	558 042
	23 741 751	18 278 742
3. LOANS		
Advance to buyers	2 365 222	2 460 234
	2 365 222	2 460 234
4. INVESTMENTS		
Commercial banks	6 512 737	13 166 383
	6 512 737	13 166 383
Allocated to:		
Capital Development Fund	4 410 477	12 684 549
Build Together Fund	2 102 260	481 834
	6 512 737	13 166 383
5. ACCOUNTS RECEIVABLE		
Trade debtors	21 344 796	20 561 075
Value added taxation	1 793 815	824 564
	23 138 611	21 385 639
Less :		
Provision for doubtful debts	(20 909 124)	(19 391 159)
	2 229 487	1 994 480
6. FUNDS AND ACCOUNTS		
6.1 Capital Outlay	23 741 751	18 173 940
Contribution ex Revenue	7 062 634	6 460 054
Contribution ex General Capital	16 679 117	11 260 646
Long term loans redeemed	-	453 240

TOWN COUNCIL OF KHORIXAS

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

	2010	2009
	N\$	N\$
6.2 Funds, Accounts and Reserves	(3 295 348)	3 114 260
Capital Development Fund	7 329 565	13 676 461
Build Together Fund	4 467 482	2 942 069
Revenue Account kept in compliance with Section 86 (1) of the Local Authorities Act, 1992	(15 092 395)	-
	20 446 403	21 288 200
7. SUSPENSE ACCOUNTS		
R/D Cheques	3 277	25 545
Receipts not on bank statement	809 476	1 204 406
	812 753	1 229 951
8. ACCOUNTS PAYABLE		
Trade payables	158 270	158 336
Provision for leave pay	151 997	62 282
Provision for Accounting fees	32 818	81 520
NAMWATER	12 758 453	12 758 453
Regional Council	152 374	176 807
Accrued Creditors	38 361	225 784
Consumer Deposits	39 468	39 768
	13 331 741	13 502 950
9. ADJUSTMENTS AND APPROPRIATIONS		
Adjustments- Income relating to prior year		
Appropriations	1 245 529	-
Other adjustments	(115 066)	(287 197)
Debtors adjustments	(1 517 965)	(1 442 234)
Prior year audit adjustments	-	(6 103)
Stale Cheques	7 610	16 881
	(379 892)	(1 718 653)

TOWN COUNCIL OF KHORIXAS

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

	2010	2009
	N\$	N\$
10. CASH UTILISED IN OPERATIONS		
Net operating (loss)	(1 208 233)	(2 943 381)
Adjustments (appropriations)	(379 892)	(1 718 653)
Investment Income	(439 578)	-
	<hr/>	<hr/>
OPERATIONAL INCOME BEFORE CHANGE IN WORKING CAPITAL	(2 027 703)	(4 662 034)
GENERATION OF WORKING CAPITAL		
(Increase)/decrease in accounts receivable	(235 007)	522 706
(Increase)/decrease in suspense(assets)	417 198	(1 229 951)
Increase/(decrease) in suspense (liabilities)	(960 248)	-
Increase/(decrease) in accounts payable	(171 209)	2 868 400
	<hr/>	<hr/>
	(2 976 969)	(2 500 879)