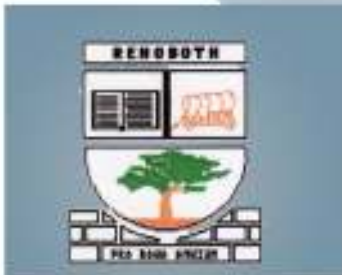




**REPUBLIC OF NAMIBIA**



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

# **TOWN COUNCIL OF REHOBOTH**

**FOR THE FINANCIAL YEARS ENDED 30 JUNE 2009 AND 2010**

Published by authority

Price (Vat excluded) N\$ 30.55  
Report no 1029

**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 Rehoboth 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, December 2011**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF  
THE TOWN COUNCIL OF REHOBOTH  
FOR THE FINANCIAL YEARS ENDED  
30 JUNE 2009 AND 2010**

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## **1. INTRODUCTION**

The above accounts of the Town Council of Rehoboth 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 BDO 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.

## **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 both years' financial statements were only submitted on 19 August 2011 instead of 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 on 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 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 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

Items that were also reported in the previous financial year are indicated by way of an asterisk (\*).

##### 4.1 Appropriation accounts

The closing balance for the 2007/08 financial year was N\$ 533 068 whereas the Council had an opening balance of N\$ 37 191 109 which is a difference of N\$ 36 658 041.

The closing balance for the 2008/09 financial year was N\$ 22 222 633 whereas the Council had an opening balance of N\$ 36 957 796 which is a difference of N\$ 14 735 163.

##### 4.2 Value Added Tax (\*)

There were material differences of N\$ 7 134 554: 2010 and N\$ 1 062 975: 2009 between the VAT reconciliations and the financial statements for the years under review.

There were also material differences of N\$ (30 074 842): 2010 and N\$ (2 205 849) for 2009 between the financial statements and the statements received from the Receiver of Revenue. As such the auditors could not verify the accuracy, existence and completeness of the VAT balances in the financial statements.

The Council would also appear to be under-declaring their output VAT for the 2009 financial year.

##### 4.3 Bad debts provision(\*)

Audit tests revealed that the provision for bad debts may be understated by N\$ 16 190 936: 2010 and N\$ 23 669 830: 2009 (2008: N\$ 21 955 468). This indicates that the closing balance of debtors was clearly misstated as there is a material difference.

The Council has also not fully provided for the "Amnesty" debtors balance during the years under review. The amounts are in no way recoverable and are a result of the Councils' Amnesty programme.

The Council should urgently revise their credit policy to ensure that debts are collected on time and regularly.

The Council could not provide an age analysis for the debtors balance outstanding as at the 2010 year-end. A listing of the Amnesty debtors could also not be provided. The accuracy, existence and completeness could thus not be ascertained.

##### 4.4 Creditors (\*)

There is a material difference of N\$ 1 187 968: 2010 related to P.A.Y.E. and N\$ 4 323 077: 2009 related to accrued creditors as revealed by audit tests. No creditors reconciliation was performed for the years under review.

The Council could also not provide supporting documentation for the following suspense accounts

	2010	2009
	N\$	N\$
Creditors suspense	1 641 299	893 149
Sundry loan debtors	-	3 379 558
Rehoboth Town suspense account	1 196 655	-

The Council should perform regular reconciliations of the creditors accounts to ensure that the account is fairly stated.

#### **4.5 Stock Control (\*)**

No physical stock count was conducted during the years under review. Stock is expensed to the different votes as it is purchased. Therefore no stock was reported in the financial statements.

The Council should implement measures to keep accurate records of stock on hand so as to maintain adequate accounting control over stock items.

#### **4.6 Improper segregation of duties (\*)**

As reported previously, duties in the finance department are not properly segregated among the staff. Incompatible functions of initiation, recording, checking and approval are being performed by the same individuals. There are no clear-cut duties for some staff members although they have job descriptions which still need to be revised. The Town Treasurer is overwhelmed by clerical duties as oppose to only strategic issues.

Currently there is no proper departmental structure at the Town Council. The accountant responsible for creditors also performs the payroll function whilst there is a human resources officer employed.

It seems that the Council did not act since the previous report and they are now seriously urged to ensure proper segregation of duties within the various departments. The Town Treasurer, for example, should be relieved of clerical duties and the payroll function should be handled by the human resources section. There is still a need for a clear organizational structure with well delineated lines of reporting and responsibilities.

#### **4.7 Leave and bonus provision and suspense debtors (\*)**

No listing could be provided to the auditors and due to this limitation of scope, the accuracy, existence, completeness and valuation of these accounts could not be verified.

#### **4.8 Cash and bank (\*)**

No bank reconciliations of the current account could be provided to the auditors as no reconciliations were performed for the years under review. Due to the limitation of scope, the accuracy, existence and completeness of this account area could not be ascertained.

#### **4.9 Water purchases (\*)**

##### **2010**

An unexplained difference of N\$ 2 557 642 exists between the water purchases as per the Namwater invoices and the general ledger expense for the year.

##### **2009**

The Council could not provide the auditors with all Namwater invoices for the year. As such the auditors could not verify the completeness, accuracy and existence of the Namwater expense of N\$ 8 335 550 for the 2009 financial year. Invoices not submitted amounted to N\$ 4 909 796.

#### **4.10 Internal funds (\*)**

The Council could not provide the auditors with a breakdown of the movement on the Build Together, Sewerage and Low Cost Housing Funds for both financial years.

Due to limitation of scope, the accuracy, existence and completeness of these accounts could not be ascertained.

#### **4.11 Sales of properties**

An amount of N\$ 4 255 179 relating to sales of properties for the 2009 financial year, could not be supported by proper documentation.

#### **4.12 External loans**

There is a material difference of N\$ 534 843 between the loan schedules prepared by the Council and the confirmations received from the financial institutions for the 2009 financial year. The Council appears to have been recording loans which do not exist.

#### **4.13 Fixed assets (\*)**

The Council could not provide the auditors with a detailed fixed asset register as at 30 June 2009 or 2010 and consequently the auditors could not verify the existence and completeness of property, plant and equipment and the accuracy of depreciation.

It was also noted that the closing balance for 2009 of N\$ 37 053 812 differs with the opening balance for 2010, which is N\$ 46 712 793, with an amount of N\$ 9 658 981.

#### **4.14 Payroll (\*)**

The Council could not explain monthly salary fluctuations, assurance could thus not be obtained regarding the completeness and validity of the payroll expense for both financial years. The auditors also identified unexplained differences of N\$ 127 057 for 2010 and N\$ 2 160 637 for 2009 between the payroll summary and the general ledger. It seems that the general ledger is over-stated for both years.

#### **4.15 Loans granted (\*)**

No listing or loan register is in place for loans granted out of the Old Housing Fund, Sewerage Fund and Build Together Funds for the years under review. This represents a scope limitation and no audit tests could be performed.

#### **4.16 Investments**

The Council could not provide the auditors with an investment register. There were also material differences of N\$ 7 230 275 for 2010 and N\$ (8 788 877) for 2009 between the investments per the financial statements and the investments confirmed by financial institutions. Investments as per financial statements were understated for 2010 while overstated for 2009. As such the auditors could not satisfy themselves with regards to the completeness, accuracy, valuation and existence of the investments for the years under review.

#### 4.17 Existence and completeness of expenditures and other income (\*)

The auditors could not obtain supporting documentation for the following expenditure.

	2010	2009
	N\$	N\$
Cleaning of town	125 396	63 403
Dumping site	-	173 916
R & M buildings	-	129 375
Lubrication, fuel and oil	59 357	196 979
Security services	106 216	103 847
Bulk purchase: Electricity	*2 796 666	2 466 773
Telephone	-	498 392
Vendor fees	42 585	-
<b>Total</b>	<b>3 130 220</b>	<b>3 632 685</b>

In addition the auditors could not obtain supporting documentation for the following income.

	2010	2009
	N\$	N\$
Sale of properties	1 085 000	2 468 853
Sundry income	-	**1 621 851
Cleaning service	626 295	-
<b>Total</b>	<b>1 711 295</b>	<b>4 090 704</b>

\* The total per the monthly invoices did not agree to the general ledger.

\*\* There was a VAT refund misallocated to this account of N\$1 009 471.

#### 4.18 Suspense accounts

The Council has various suspense accounts which could not be traced to supporting documentation. The accounts are listed below.

	2010
	N\$
Service loans code 15	(13 935 313)
Bank reconciliations	1 444 710
Sundry debtors	2 995 218

#### 4.19 Temporary advances

It was noted that a temporary advance to the amount of N\$ 9 781 138 is disclosed as a current asset in the balance sheet for 2010. This is an incorrect disclosure in the accounts of the Council because temporary advances on the asset side of the balance sheet should balance with temporary advances on the liabilities side. The Council should investigate the reason for this incorrect disclosure and rectify their financial statements.

#### 4.20 Going concern (\*)

The ability of the Town Council to continue as a going concern is dependant on a number of factors. The most significant of these are the continuation of profitable operations and the recovery of long outstanding debtors and the maintenance of existing levels of finance by major creditors.

## 5. ACKNOWLEDGEMENT

The assistance and co-operation given by the staff of the Town Council during the audit is highly 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\$
<b>Accumulated surplus 01/07/2009</b>				22 222 634
<b>General accounts</b>				
Rates and general	5 568 947	12 241 436	(6 672 489)	
Non-profitable services	3 292 231	5 634 428	(2 342 197)	
Self-supporting services	4 615 254	2 752 409	1 862 845	
<b>Trade accounts</b>				
Electricity	23 972 253	24 088 851	(116 598)	
Water	13 111 884	13 798 894	(687 010)	
Deficit for the year	50 560 569	58 516 018	(7 955 449)	(7 955 449)
Adjustments and appropriations (Note 8, Annexure D)				14 267 185 (19 916 474)
<b>Accumulated deficit 30/06/2010</b>				<b>(5 649 289)</b>

	Revenue	Expenditure	Surplus/(Deficit)	Balance
	N\$	N\$	N\$	N\$
<b>Accumulated surplus 01/07/2008</b>				533 068
<b>General accounts</b>				
Rates and general	6 472 897	12 683 094	(6 210 197)	
Non-profitable services	3 627 342	5 066 616	(1 439 274)	
Self-supporting services	7 156 185	4 763 823	2 392 362	
<b>Trade accounts</b>				
Electricity	19 574 286	18 956 792	617 494	
Water	12 731 025	9 890 099	2 840 926	
Deficit for the year	49 561 735	51 360 424	(1 798 689)	(1 798 689)
Adjustments and appropriations (Note 8, Annexure D)				(1 265 621) 23 488 255
<b>Accumulated surplus 30/06/2009</b>				<b>22 222 634</b>

## 7. CURRENT BANK ACCOUNT

The cash-book balance on the current bank account amounted to N\$ 15 635 037 (unfavourable): 2010 and N\$ 100 936 (favourable): 2009 (2008: N\$ 3 354 417 unfavourable). The bank statements reflected a favourable balance of N\$ 1 430 045: 2010 and N\$ 829 186: 2009. No bank reconciliations of this account were performed for the years under review. (Also refer to paragraph 4.7). Due to the afore-mentioned no additional information relating to the bank accounts could be provided.



## 8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June and the interest thereon were as follows:

Institution	2010		2009	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
<b>Invested at:</b>				
Commercial banks	(351 455)	*-	19 491 272	37 000
	<b>(351 455)</b>	<b>*-</b>	<b>19 491 272</b>	<b>37 000</b>
<b>Distribution</b>				
Old Housing Fund	(2 905 558)	*-	(2 905 558)	*-
Revenue investments	(1 913 276)	*-	18 110 050	*-
Electricity department	11 636	*-	13 361	*-
Build Together Housing Fund	4 455 743	*-	4 273 419	*-
	<b>(351 455)</b>	<b>*-</b>	<b>19 491 272</b>	<b>*-</b>

Institution	2009		2008	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
<b>Invested at:</b>				
Commercial banks	19 491 272	37 000	2 935 597	367 456
	<b>19 491 272</b>	<b>37 000</b>	<b>2 935 597</b>	<b>367 456</b>
<b>Distribution</b>				
Old Housing Fund	(2 905 558)	*-	299 269	*-
Revenue investments	18 110 050	*-	--	*-
Electricity department	13 361	*-	41 858	*-
Build Together Housing Fund	4 273 419	37 000	2 594 470	*-
	<b>19 491 272</b>	<b>37 000</b>	<b>2 935 597</b>	<b>*-</b>

The auditors confirmed investments to the amount of N\$ 6 878 920: 2010 and N\$ 10 702 394 with the banking institutions leaving unexplained differences of N\$ 7 230 275: 2010 and N\$ (8 788 877): 2009. The Council should investigate these material differences and reconcile the financial statements with the bank statements provided by banking institutions.

\* The allocation of interest received to the funds could not be obtained from the Council.

## 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	22 675 309	18 097 818	9 473 878	9 065 160
Cost of bulk purchases	(18 295 199)	(12 020 892)	(12 153 623)	(8 335 550)
Gross profit	4 380 110	6 076 926	(2 679 745)	729 610
Other income/ (expenses)	(4 496 708)	(5 459 432)	1 992 735	2 111 316
<b>NET PROFIT/ (LOSS)</b>	<b>(116 598)</b>	<b>617 494</b>	<b>(687 010)</b>	<b>2 840 926</b>
Gross profit/(loss) on bulk purchases	24%	50.55%	(22%)	9%
Net profit percentage on bulk purchases	(0.64%)	5.14%	(6%)	34%

The water results went from a net profit of N\$ 2 840 926 to a net loss of N\$ 687 009 and the electricity results went from a net profit of N\$ 617 494 to a net loss of N\$ 116 599.

	Electricity		Water	
	2009	2008	2009	2008
	N\$	N\$	N\$	N\$
Sales	18 097 818	15 645 146	9 065 160	9 969 422
Cost of bulk purchases	(12 020 892)	(11 641 972)	(8 335 550)	(10 066 276)
Gross profit	6 076 926	4 003 174	729 610	(96 854)
Other income/ (expenses)	(5 459 432)	(3 979 795)	2 111 316	1 778 206
<b>NET PROFIT</b>	<b>617 494</b>	<b>23 379</b>	<b>2 840 926</b>	<b>1 681 352</b>
Gross profit/(loss) on bulk purchases	50.55%	34%	9%	(1%)
Net profit percentage on bulk purchases	5.14%	0.20%	34%	17%

The net profit of water increased from N\$ 1 681 352 to N\$ 2 840 926 and the electricity results increased from N\$ 23 379 to N\$ 617 494 which could be commended on.

Electricity services were transferred back from Reho Electricity (Pty) Ltd to Council, where it is currently operated as ring fenced in view of the future establishment of a RED in the southern region of the country. Separate financial statements were prepared for this unit for the previous two and the current year. These have been included in the Council's financial statements for the years under review.

### 10.2 Distribution losses were as follows:

No information could be obtained regarding sales units or statistics for the years under review.

## 11. SELF-SUPPORTING EXTERNAL SERVICES

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

	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (Deficit)</b>	<b>Surplus/ (Deficit)</b>
	<b>2010</b>	<b>2010</b>	<b>2010</b>	<b>2009</b>
	N\$	N\$	N\$	N\$
Sanitation	269 444	151 801	117 643	12 833
Sewerage	2 298 013	1 219 192	1 078 821	529 783
Commonage and Pound	459 926	115 960	343 966	247 671
Properties	1 587 871	1 265 456	322 415	1 602 075
	<b>4 615 254</b>	<b>2 752 409</b>	<b>1 862 845</b>	<b>2 392 362</b>

	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (Deficit)</b>	<b>Surplus/ (Deficit)</b>
	<b>2009</b>	<b>2009</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$	N\$
Sanitation	254 312	241 479	12 833	(372 971)
Sewerage	2 053 584	1 523 801	529 783	2 394 764
Commonage and Pound	408 243	160 572	247 671	270 770
Properties	4 440 046	2 837 971	1 602 075	2 904 944
	<b>7 156 185</b>	<b>4 763 823</b>	<b>2 392 362</b>	<b>5 197 507</b>

The above tables show that the self-supporting services indicate a net profit for the years under review.

## 12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed for the years under review.

## 13. SUSPENSE ACCOUNTS

The suspense accounts balances amount to N\$ 3 109 739: 2010 and N\$ 4 714 863: 2009 payable and N\$ 21 755 288: 2010 and N\$ 8 319 495: 2009 receivables (2008: N\$ 1 377 682) for the years under review.

## 14. IRREGULARITIES AND LOSSES

14.1 No irregularities by employees were reported by the Council for the years under review.

14.2 No losses were reported for the years under review.

## 15. CAPITAL PROJECTS

The Council could not provide the auditors with a fixed asset register for both years under review (please also see paragraph 4.13) and no details could be obtained from the Council with regards to additions in the years under review.

It was also noted that the closing balance related to fixed assets for the 2009 financial year and the opening balance for the 2010 financial year differs with a material amount of N\$ 9 658 981.

## 16. STUDY LOANS/BURSARIES

No bursaries or loans were granted during the years under review.

## 17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

(See paragraph 21.)

## 18. COMPENSATION PAYMENTS

No compensation payments were made during the years under review.

## 19. VISITS TO FOREIGN COUNTRIES

No visits to foreign countries were undertaken during the years under review.

## 20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the years under review.

## 21. GIFTS AND DONATIONS BY THE LOCAL AUTHORITY

The Council could not provide the auditors with the details nor with the supporting documentation for donations amounting to N\$ 3 935: 2010 and N\$ 7 816: 2009 (2008 N\$ 4 131) although the total donations and grants for 2009 amounted to N\$ 907 816 (2008: N\$ 4 131).

## 22. TRANSFER OF PROPERTY TO/FROM THE GOVERNMENT

No property was transferred to/or from the Government during the years under review.

## 23. DEBTORS/CREDITORS

23.1 Debtors on 30 June comprise the following:

	2010	2009	2008
	N\$	N\$	N\$
Consumers	40 778 895	35 595 006	37 515 770
Service loans	(13 935 313)	-	17 132 850
Sundry debtors	2 995 218	472 233	307 882
Amnesty debtors	17 315 360	7 632 488	-
Erven sales – advances	-	-	2 325 139
Sewerage project	-	-	84 659
Bank reconciliation difference	1 443 528	214 774	661 516
Inland Revenue	4 592 609	2 862 135	678 876
Advances/Receipts	-	-	6 693
Old Housing Fund – Advances	1 188 965	2 752 089	2 713 432
Sewage advances	9 917 338	9 917 338	-
Build Together Fund – Advances	2 601 765	3 181 148	6 735 468
Incomplete projects	-	-	4 080 327
Consumer prepayments	-	-	(656 207)
Debtors – Suspense account	-	-	(1 403 323)
Reho Electricity – Suspense account	-	-	25 641
	66 898 365	62 627 211	70 208 723
Less: Provision for bad debts	(20 028 566)	(17 591 869)	(28 757 440)
	<b>46 869 799</b>	<b>45 035 342</b>	<b>41 451 283</b>

The provision for bad and doubtful debts is understated by a calculated amount of N\$ 16 190 936: 2010 and N\$ 23 669 831: 2009 (2008: N\$ 21 955 468). (Also see paragraph 4.3)

The consumer debt collection period decreased during the years under review from 284 days to 262 days.

**23.2 Creditors** on 30 June comprise the following:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Provisions (stock)	109 442	109 442	33 015
Accrued creditors	13 106 252	5 684 572	10 700 249
Provision for Pay as you Earn	2 443 714	2 100 000	-
Provision for audit fees	95 000	95 000	251 000
Suspense	3 109 739	4 714 863	-
Provision for consultant fees	25 540	25 540	25 540
Provision for regional council levies	250 000	250 000	375 710
Provision for leave pay	1 623 272	1 567 407	2 452 097
	<b>20 762 959</b>	<b>14 546 824</b>	<b>13 837 611</b>

## **24. ASSESSMENT RATES**

Proceeds from assessment rates for the years under review amounted to N\$ 4 515 476: 2010 and N\$ 4 119 496: 2009 (2008: N\$ 3 792 361). No payments were made to the Regional Council as required by Section 77(1) of the Act. Provision for such payments was however made. (See paragraph 23.2)

No changes were made to the approved tariffs which were N\$ 0.0034 per dollar on site value per year and N\$ 0.0036 per dollar on improvements per year.

## **25. LOANS**

**25.1 External loan** balances, excluding the Housing Fund, due by the Council totalled N\$ 551 077: 2010 and N\$ 1 181 596: 2009 (2008: N\$ 1 413 396). There was a material difference between the Council loan schedules and confirmations received from the bank for the years under review.

## **26. SALE OF ERVEN**

The proceeds of erven and plots sold were:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
Property sold (quantity unavailable)	1 421 155	4 255 179	5 069 361

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

None

## **28. TARIFF ADJUSTMENTS**

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

## **29. APPROVALS**

There was no over-expenditure recorded during the years under review.

### 30. STOCK AND EQUIPMENT

#### 30.1 Motor vehicles

	Sedan vehicles		LDV and kombi's		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value	Number	Value
On hand 01/07/2009	5	N\$ 588 975	20	N\$ 362 463	31	N\$ 1
Acquisitions	-	-	-	-	-	-
Depreciation	5	588 975	20	362 463	31	1
On hand 30/06/2010	<b>5</b>	<b>588 975</b>	<b>20</b>	<b>362 463</b>	<b>31</b>	<b>1</b>

	Sedan vehicles		LDV and kombi's		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value	Number	Value
On hand 01/07/2008	5	N\$ 588 975	20	N\$ 362 463	31	N\$ 1
Acquisitions	-	-	-	-	-	-
Depreciation	5	588 975	20	362 463	31	1
On hand 30/06/2009	<b>5</b>	<b>588 975</b>	<b>20</b>	<b>362 463</b>	<b>31</b>	<b>1</b>

No proper records were obtained on fuel consumption during the years under review and therefore fuel consumption per litre could not be accurately calculated.

#### 30.2 Inventory

No inventory control was maintained during the years under review. Inventory should be controlled on a perpetual system and the costing should be in terms of Generally Accepted Accounting Practice.

### 31. SPECIAL INVESTIGATIONS

A forensic audit of the Council's system was done in the 2009 financial year by Adonai's Information Technology Solutions (Pty) Ltd. The report detailed various fraudulent activities at the Council. However, the Council have disputed the report as they feel that it is inaccurate and was not conducted within the agreement as set out initially with the company.

### 32. GENERAL

The accounting and internal controls applied by the Council are not satisfactory. Proper segregation of duties is hindered by the small number of staff employed.

### 33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 Informal queries addressed to the Chief Executive Officer consist of:

- Bad and doubtful debts
- Stock control
- Value Added Taxation

- Bank reconciliations
- Loans granted
- Unsupported liabilities
- Lack of supporting documentation
- External loans - 2009
- Fixed assets
- Difference in the appropriation account
- Investment register

#### **34. DISCLAIMED AUDIT OPINION**

The accounts of the Town Council for the financial years ended 30 June 2009 and 2010, summarized in Annexure A to D, were audited by me 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.

I am unable to express an opinion due to the following reasons:

- The closing balance of the appropriation account for 2009 and the opening balance for 2010 differs with N\$ 36 684 041. Similarly the closing balance for 2008 and the opening balance for 2009 differs with N\$ 14 735 163.
- Material differences related to value added tax to the amounts of N\$ 7 134 554 for 2010 and N\$ 1 062 975 for 2009 were found. The financial statements of the Council and the statements from the Receiver of Revenue differs with N\$ (30 074 842) for 2010 and N\$ (2 205 849) for 2009 respectively.
- Provision for bad debts is understated by N\$ 16 190 936 for 2010 and N\$ 23 669 830 for 2009.
- The credit balance related to P.A.Y.E. is misstated by N\$ 1 187 968 for 2010. Similarly the credit balance related to accrued creditors is misstated by N\$ 4 323 077.
- The provision for leave and bonuses as well as the suspense account for debtors could not be verified because no listings could be provided.
- No bank reconciliations were conducted for the years under review.
- An unexplained difference of N\$ 2 557 642 related to water purchases for 2010 were found. Invoices to the amount of N\$ 4 909 796 related to water purchases for 2009 could not be submitted.
- Movements in the Build Together, Sewerage and Low Cost Housing Funds for both years could not be verified as no breakdowns could be provided.
- Sale of properties to the amount of N\$ 4 255 179 for the 2009 financial year could not be supported by proper documentation.
- The loan schedules for external loans and the confirmations received from the opening balance for 2010 differs with N\$ 9 658 981.
- Differences related to the payroll and the general ledger amounted to N\$ 127 057 for 2010 and N\$ 2 160 637 for 2009.
- Loans granted out of the Old Housing Fund, Sewerage Fund and Build Together Fund could not be verified because no listing or loan register was in place.
- Investments as disclosed is understated by N\$ 7 230 275 for 2010 and overstated by N\$ 8 788 877 for 2009 when comparing the financial statements with the confirmations received from financial institutions.
- Supporting documentation related to various expenditures to the amounts of N\$ 3 130 220: 2010 and N\$ 3 632 685 for 2009 could not be submitted.
- Income to the amounts of N\$ 1 711 295: 2010 and N\$ 4 090 704 for 2009 could not be supported by documentation.
- Three suspense accounts with material balances could not be supported with proper documentation.
- A temporary advance of N\$ 9 781 138 is incorrectly disclosed in the balance sheet for 2010.

## TOWN COUNCIL OF REHOBOTH

## BALANCE SHEETS AS AT 30 JUNE

<b>ASSETS</b>	<b>Notes</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
		N\$	N\$	N\$
<b>Non-current assets</b>		46 379 938	66 204 065	39 309 734
Property, plant and equipment	2	46 731 393	46 712 793	36 374 137
Investments	3	(351 455)	19 491 272	2 935 597
<b>Current assets</b>		56 650 937	45 136 278	41 451 283
Accounts receivable	4	46 869 799	45 035 342	41 451 283
Suspense: Temporary advance		9 781 138	-	-
Bank		-	100 936	-
<b>TOTAL ASSETS</b>		<b>103 030 875</b>	<b>111 340 343</b>	<b>80 761 017</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>		65 570 418	95 124 405	61 700 366
Funds and accounts	5	65 570 418	95 124 405	61 700 366
<b>Non-current liabilities</b>				
Interest bearing borrowings	6	1 062 461	1 669 114	1 868 624
<b>Current liabilities</b>		36 397 996	14 546 824	17 192 027
Accounts payable	7	20 762 959	14 546 824	13 837 611
Bank overdraft		15 635 037	-	3 354 416
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>103 030 875</b>	<b>111 340 343</b>	<b>80 761 016</b>



## TOWN COUNCIL OF REHOBOTH

## INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE

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	<u>Note</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
		N\$	N\$	N\$
INCOME		50 560 569	49 561 735	48 167 828
EXPENDITURE		<u>(58 516 018)</u>	<u>(51 360 424)</u>	<u>(48 689 753)</u>
<b>OPERATING LOSS FOR THE YEAR</b>		(7 955 449)	(1 798 689)	(521 925)
Interest earned		<u>-</u>	<u>-</u>	<u>10 182</u>
<b>NET LOSS FOR THE YEAR</b>		(7 955 449)	(1 798 689)	(511 743)
Add : Appropriation and adjustments	8	<u>(19 916 474)</u>	<u>23 488 255</u>	<u>(6 505 025)</u>
RETAINED LOSS FOR THE YEAR		(27 871 923)	21 689 566	(7 016 768)
REVENUE ACCOUNT -				
- Beginning of the year		<u>22 222 634</u>	<u>533 068</u>	<u>7 549 836</u>
- End of the year		<u><b>(5 649 289)</b></u>	<u><b>22 222 634</b></u>	<u><b>533 068</b></u>

## TOWN COUNCIL OF REHOBOTH

## CASH FLOW STATEMENTS FOR THE YEARS ENDED 30 JUNE

	Notes	2010	2009	2008
			N\$	N\$
<b>Cash flow from operating activities</b>				
Cash receipts from customers	9.1	(37 653 061)	21 689 566	(7 026 950)
Cash paid to suppliers	9.2	4 381 678	(2 874 846)	(3 381 350)
<b>Cash generated from operations</b>		(33 271 383)	18 814 720	(10 408 300)
Investment income		-	-	10 182
<b>Net cash flow from operating activities</b>		(33 271 383)	18 814 720	(10 398 118)
<b>Cash flow from investing activities</b>				
Increase in property, plant and equipment		(18 600)	(10 338 656)	(1 313 718)
Decrease/(Increase) in investment		19 842 727	(16 555 675)	3 716 956
<b>Net cash flow from investing activities</b>		19 824 127	(26 894 331)	2 403 238
<b>Cash flow from financing activities</b>				
Change in revenue funds		(1 682 064)	11 734 473	4 278 981
Increase/(decrease) in long-term liabilities		(606 653)	(199 510)	276 752
<b>Net cash flow from financing activities</b>		(2 288 717)	11 534 963	4 555 733
Net increase/(decrease) in cash and cash equivalents		(15 735 973)	3 455 352	(3 439 147)
Cash and cash equivalents at the beginning of the year		100 936	(3 354 416)	84 731
Cash and cash equivalents at the end of the year		<b>(15 635 037)</b>	<b>100 936</b>	<b>(3 354 416)</b>

## TOWN COUNCIL OF REHOBOTH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 30 JUNE

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**1. ACCOUNTING POLICIES****1.1 Introduction**

The annual financial statements set out in Annexure A, B and C are prepared on the historical cost basis and incorporate the following principal accounting policies, which are consistent with those applied in the prior year.

**1.2 Property, plant and equipment**

Property, plant and equipment are stated at cost or at valuation where assets have been acquired by grant or by donations, less depreciation written off over the expected useful lives as determined by the Council from time to time. Property, plant and equipment acquired with loan funds are not depreciated until the loan is repaid, unless the expected lifetime of the asset is less than the repayment period of the loan in which case depreciation is calculated on the shortfall.

**1.3 Fund accounts**

The following Funds were created by the Town Council in terms of Sections 58(1) and 80(4) of the Local Authorities Act (Act 23 of 1992).

**1.3.1 Housing Funds – Old Housing Fund**

The purpose of this Fund is to provide for housing loans to the low income group of inhabitants. Income for this Fund is derived from interest earned on secured housing loans and investments.

**1.3.2 Build Together Fund**

The purpose of the Fund is to provide loans to applicants who want to build houses with the help of the community. The instalments received for the payment of these loans are reinvested in this Fund.

**1.3.3 Sewerage Reserve**

The purpose of the Fund is to generate funds for the upgrading of the existing sewerage works. Income is generated from an annual contribution from the operational budget as well as interest earned on money invested.

## TOWN COUNCIL OF REHOBOTH

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

	2010	2009	2008
		N\$	N\$
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>			
<b>Consists of :</b>			
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment	46 731 393	46 712 793	36 374 137
<b>Financed by :</b>			
External loans	551 077	1 181 596	1 413 096
Loans redeemed	4 158 907	3 528 388	2 617 209
Revenue account	42 021 409	42 002 809	32 343 832
	<b>46 731 393</b>	<b>46 712 793</b>	<b>36 374 137</b>
<b>3. INVESTMENTS</b>			
Fixed deposits and money on call	<b>(351 455)</b>	<b>19 491 272</b>	<b>2 935 597</b>
<b>4. TRADE AND OTHER RECEIVABLES</b>			
Consumers	40 778 895	35 595 006	37 515 770
Service loans	(13 935 313)	-	-
Amnesty	17 315 360	7 632 488	-
Loan debtors	-	-	17 132 850
Sundry debtors	2 995 218	472 233	307 882
Ervin sales - Advances	-	-	2 325 139
Bank reconciliation	1 443 528	214 774	661 516
Inland Revenue	4 592 609	2 862 135	678 876
Advances/Receipts	-	-	6 693
Sewerage project	-	-	84 659
Old Housing Fund - Advances	1 188 965	2 752 089	2 713 432
Sewerage Fund - Advances	9 917 338	9 917 338	-
Build Together Fund - Advances	2 601 765	3 181 148	6 735 468
Incomplete projects	-	-	4 080 327
Suspense account – Reho Electricity	-	-	25 641
	66 898 365	62 627 211	72 268 253
<b>Less :</b>			
Payments received in advance	-	-	(656 207)
Suspense account - Debtors	-	-	(1 403 323)
Provision for doubtful debts	(20 028 566)	(17 591 869)	(28 757 440)
	<b>46 869 799</b>	<b>45 035 342</b>	<b>41 451 283</b>

## TOWN COUNCIL OF REHOBOTH

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

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	N\$	N\$	N\$
<b>5. FUNDS AND ACCOUNTS</b>			
<b>5.1 Financing of capital</b>			
Loans redeemed from revenue	4 158 907	3 528 388	2 617 209
Revenue contributions	42 021 409	42 002 809	32 343 832
	<u>46 180 316</u>	<u>45 531 197</u>	<u>34 961 041</u>
<b>Accumulated Funds</b>	<u>(5 649 289)</u>	<u>22 222 634</u>	<u>533 068</u>
<b>5.2 Internal Funds</b>			
Old Housing Fund	1 968 650	3 902 774	11 964 210
Sewerage fund	9 917 338	9 917 338	-
Build Together Fund	13 153 403	13 550 462	14 242 047
	<u>25 039 391</u>	<u>27 370 574</u>	<u>26 206 257</u>
	<b><u>65 570 418</u></b>	<b><u>95 124 405</u></b>	<b><u>61 700 366</u></b>
<b>6. LONG TERM LIABILITIES</b>			
External loans: Wesbank	551 077	1 181 596	1 413 096
Consumer deposits	511 384	487 518	455 528
	<u><b>1 062 461</b></u>	<u><b>1 669 114</b></u>	<u><b>1 868 624</b></u>
<b>7. TRADE AND OTHER PAYABLES</b>			
Accrued creditors	13 106 252	5 684 572	10 700 249
Inland revenue (PAYE)	2 443 714	2 100 000	-
Provision for audit fees	95 000	95 000	251 000
Provision for consultants fees	25 540	25 540	25 540
Provision for regional council levies	250 000	250 000	375 710
Provision for leave	1 623 272	1 567 407	2 452 097
<b>Suspense</b>			
Creditors	1 641 299	893 149	-
Reho Electricity	-	129 210	-
Sundry loan debtors	-	3 379 558	-
Social Housing project	123 969	123 969	-
Bank reconciliation	147 816	146 127	-
Rehoboth Town Council	1 196 655	42 850	-
Provisions (stock)	109 442	109 442	33 015
	<u><b>20 762 959</b></u>	<u><b>14 546 824</b></u>	<u><b>13 837 611</b></u>

## TOWN COUNCIL OF REHOBOTH

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

	2010	2009	2008
	N\$	N\$	N\$
<b>8. ADJUSTMENTS AND APPROPRIATIONS</b>			
Unexplained difference	-	(17 438)	-
Unknown deposits	-	-	222
Stale deposits/cheques	-	1 906	1 906
Deposits	(416 938)		
Debtor adjustment	-	(4 284)	5 405
Deposit refund	17 000	17 000	-
Stores	65 655	-	-
Suspense account – Direct deposits	(9 020)		
Adjustments to prior year accounts	(2 466 615)		
Corrections: Old finance year	-	-	310 588
Adjustment: Provision for consultancy fees	-	-	53 710
Adjustment to bank	-	2 263 382	-
Adjustment to bank opening balance	-	8 838 745	-
Adjustment to PAYE liability	-	(2 100 000)	-
Provision for leave	(1 500 000)	(1 500 000)	-
Write off old stock	(65 655)	(65 655)	-
Provision for Regional Council levies	(250 000)	(250 000)	-
Opening balance adjustment	14 735 163	36 658 041	-
Deficit received	(79 938)	-	-
Current year bank balance	-	134 776	-
Adjustment to fund accounts	2 874 705	2 474 248	-
Provision for bad debts	(19 715 631)	(17 278 934)	(6 807 567)
Clear rounding difference	12	-	-
Audit adjustments	-	-	(69 289)
Creditors adjustments	(13 105 212)	(5 683 532)	-
	<b>(19 916 474)</b>	<b>23 488 255</b>	<b>(6 505 025)</b>
<b>9. CASH UTILISED IN OPERATIONS</b>			
Net operating (loss) before transfers	(7 955 449)	(1 798 689)	(511 743)
Adjustments/(appropriations)	(19 916 473)	23 488 255	(6 505 025)
Suspense	(9 781 138)	-	-
Investment income	-	-	(10 182)
<b>9.1 Operating income before changes in working capital</b>	<b>(37 653 061)</b>	<b>21 689 566</b>	<b>(7 026 950)</b>
<b>9.2 Changes in working capital</b>			
Increase/(decrease) in trade and other payables	6 216 135	709 213	3 805 780
(Increase) / decrease in trade and other receivables	(1 834 457)	(3 584 059)	(7 187 130)
	<b>4 381 678</b>	<b>(2 874 846)</b>	<b>(3 381 350)</b>
	<b>(33 271 383)</b>	<b>18 814 720</b>	<b>(10 408 300)</b>