



**REPUBLIC OF NAMIBIA**



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

# **TOWN COUNCIL OF RUACANA**

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013**

Published by authority

Price (Vat excluded) N\$ 26.87  
Report no 30/2014

**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 Ruacana for the financial year ended 30 June 2013, 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, April 2014**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL  
ON THE ACCOUNTS OF  
THE TOWN COUNCIL OF RUACANA  
FOR THE FINANCIAL YEAR ENDED  
30 JUNE 2013**

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**1. INTRODUCTION**

The accounts of the Town Council of Ruacana for the year ended 30 June 2013 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 his Office. 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 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 these statements based 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 auditors' judgement, 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as overall presentation of the financial statements.

#### 4. AUDIT OBSERVATIONS AND COMMENTS

##### 4.1 Understatement of property, plant and equipment

Property, plant and equipment acquired during the year amounting to N\$ 6 784 991 were not recorded in the fixed assets register resulting in the understatement of the reported property, plant and equipment and the related revenue capital outlay fund.

##### 4.2 Omission of investment in equity

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

##### 4.3 Lack of supporting documents for physical quantities of inventories

The auditors did not attend the inventory count as at year-end. The Council's records did not permit the performing of alternative audit procedures to ascertain the existence and completeness of inventory valued at N\$ 459 941.

##### 4.4 Understatement of interest on overdue accounts

Interest on overdue accounts is understated by N\$ 276 076 as a result of an error in calculation.

##### 4.5 Unexplained difference on the Build Together loans

The financial statements reflected a Build Together Loans balance of N\$ 2 944 913 while the loans trial balance (supporting list) has a balance of N\$ 3 401 914 resulting in an unexplained difference of N\$ 457 001. In addition, there was no supporting list for temporary advances to buyers amounting to N\$ 910 867.

#### 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 01/07/2012</b>				801 494
<b>General accounts</b>				
Non-profitable services	15 074 097	13 789 434	1 284 663	
Self-supporting services	3 631 286	4 135 676	(504 390)	
<b>Trade accounts</b>				
Water	3 264 714	2 645 960	618 754	
	21 970 097	20 571 070	1 399 027	
Surplus for the year				1 399 027
Adjustments and appropriations (Note 8, Annexure D)				(336 954)
<b>Accumulated surplus 30/06/2013</b>				<b>1 863 567</b>

## 7. CURRENT BANK ACCOUNT

	2013	2012
	N\$	N\$
Balance per bank statement	742 093	238 407
Outstanding cheques	(405 791)	(697 733)
<b>Cashbook balance</b>	<b>336 302</b>	<b>(459 326)</b>

## 8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2013 and the interest thereon were as follows:

Institution	2013		2012	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
<b>Invested at:</b>				
Commercial banks	2 730 644	145 778	2 379 307	282 763
	<b>2 730 644</b>	<b>145 778</b>	<b>2 379 307</b>	<b>282 763</b>
<b>Distribution</b>				
Salary Reserve Fund	461 761	-	353 068	-
Build Together Housing Fund	1 604 363	39 277	1 879 674	37 995
Revenue	664 520	106 501	146 565	244 768
	<b>2 730 644</b>	<b>145 778</b>	<b>2 379 307</b>	<b>282 763</b>

## 9. FUND ACCOUNTS

The position of internal Funds and Reserves is shown in Note 6 at Annexure D.

## 10. TRADE ACCOUNTS

### 10.1 Operating results

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

	Water	
	2013	2012
	N\$	N\$
Sales	2 711 985	1 880 570
Cost of sales	(1 967 908)	(1 421 529)
Gross profit	744 077	459 041
Other (expenses)/income	(125 322)	170 620
<b>NET PROFIT</b>	<b>618 755</b>	<b>629 661</b>
Gross profit percentage on sales	27%	24%
Net profit percentage on sales	23%	33%

### 10.2 Distribution losses were as follows:

Water distribution losses, in cubic metres (m<sup>3</sup>) were as follows:

	Water	
	2013	2012
	m <sup>3</sup>	m <sup>3</sup>
Sold	179 541	152 892
Bought	(214 478)	(172 306)
<b>Distribution loss</b>	<b>(34 937)</b>	<b>(19 414)</b>
Loss as percentage of units sold	19.46%	12.70%

## 11. SELF-SUPPORTING EXTERNAL SERVICES

The net results of these services were as follows:

	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (Deficit)</b>	<b>Surplus/ (Deficit)</b>
	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2012</b>
	N\$	N\$	N\$	N\$
Sewerage	3 631 286	(4 135 676)	(504 390)	269 771
	<b>3 631 286</b>	<b>(4 135 676)</b>	<b>(504 390)</b>	<b>269 771</b>

\* For the second consecutive year, the above table shows that the self-supporting services indicated a major decrease compared to the prior year. The Council is urged to investigate the reasons for this decrease and implement preventative measures as a matter of urgency.

## 12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed for the year under review.

## 13. SUSPENSE ACCOUNTS

No suspense accounts were disclosed in the annual financial statements of the Council.

## 14. IRREGULARITIES AND LOSSES

14.1 The audit uncovered cash receipts amounting to N\$ 40 704 that was not accounted for and no explanation was provided by the Town Council.

## 15. CAPITAL PROJECTS

Capital expenditure for the financial year amounted to N\$ 10 257 133 (2012: N\$ 9 721 062) and comprised of the following:

	<b>Financed by</b>	<b>Total 2013</b>	<b>Total 2012</b>
	<b>Revenue</b>		
	N\$	N\$	N\$
General administration	165 230	165 230	599 518
Health services	12 366	12 366	2 187
Town planning	6 341 089	6 341 089	5 808 690
Sewerage	3 681 335	3 681 335	2 185 268
Water	57 113	57 113	1 125 399
	<b>10 257 133</b>	<b>10 257 133</b>	<b>9 721 062</b>

As reported on item 4.1 the recorded capital expenditure is understated by N\$ 6 784 991.

## 16. STUDY LOANS/BURSARIES

Bursaries amounting to N\$ 42 969 (2012: N\$ 55 663) were granted to employees and school children to further their studies.

## 17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants and financial aid were made during the year.

**18. COMPENSATION PAYMENTS**

Compensation payments amounting to N\$ 1 370 359 (2012: N\$ 2 691 071) were made during the year.

**19. VISITS TO FOREIGN COUNTRIES**

The Mayor with a delegation of two other people travelled to South Africa at a total cost of N\$ 38 125 (2012: Nil). There was no evidence that the trip was approved by the Minister.

**20. CLAIMS AGAINST THE LOCAL AUTHORITY**

No claims for losses were received during the year.

**21. GIFTS AND DONATIONS BY THE LOCAL AUTHORITY**

Gifts and donations made during the year amounted to N\$ 14 899 (2012: N\$ 9 432).

**22. TRANSFER OF PROPERTY TO/FROM THE TOWN COUNCIL**

51 Even to the value of N\$ 3 106 457 were transferred from the Council.

**23. DEBTORS/CREDITORS**

**23.1 Debtors** on 30 June 2013 comprised the following:

	<b>2013</b>	<b>2012</b>
	N\$	N\$
Consumers	7 489 736	4 500 177
Inland Revenue	534 710	1 116 500
Temp Advance to Build Together buyers	910 867	616 309
Build Together Fund – Advances	2 944 913	3 206 148
Outstanding debtors	122 594	94 477
	<b>12 002 820</b>	<b>9 533 611</b>
Less: Provision for bad debts	(4 292 234)	(3 897 986)
	<b>7 710 586</b>	<b>5 635 625</b>

The average collection period of trade receivables is 355 days (2012: 251 days). The Council should attend to the arrears as a matter of urgency.

**23.2 Creditors** on 30 June 2013 comprised the following:

	<b>2013</b>	<b>2012</b>
	N\$	N\$
Trade payables	39 795	21 065
Consumer deposits	115 348	81 875
Other provisions	2 708 118	609 886
Provision for regional council levies	45 697	32 250
	<b>2 908 958</b>	<b>745 076</b>

## 24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 764 558 (2012: N\$ 508 546).

The gazetted tariffs were as follows:

N\$ 0.0420 (2012: N\$ 0.0420) per dollar on site values per year and N\$ 0.0173 (2012: N\$ 0.0173) per dollar on improvements per year.

## 25. LOANS

There were no external loans outstanding at year-end.

### 25.1 Due to Town Council

	2013	2012
	N\$	N\$
Build Together advances-Included in trade and other receivables	3 855 780	3 206 148

## 26. SALE OF ERVEN

The proceeds of erven and properties sold were:

	2013	2012
	N\$	N\$
Ervens sold	4 659 222	2 662 573
Property (Houses) sold	-	30 000

## 27. PROPERTY SOLD ON AN INSTALMENT BASIS

Ervens and houses sold on an instalment basis amounted to N\$ 4 659 222 and N\$ nil respectively (2012: N\$ 2 662 573 and N\$ 30 000 respectively).

## 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 year.

## 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 01/07/2012	3	N\$ 338 568	4	N\$ 738 202	4	N\$ 830 595
Acquisitions	1	149 109	-	-	-	-
	<b>4</b>	<b>487 677</b>	<b>4</b>	<b>738 202</b>	<b>4</b>	<b>830 595</b>
Depreciation		(97 535)		(147 640)		(166 119)
On hand 30/06/2013	<b>4</b>	<b>390 142</b>	<b>4</b>	<b>590 562</b>	<b>4</b>	<b>664 476</b>



### **30.2 Inventory**

Inventories at year-end amounted to N\$ 459 941 (2012: N\$ 139 239). Inventories are qualified, refer to item 4.3.

### **31. SPECIAL INVESTIGATIONS**

No special investigations were carried out during the year.

### **32. GENERAL**

The accounting and internal controls applied by the Council are reasonable. 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 by way of a management letter consist of:

- Unaccounted for cash receipts;
- Unexplained difference on the VAT reconciliation;
- Inadequate water deposits; and
- Slow debt collection.

### **34. QUALIFIED AUDIT OPINION**

The accounts of the Town Council of Ruacana for the financial year ended 30 June 2013, summarised 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.

The audit opinion has been qualified due to the following reasons:

- Understatement of property, plant and equipment by N\$ 6 784 991;
- Omission of investment in equity;
- Lack of supporting documents for physical quantities of inventories valued at N\$ 459 941 at year-end;
- Understatement of interest on overdue accounts by N\$ 276 076; and
- Unexplained difference on the Build Together loans amounting to N\$ 457 001 and unsupported temporary advances to buyers amounting to N\$ 910 867.

Except for the effects on the financial statements of the matters referred to in the preceding paragraph, the financial statements fairly present the financial position of the Town Council as at 30 June 2013, and the results of its operations and cash flows for the year then ended and in the manner required by the Local Authorities Act, 1992 and the State Finance Act, 1991.

**WINDHOEK, April 2014**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

## BALANCE SHEET AS AT 30 JUNE 2013

	Note	2013 N\$	2012 N\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	29 439 027	28 906 444
Investments	3	26 708 383	26 527 137
		2 730 644	2 379 307
<b>Current assets</b>			
Accounts receivable	4	8 507 386	5 776 265
Inventories		7 710 586	5 635 625
Cash and cash equivalents	5	459 941	139 239
		336 859	1 401
<b>TOTAL ASSETS</b>		<b>37 946 413</b>	<b>34 682 709</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Funds and accounts	6.2	35 037 455	33 478 307
Accumulated fund	6.1	6 465 505	6 149 676
Capital outlay	6.1	1 863 567	801 494
		26 708 383	26 527 137
<b>Current liabilities</b>			
Accounts payable	7	2 908 958	1 204 402
Bank overdraft	5	2 908 958	745 076
		-	459 326
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>37 946 413</b>	<b>34 682 709</b>

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

	<u>Note</u>	<u>2013</u>	<u>2012</u>
		N\$	N\$
INCOME		21 863 596	20 700 358
EXPENDITURE		<u>(20 571 070)</u>	<u>(20 298 664)</u>
<b>OPERATING SURPLUS FOR THE YEAR</b>		1 292 526	401 694
Investments income		<u>106 501</u>	<u>244 768</u>
<b>NET SURPLUS FOR THE YEAR</b>		1 399 027	646 462
Add : Appropriation and adjustments	8	<u>(336 954)</u>	<u>(1 044 148)</u>
RETAINED SURPLUS/(DEFICIT) FOR THE YEAR		1 062 073	(397 686)
RETAINED SURPLUS			
30 JUNE 2012		<u>801 494</u>	<u>1 199 180</u>
30 JUNE 2013		<u><b>1 863 567</b></u>	<u><b>801 494</b></u>

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 N\$	2012 N\$
<b>Cash flows from operating activities</b>			
Cash receipts from customers		21 863 596	20 700 358
Cash paid to suppliers		(21 139 805)	(26 348 094)
<b>Cash generated from/(utilised by) operations</b>	9	<b>723 791</b>	<b>(5 647 736)</b>
Investments income		106 501	244 768
<b>Net cash flows from operating activities</b>		<b>830 292</b>	<b>(5 402 968)</b>
<b>Cash flows from investing activities</b>			
Net capital expenditure in property, plant and equipment		(181 246)	(6 450 129)
Decrease in investments		(351 337)	4 370 286
<b>Net cash flows from investing activities</b>		<b>(532 583)</b>	<b>(2 079 843)</b>
<b>Cash flows from financing activities</b>			
Change in revenue funds		315 829	1 192 615
Increase in capital outlay		181 246	6 450 129
<b>Net cash flows from financing activities</b>		<b>497 075</b>	<b>7 642 744</b>
Net increase in cash and cash equivalents		<b>794 784</b>	<b>159 933</b>
Cash and cash equivalents at the beginning of the year		<b>(457 925)</b>	<b>(617 858)</b>
Cash and cash equivalents at the end of the year		<b>336 859</b>	<b>(457 925)</b>

## TOWN COUNCIL OF RUACANA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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

The annual financial statements set out in Annexures A to D are prepared on the historical cost basis and incorporate the following principal accounting policies which are consistent with those applied in the prior year:

**1.1 Property, plant and equipment**

Property, plant and equipment acquired are stated at cost or at valuation where assets have been acquired by grants 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.

**1.2 Fund accounts**

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):

**1.2.1 Build Together Fund**

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

	<u>2013</u>	<u>2012</u>
	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	<u>26 708 383</u>	<u>26 527 137</u>
<b>Financed by :</b>		
Capital assets	1 587 685	1 872 028
Revenue account	25 120 698	24 655 109
	<u>26 708 383</u>	<u>26 527 137</u>
<b>3. INVESTMENTS</b>		
Fixed deposits and money on call	<u>2 730 644</u>	<u>2 379 307</u>

## TOWN COUNCIL OF RUACANA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013 (continued)

	<b>2013</b>	<b>2012</b>
	N\$	N\$
<b>4. TRADE AND OTHER RECEIVABLES</b>		
Consumers	7 489 736	4 500 177
Inland Revenue - VAT	534 710	1 116 500
Temp advances to Build Together buyers	910 867	616 309
Outstanding debtors	122 594	94 477
Build Together Fund - advances	2 944 913	3 206 148
	<b>12 002 820</b>	<b>9 533 611</b>
<i>Less :</i>		
Provision for doubtful debts	(4 292 234)	(3 897 986)
	<b>7 710 586</b>	<b>5 635 625</b>
<b>5. CASH AND CASH EQUIVALENTS</b>		
Cash balances	557	1 401
Bank balances	336 302	-
	<b>336 859</b>	<b>1 401</b>
Bank overdraft	-	(459 326)
	<b>336 859</b>	<b>(457 925)</b>
<b>6. FUNDS AND ACCOUNTS</b>		
<b>6.1 Financing of capital</b>		
Contributions ex Revenue	25 120 698	24 655 109
Contributions ex GRN	1 587 685	1 872 028
	<b>26 708 383</b>	<b>26 527 137</b>
<b>Accumulated Fund</b>	<b>1 863 567</b>	<b>801 494</b>
<b>6.2 Internal Funds</b>		
Salary Reserve Fund	461 761	353 068
Build Together Fund	6 003 744	5 796 608
	<b>6 465 505</b>	<b>6 149 676</b>
	<b>35 037 455</b>	<b>33 478 307</b>

## TOWN COUNCIL OF RUACANA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013 (continued)

	<b>2013</b>	<b>2012</b>
	N\$	N\$
<b>7. TRADE AND OTHER PAYABLES</b>		
Trade payables	215 693	21 065
Provisions	902 579	-
Consumer deposits	115 348	81 876
Provision for regional council levies	45 697	32 250
Zone 4	-	227 421
Land compensation	1 629 641	-
Retention: Oshana Powerline	-	29 006
Namwater	-	110 943
Gabz Plumbing	-	242 515
	<b>2 908 958</b>	<b>745 076</b>
<b>8. ADJUSTMENTS AND APPROPRIATIONS</b>		
Adjustment: provision for bad debts & salary reserve	(502 942)	(1 044 148)
VAT refund received	119 381	-
NORED surcharges for prior year	77 118	-
Other	(30 511)	-
	<b>(336 954)</b>	<b>(1 044 148)</b>
<b>9. CASH GENERATED/(UTILISED) BY OPERATIONS</b>		
Net operating surplus before transfers	1 292 526	401 694
- Adjustments to appropriation account	(336 954)	(1 044 148)
<b>Operating surplus/(deficit) before changes in working capital</b>	<b>955 572</b>	<b>(642 454)</b>
<b>Changes in working capital</b>		
Increase/(Decrease) in trade and other payables	2 163 882	(4 116 644)
(Increase)/Decrease in inventories	(320 702)	31 708
Increase in trade and other receivables	(2 074 961)	(920 346)
	<b>(231 781)</b>	<b>(5 005 282)</b>
	<b>723 791</b>	<b>(5 647 736)</b>