



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF NKURENKURU

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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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 2014, 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, May 2015

**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 2014**

1. INTRODUCTION

The accounts of the Town Council of Nkurenkuru for the year ended 30 June 2014 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: 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

Property, plant and equipment are understated by N\$ 2 591 077 as a result of the following:

- Fixed assets funded by the Capital Reserve Fund amounting to N\$ 1 697 798 are not included in the annual financial statements as well as the fixed asset register.
- Fixed assets amounting to N\$ 686 094 have been expensed as repairs and maintenance instead of being capitalised.
- Retention fees paid to a contractor amounting to N\$ 207 185 have been expensed instead of being capitalised.

4.2 Recognition of land sales

Deposits received on the intended sale of erven were credited to the revenue account instead of the liability account resulting in overstatement of revenue and understatement of the related liability.

4.3 Value Added Taxation (VAT)

The VAT returns for July 2013 and June 2014 and the VAT reconciliation could not be provided by the Council for audit verification, as a result, the VAT receivable balance could not be verified.

4.4 Omitted investment in equity

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

4.5 Royalties

There were no supporting documents for royalties received from NORED, as a result, the auditors were unable to verify the completeness, accuracy and validity of the amounts received.

4.6 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.

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 at 01/07/2013				2 382 374
General accounts				
- Non-profitable	15 517 304	17 263 073	(1 745 769)	
- Self supporting	513 691	2 309 521	(1 795 830)	
Trade accounts				
- Electricity	832 708	250 000	582 708	
- Water	1 625 135	2 765 856	(1 140 721)	
Deficit for the year	18 488 838	22 588 450	(4 099 612)	(4 099 612)
Adjustments and utilisations (See note 10, Annexure D)				(1 717 237)
				(1 044 978)
Accumulated deficit at 30/06/2014				(2 762 216)

7. CURRENT BANK ACCOUNT

	2014	2013
	N\$	N\$
Cashbook balance at 30 June	(163 129)	(192 987)
Unexplained difference	35 718	20 284
Outstanding cheques	528 809	530 278
Debits on the bank statement not recorded in the cashbook	(33 115)	-
Balance as per bank statement	368 283	357 575

8. INVESTMENTS

The investments as at 30 June are as follows:

Institution	2014		2013	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Commercial banks	15 417 233	656 001	10 381 095	443 299

The investments were allocated as follows:

Allocation	2014	2013
	N\$	N\$
Build Together Fund	807 387	769 045
Revenue	-	4 466 509
Capital Development Fund	14 609 846	5 145 541
	15 417 233	10 381 095

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end is as shown in note 8 in Annexure D.

10. TRADE ACCOUNT

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

	Electricity		Water	
	2014	2013	2014	2013
	N\$	N\$	N\$	N\$
Sales	287 345	468 117	1 016 379	857 870
Purchases	(250 000)	(460 000)	(395 011)	(353 551)
Gross surplus	37 345	8 117	621 368	504 319
Royalties	545 363	379 877	-	-
Other income/(expenses)	-	-	(1 762 089)	344 983
Net surplus/(deficit)	582 708	387 994	(1 140 721)	849 402
Gross surplus percentages on purchases	14.9%	1.8%	157.3%	142.6%
Gross surplus percentages on sales	13.0%	1.7%	61.1%	58.8%

10.2 Water distribution results, in cubic meters

	Water	
	2014	2013
	Units	Units
Sales	83 658	70 096
Purchases	(60 102)	(61 879)
Distribution gain	23 556	8 217
Percentage gain on purchases	39.2%	13.3%

The distribution gain is attributable to the fact that the Council was distributing some of the water from its own private sources.

11. SELF-SUPPORTING SERVICES

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

Service	Income 2014	Expenses 2014	(Deficit) 2014	Surplus/ (Deficit) 2013
Cleansing services	N\$ 273 068	N\$ (619 810)	N\$ (346 742)	N\$ (136 372)
Sewerage	240 623	(1 689 711)	(1 449 088)	54 328
	513 691	(2 309 521)	(1 795 830)	(82 044)

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

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

Council paid N\$ 286 661 to a consultant to complete and file VAT returns on its behalf. The consultant charged 25% of VAT refunds received, which is excessive and not reflective of the work done. This expenditure is avoidable. No other fruitless and unauthorised expenditure were noted.

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 spent on capital projects:

Nature of projects/acquisitions	Financed by	Financed by	Total expenditure 2014	Total expenditure 2013
	Capital Dev. Fund	Revenue account		
	N\$	N\$	N\$	N\$
Council General Expenses	-	-	-	283 440
Finance	-	221 000	221 000	8 000
Technical Services	-	1 150 000	1 150 000	-
Dev. Control, Plan. and Environment	-	8 420 123	8 420 123	1 595 698
Sewerage	-	795 624	795 624	-
Water	-	1 385 829	1 385 829	-
Electricity	-	-	-	1 142 680
	-	11 972 576	11 972 576	3 029 818

The Council is urged to improve on project implementation.

16. BURSARIES

The Council approved and granted education grants amounting to N\$ 23 510 (2013: N\$ 9 602).

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

	2014	2013
	N\$	N\$
Contribution from Government	9 241 725	5 333 480

18. COMPENSATION PAYMENTS

Land compensation payments amounting to N\$ 8 693 700 (2013: N\$ 4 338 987) 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 made the following pledges:

Nature of pledge	Beneficiary	Size
Single Residential Erf	Dr Sam Nuyoma	2 030 m ²
Single Residential Erf	Dr Hifikepunye Pohamba	1 616 m ²

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 are as follows:**

	2014	2013
	N\$	N\$
Services rendered and assessment rates	2 426 989	1 326 850
VAT receivable	1 053 433	563 673
Build Together advances	1 377 337	1 234 850
Provision for bad debts	4 857 759 (2 151 448)	3 125 373 (1 076 685)
Total	2 706 311	2 048 688

23.2 Trade and other payables at 30 June are as follows:

	2014	2013
	N\$	N\$
Trade and other payables	140 928	148 435
Provision for leave pay	672 560	523 099
Land compensation – undisbursed funds	2 023 790	1 717 490
Total	2 837 278	2 389 024

24. ASSESSMENT RATES

	2014	2013
	N\$	N\$
The proceeds from assessment rates	182 809	78 709
Residential:		
Tariffs per N\$1 valuation per annum - Site valuation	0.0120	0.0120
Tariffs per N\$1 valuation per annum – Improvements	0.0050	0.0050
Business:		
Tariffs per N\$1 valuation per annum - Site valuation	0.0150	0.0150
Tariffs per N\$1 valuation per annum – Improvements	0.0075	0.0075

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

	2014	2013
	N\$	N\$
Build Together advances	1 377 337	1 234 850

26. SALE OF ERVEN

During the current financial year, cash proceeds amounting to N\$ 4 319 644 (2013: N\$ 2 044 010) were received in respect of sale of erven and were allocated to the revenue account. As reported on paragraph 4.2, deposits received for purchase of erven were recognised as revenue instead of a liability.

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 - 01/07/2013	1	N\$ 33 115	4	N\$ 173 538	4	N\$ 470 301
Additions	-	-	1	283 440	-	-
Sub-total	1	33 115	5	456 978	4	470 301
Accum. depreciation	-	*	-	*	-	*
Balance - 30/06/2014	1	*	5	*	4	*

* The Council could not provide the amounts.

30.2 Inventory

The value of inventories amounted to N\$ 111 692 (2013: N\$ 111 692).

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 reasonable.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries

Formal queries are embodied in this report.

33.2 Informal queries

Informal queries were addressed to the Chief Executive Officer.

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Nkurenkuru for the financial year ended 30 June 2014, 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;
- Missing VAT returns and lack of a VAT reconciliation;
- Omitted investment in equity;
- Incorrect recognition of land sales;
- Lack of supporting documents for royalties' income; and
- Completeness of the occupational rent income.

Except for the effects of the matters referred to in the preceding paragraph, in my opinion, the financial statements fairly present the financial position of the Town Council at 30 June 2014 and the results of its operations and cash flows for the year then ended in the manner required by the Local Authorities Act, 1992, and the State Finance Act, 1991.

WINDHOEK, May 2015

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

TOWN COUNCIL OF NKURENKURU

BALANCE SHEET AT 30 JUNE

	Notes	2014 N\$	2013 N\$
ASSETS			
Non-current assets			
		36 227 944	20 649 534
Property, plant and equipment	2	20 810 711	10 268 439
Investments	3	15 417 233	10 381 095
Current assets			
		2 819 003	2 161 380
Inventories	6	111 692	111 692
Trade and other receivables	4	2 706 311	2 048 688
Cash and cash equivalents	5	1 000	1 000
TOTAL ASSETS		39 046 947	22 810 914
FUNDS, ACCOUNTS AND LIABILITIES			
Funds and reserves			
		36 046 540	20 228 903
Capital outlay	7	20 810 711	10 268 439
Funds and accounts	8	15 235 829	9 960 464
Current liabilities			
		3 000 407	2 582 011
Trade and other payables	9	2 837 278	2 389 024
Bank overdraft	5	163 129	192 987
TOTAL FUNDS AND LIABILITIES		39 046 947	22 810 914

TOWN COUNCIL OF NKURENKURU

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2014</u>	<u>2013</u>
		N\$	N\$
INCOME		17 743 949	10 438 377
EXPENDITURE		(22 588 450)	(9 845 798)
NET OPERATING (DEFICIT)/SURPLUS		(4 844 501)	592 579
INTEREST ON INVESTMENTS		744 889	379 161
NET (DEFICIT)/SURPLUS AFTER INTEREST		(4 099 612)	971 740
APPROPRIATION ACCOUNT	10	(1 044 978)	(126 250)
NET (DEFICIT)/SURPLUS AFTER APPROPRIATIONS		(5 144 590)	845 490
REVENUE ACCOUNT - Beginning of year		2 382 374	1 536 884
REVENUE ACCOUNT - End of year		2 762 216	2 382 374

TOWN COUNCIL OF NKURENKURU

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2014 N\$	2013 N\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		17 743 949	10 438 377
Cash paid to suppliers		(23 842 798)	(8 972 591)
Cash (utilised)/generated by operations	11	(6 098 849)	1 465 786
Interest received		744 889	379 161
Net cash flows from operating activities		(5 353 960)	1 844 947
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in Build Together Fund account		117 752	128 679
Increase in Capital outlay		10 542 272	3 566 405
Increase in Capital Development Fund		10 302 202	5 145 541
Net cash flows from financing activities		20 962 226	8 840 625
CASH FLOWS TO INVESTING ACTIVITIES			
Net capital expenditure		(10 542 272)	(3 566 405)
Increase in investments		(5 036 138)	(7 997 993)
Net cash flows from investing activities		(15 578 410)	(11 564 398)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		29 856	(878 826)
CASH AND CASH EQUIVALENTS			
- BEGINNING OF YEAR		(191 987)	686 839
CASH AND CASH EQUIVALENTS			
- END OF YEAR		(162 131)	(191 987)

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 financial assets to fair value, except where otherwise stated.

The principal accounting policies of the Town Council, which are set out below, have been consistently applied. 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.

1.3 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at fair value. 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 Funds were 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.

1.4.2 Capital Development Fund

The purpose of this Fund is to finance capital projects.

NKURENKURU TOWN COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014
(continued)

	2014	2013
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Revenue assets	20 810 711	10 268 439
3. INVESTMENTS		
Commercial banks	15 417 233	10 381 095
ALLOCATED AS FOLLOWS:		
Build Together Fund	807 387	769 045
Revenue account	-	4 466 509
Capital Development Fund	14 609 846	5 145 541
	15 417 233	10 381 095
4. TRADE AND OTHER RECEIVABLES		
Services rendered and assessment rates	2 426 989	1 326 850
VAT receivable	1 053 433	563 673
Build Together advances	1 377 337	1 234 850
	4 857 759	3 125 373
Provision for bad debts	(2 151 448)	(1 076 685)
	2 706 311	2 048 688
5. CASH AND CASH EQUIVALENTS		
Current account	(163 129)	(192 987)
Petty cash	1 000	1 000
	(162 129)	(191 987)
6. INVENTORIES		
Consumable stores	111 692	111 692
7. CAPITAL OUTLAY		
Revenue assets	20 810 711	10 268 439

NKURENKURU TOWN COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
2014 (continued)

	2014	2013
	N\$	N\$
8. FUNDS, ACCOUNTS AND RESERVES		
Build Together Fund	2 550 301	2 432 549
Capital Development Fund	15 447 744	5 145 541
Subtotal	17 998 045	7 578 090
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(2 762 216)	2 382 374
	15 235 829	9 960 464
9. TRADE AND OTHER PAYABLES		
Trade payables	140 928	148 435
Provision for leave pay	672 560	523 099
Land compensation – undisbursed funds	2 023 790	1 717 490
	2 837 278	2 389 024
10. ADJUSTMENTS AND UTILISATIONS		
Increase in provision for bad debts	(1 074 763)	(666 799)
Increase in provision for leave pay	(149 461)	(86 995)
Correction of prior year debtors	-	507 287
Recognition of inventories	-	111 692
Correction to BTP account	160 138	
Other	19 108	8 565
	(1 044 978)	(126 250)

NKURENKURU TOWN COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014
(continued)

	2014	2013
	N\$	N\$
11. CASH UTILISED BY OPERATIONS		
NET OPERATING (DEFICIT)/SURPLUS	(4 844 501)	592 579
ADJUSTMENT FOR:		
- Adjustments to appropriation account	(1 044 978)	(126 250)
OPERATING SURPLUS/(DEFICIT) BEFORE CHANGES IN WORKING CAPITAL	(5 889 479)	466 329
CHANGES IN WORKING CAPITAL		
Increase in trade and other receivables	(657 624)	(707 891)
Increase in trade and other payables	448 254	1 819 040
Increase in inventories	-	(111 692)
	(209 370)	999 457
CASH (UTILISED)/GENERATED BY OPERATIONS	(6 098 849)	1 465 786