



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF NKURENKURU

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

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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 Nkurenkuru for the financial year ended 30 June 2012, 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, August 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF NKURENKURU
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012**

1. INTRODUCTION

The accounts of the Town Council of Nkurenkuru for the year ended 30 June 2012 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 MAC & Associates has been appointed in terms of Section 26 (2) of the State Finance Act, 1991, to audit the accounts of the Town Council on behalf of the Auditor-General and under his supervision.

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

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. 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 on Annexure A is a true reflection of the original signed by the Accounting Officer.

The financial statements also include:

Annexure B: Abridged income statement

Annexure C: Cash flow statement

Annexure D: Notes to the financial statements

3. SCOPE OF THE AUDIT

Management's responsibility for the financial statements

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

Auditor's responsibility

It is the responsibility of the Auditor-General to form an independent opinion, based on the audit, on those statements and on the regularity of the financial transactions included in them and to report his opinion to the National Assembly. The said firm conducted the audit in accordance with International Standards on Auditing. Those standards require that the firm comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Understatement of property, plant and equipment

A fire fighting vehicle donated by the Ministry of Regional and Local Government, Housing and Rural Development in the 2010/11 financial year valued at N\$ 1 040 274 was not recorded in the fixed assets register and is not reflected in the annual financial statements of both the prior and current years. As a result, the property, plant and equipment and related Capital Outlay Fund are understated.

4.2 Consumer debtors

Proceeds on sale of erven amounting to N\$ 423 657 were incorrectly credited to the debtors accounts resulting in the understatement of consumer debtors and the related sale of erven income by the same amount.

The provision for bad debts is understated by N\$ 327 066.

4.3 Value added taxation (VAT)

Included in the appropriation account is an unexplained and unsupported adjustment of N\$ 451 862 (relating to VAT), and as a result, the validity of the adjustment could not be verified.

The VAT return for July 2011 as well as the VAT reconciliation could not be provided by the Council for audit verification, as a result, the VAT balance could not be verified.

4.4 Occupational rent – Lack of supporting documents

No complete list of properties (being leased out by the Council to individuals and businesses) could be provided hence the completeness of occupational rent income could not be verified.

4.5 Valuation of Build Together loans receivables

No provision for bad debts (on the Build Together loans receivable) was made despite the fact that the loans have no security since the Council did not arrange life insurance cover over the lives of beneficiaries. Furthermore, the beneficiaries are low income-earners and slow payers making recoverability of the loans doubtful.

4.6 Omitted investment in equities

The investment in the shares of the Local Authorities Electricity Company (Pty) Limited (shareholder in NORED) is not reflected in the financial statements.

4.7 Recognition of land sales

The Council treated all proceeds relating to land sales received during the financial year as revenue despite the fact that some of them were deposits. In addition, no debtors were recognised for land sold on instalment basis. The auditors were therefore unable to verify the completeness and accuracy of the recorded land sales.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

The results of the operations of, and transactions on the Revenue account for the year are as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus on 01/07/2011				1 903 948
General accounts				
- Non-profitable	5 293 581	6 681 713	(1 388 132)	
- Self supporting	323 162	404 653	(81 491)	
Trade accounts				
- Electricity	609 101	367 500	241 601	
- Water	1 508 051	754 979	753 072	
Deficit for the year	7 733 895	8 208 845	(474 950)	(474 950)
				1 428 998
Adjustments and utilisations (See note 9, Annexure D)				107 886
Accumulated surplus on 30/06/2012				1 536 884

7. CURRENT BANK ACCOUNT

	2012	2011
	N\$	N\$
Cashbook balance at 30 June	685 839	(392 518)
Unexplained difference	25 948	(2 509)
Outstanding cheques	3 084 589	636 255
Debits on the bank statement not recorded in the cashbook	(53 645)	-
Balance as per bank statement	3 742 731	241 228

8. INVESTMENTS

The investments as at 30 June are as follows:

Institution	2012		2011	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Commercial banks	2 383 102	227 562	3 584 805	260 645

The investments were allocated as follows:

Allocation	2012	2011
	N\$	N\$
Build Together Fund	1 199 686	1 130 158
Revenue	1 183 416	2 454 647
	2 383 102	3 584 805

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end is as shown in note 7 in Annexure D.

10. TRADE ACCOUNT

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

	Electricity		Water	
	2012	2011	2012	2011
	N\$	N\$	N\$	N\$
Sales	303 269	243 875	677 166	484 565
Purchases	(300 000)	(240 000)	(332 651)	(326 516)
Gross surplus	3 269	3 875	344 515	158 049
Royalties	305 832	244 802	-	-
Other income/(expenses)	(67 500)	(500 000)	408 557	6 071
Net surplus/(deficit)	241 601	(251 323)	753 072	164 120
Gross surplus percentages on purchases	1.1%	1.6%	103.6%	48.4%
Net surplus percentage on purchases	80.5%	(104.7%)	226.4%	50.3%
Gross surplus percentages on sales	1.1%	1.6%	50.9%	32.6%
Net surplus percentage on sales	79.7%	(103.1%)	111.2%	33.9%

10.2 Water distribution results, in cubic meters

	Water	
	2012	2011
	Units	Units
Sales	59 437	50 952
Purchases	50 196	57 870
Distribution gain/ (loss)	9 241	(6 918)
Percentage gain/(loss) on purchases	18.4%	(12.0%)

The Council could not provide reasons for the distribution gain achieved during the current financial year.

11. SELF-SUPPORTING SERVICES

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

Service	Income 2012	Expenses 2012	Surplus/ (deficit) 2012	Surplus/ (deficit) 2011
Cleansing services	N\$ 161 930	N\$ 272 965	N\$ (111 035)	N\$ (220 347)
Sewerage	161 232	131 688	29 544	(73 792)
	323 162	404 653	(81 491)	(294 139)

The Council should endeavour into a process to make cleansing self-supportive.

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorized or avoidable expenditure was incurred during the year under review.

13. SUSPENSE ACCOUNTS

Suspense accounts are cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

The auditors did not find any irregularities and losses that took place during the year under review.

15. CAPITAL PROJECTS

The following were spend on capital projects:

Nature of projects/acquisitions	Financed by	Total expenditure 2012	Total expenditure 2011
	Revenue account		
Chief Executive Officer	N\$ 28 480	N\$ 28 480	-
Technical services	24 899	24 899	1 327 829
Development control, planning and environment	1 475 561	1 475 561	2 022 509
Water	-	-	467 319
Health	-	-	166 831
Electricity	67 500	67 500	500 000
	1 596 440	1 596 440	4 484 488

16. BURSARIES

The Council approved and gave an education grant of N\$ 4 580.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

	2012	2011
	N\$	N\$
Contribution from Government	2 121 520	2 894 538

18. COMPENSATION PAYMENTS

Land compensation payments amounting to N\$ 3 965 831 were paid during the year.

19. VISITS TO FOREIGN COUNTRIES

There were no visits to foreign countries during the year under review.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims were made against the Council during the year under review.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

The Council approved and donated a fax machine worth N\$ 1 550 during the year under review.

22. TRANSFER OF PROPERTY

No properties were transferred to/from the Government during the year under review.

23. TRADE AND OTHER RECEIVABLES/PAYABLES

23.1 Trade and other receivables at 30 June were:

	2012	2011
	N\$	N\$
Services rendered and assessment rates	512 432	483 213
VAT provision	134 066	843 480
Build Together advances	1 104 184	908 545
	1 750 682	2 235 238
Provision for bad debts	(409 886)	(331 822)
Total	1 340 796	1 903 416
Analysis of services and general debtors:		
Average monthly levy	121 776	77 807
Consumer debtors (*)	512 432	483 213
Average credit terms in days	233.8	188.9

(*) - As reported on item 4.2, consumer debtors and the provision for bad debts are understated by N\$ 423 657 and N\$ 327 066 respectively. The average credit terms in days for the current year is based on the restated consumer debtors amount.

23.2 Trade and other payables at 30 June were:

	2011	2010
	N\$	N\$
Trade and other payables	133 880	891 377
Provision for leave pay	436 104	262 675
Totals	569 984	1 154 052

24. ASSESSMENT RATES

Assessment rates income for the year under review amounted to N\$ 67 879 (2011: N\$ 8 686).

25. LOANS

25.1 External loans

There are no external loans.

25.2 Internal loans

There are no internal loans.

25.3 Due to the Town Council

	2012	2011
	N\$	N\$
Build Together advances	1 104 184	908 545

26. SALE OF ERVEN

During the current financial year, cash proceeds to the value of N\$ 2 975 114 (2011: N\$ 1 854 377) were received for erven sold which were fully allocated to the revenue account. As reported on item 4.7, deposits received for purchase of erven were recognised as revenue and no debtors were recognised for sales done on instalment basis.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

The Council's policy is to sell erven on both cash and instalment basis. The Council was unable to provide the breakdown between cash and instalment sales owing to lack of reconciliation.

28. TARIFF ADJUSTMENTS

Tariff adjustments were duly approved and promulgated in the Government Gazette.

29. APPROVALS

29.1 Excess on approved budget

All budget excesses were approved.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles and values thereof:

	Sedan		LDV's, 4x4's and Combi's		Other	
	Number	Value	Number	Value	Number	Value
Balance - 01/07/2011	1	N\$ 174 085	4	N\$ 796 110	4	N\$ 793 009
Adjustments (*)	-	(8 506)	-	71 587	-	575 410
Sub-total	1	165 579	4	867 697	4	1 368 419
Accum. depreciation	-	(132 464)	-	(694 159)	-	(898 118)
Balance - 30/06/2012	1	33 115	4	173 538	4	470 301

(*) - Adjustments were done to reflect balances per fixed assets register. The fire fighting truck is excluded as reported on item 4.1.

30.2 Inventory

There are no inventories reflected in the annual financial statements.

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year under review.

32. GENERAL

The accounting and internal controls applied by the Council are satisfactory.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 Informal queries

The following informal queries have been addressed to the Chief Executive Officer:

- Lack of consumer deposits;
- Slow debt collection;
- Understatement of the leave pay provision;
- Fixed assets register;
- Inventory recognition;
- Bank reconciliation;
- Inadequate insurance of property, plant and equipment;
- Water statistics; and
- Depreciation of fixed assets.

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Nkurenkuru for the financial year ended 30 June 2012, 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.

A qualified audit opinion is being expressed due to the following reasons:

- Understatement of property, plant and equipment due to the omission of the fire fighting vehicle;
- Understatement of consumer debtors by N\$ 423 657;
- Understatement of the provision for bad debts by N\$ 327 066;
- Unsupported adjustment of N\$ 451 862 (relating to VAT and the appropriation account);
- Missing VAT return and lack of a VAT reconciliation;
- Completeness of the occupational rent income;
- Lack of provision for bad debts on Build Together loans receivable;
- Omitted investment in equities; and
- Incorrect recognition of land sales.

Except for the above-mentioned remarks of the matters referred to in the preceding paragraph, I certify that, in my opinion, the financial statements fairly present the financial position of the Town Council at 30 June 2012 and the results of its operations and cash flow for the year then ended in the manner required by the Local Authorities Act, 1992, and the State Finance Act, 1991.

WINDHOEK, August 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR- GENERAL**

TOWN COUNCIL OF NKURENKURU

BALANCE SHEET AT 30 JUNE

	Notes	2012 N\$	2011 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	6 702 034	5 905 714
Investments	3	2 383 102	3 584 805
Current assets			
Trade and other receivables	4	1 340 797	1 903 416
Cash and cash equivalents	5	686 839	1 000
TOTAL ASSETS		11 112 772	11 394 935
FUNDS AND LIABILITIES			
Funds and reserves			
Capital outlay	6	6 702 034	5 905 714
Funds and accounts	7	3 840 754	3 942 651
Current liabilities			
Trade and other payables	8	569 984	1 154 052
Bank overdraft	5	-	392 518
TOTAL FUNDS AND LIABILITIES		11 112 772	11 394 935

TOWN COUNCIL OF NKURENKURU

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2012 N\$	2011 N\$
INCOME		7 506 332	6 843 801
EXPENDITURE		(8 208 844)	(10 432 160)
NET OPERATING DEFICIT		(702 512)	(3 588 359)
INTEREST ON INVESTMENTS		227 562	260 645
NET DEFICIT AFTER INTEREST		(474 950)	(3 327 714)
APPROPRIATION ACCOUNT	9	107 886	(220 988)
NET DEFICIT AFTER APPROPRIATIONS		(367 064)	(3 548 702)
REVENUE ACCOUNT - Beginning of year		1 903 948	5 452 650
REVENUE ACCOUNT - End of year		1 536 884	1 903 948

TOWN COUNCIL OF NKURENKURU

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2012 N\$	2011 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		7 506 332	6 843 801
Cash paid to suppliers		(8 122 407)	(10 624 782)
Cash utilised by operations	10	(616 075)	(3 780 981)
Interest received		227 562	260 645
Increase in Build Together Fund account		265 167	68 318
Increase in Capital outlay		796 320	3 502 607
Net cash flow from operating activities		672 974	50 589
CASH FLOW FROM/(TO) INVESTING ACTIVITIES			
Net capital expenditure		(796 320)	(3 502 607)
Decrease in investments		1 201 703	3 144 312
		405 383	(358 295)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1 078 357	(307 706)
CASH AND CASH EQUIVALENTS			
- BEGINNING OF YEAR		(391 518)	(83 812)
CASH AND CASH EQUIVALENTS			
- END OF YEAR		686 839	(391 518)

TOWN COUNCIL OF NKURENKURU

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

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements are compiled in accordance with the historical cost convention modified by the restatement of the financial statements to fair value, except where otherwise stated.

The principal accounting policies of the Town Council, which are set out below, have been consistent and comply with Namibian Statements of Generally Accepted Accounting Practices. The financial statements have been prepared in accordance with the requirements of the Namibian Local Authorities Act, 1992 (Act 23 of 1992), as amended.

1.2 Property, plant and equipment

Property, plant and equipment are stated at cost or valuation where assets have been acquired by grant or by donation. Property, plant and equipment are depreciated over their estimated useful lives as determined by the Council from time to time.

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 comprises of cash in hand and deposits held at commercial banks.

1.4 Funds

The following Fund was maintained by the Council in terms of Sections 58(1) and 80(4) of the Local Authorities Act (Act 23 of 1992):

1.4.1 Build Together Fund

The purpose of this Fund is to provide for housing loans. Income for the Fund is derived from interest earned on investments and outstanding Build Together loans as well as government subsidies.

TOWN COUNCIL OF NKURENKURU

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

	2012	2011
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Revenue assets	6 702 034	5 905 714
	6 702 034	5 905 714
3. INVESTMENTS		
INVESTMENTS		
Commercial banks	2 383 102	3 584 805
	2 383 102	3 584 805
ALLOCATED AS FOLLOWS		
Build Together Fund	1 199 686	1 130 158
Revenue account	1 183 416	2 454 647
	2 383 102	3 584 805
4. TRADE AND OTHER RECEIVABLES		
Services rendered and assessment rates	512 433	483 213
VAT Provision	134 066	843 480
Build Together advances	1 104 184	908 545
	1 750 683	2 235 238
Provision for bad debts	(409 886)	(331 822)
	1 340 797	1 903 416
5. CASH AND CASH EQUIVALENTS		
Current account	685 839	(392 518)
Petty cash	1 000	1 000
	686 839	(391 518)

NKURENKURU TOWN COUNCIL

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

	2012	2011
	N\$	N\$
6. CAPITAL OUTLAY		
Revenue assets	6 702 034	5 905 714
7. FUNDS, ACCOUNTS AND RESERVES		
Build Together Fund	2 303 870	2 038 703
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	1 536 884	1 903 948
	3 840 754	3 942 651
8. TRADE AND OTHER PAYABLES		
Trade and other payables	133 880	891 377
Provision for leave pay	436 104	262 675
	569 984	1 154 052
9. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Expenditure corrections	(363 609)	(306 527)
Income corrections	471 495	85 539
	107 886	(220 988)
10. CASH UTILISED BY OPERATIONS		
NET OPERATING DEFICIT	(702 512)	(3 588 359)
ADJUSTMENT FOR:		
- Adjustments to appropriation account	107 886	(220 988)
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	(594 626)	(3 809 347)
CHANGES IN WORKING CAPITAL		
Decrease/(Increase) in trade and other receivables	562 619	(873 557)
(Decrease)/Increase in trade and other payables	(584 068)	901 923
	(21 449)	28 366
CASH UTILISED BY OPERATIONS	(616 075)	(3 780 981)