



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF RUACANA

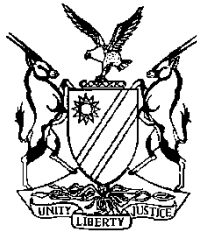
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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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 Ruacana 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-GENERA**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE TOWN COUNCIL OF RUACANA
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2014**

1. INTRODUCTION

The accounts of the Town Council of Ruacana 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 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 the 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 auditor's 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 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 is understated by N\$ 370 056 due to unrecorded additions.

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. The Council's records did not permit the performing of alternative audit procedures to ascertain the existence and completeness of inventory valued at N\$ 313 959.

4.4 Overstatement of the bulk water purchases account

The bulk water purchases account was overstated by N\$ 266 897 as a result of inclusion of the June 2013 (prior period) invoice and overstatement of the accrual for June 2014.

4.5 Overstatement of the provision for doubtful debts

The provision for doubtful debts is overstated by N\$ 306 007 as a result of inclusion of some accounts that had been fully settled.

4.6 Incorrect recognition of sale of erven revenue

The Town Council was recognising revenue on sale of erven upon signature of the contract despite the fact that the erven are transferred to the buyer/s upon settlement of the full purchase price. As a result, the sale of erven revenue was overstated by N\$ 275 932.

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
Accumulated surplus 01/07/2013	N\$	N\$	N\$	N\$ 1 863 567
General accounts				
Non-profitable services	9 912 931	(13 494 424)	(3 581 493)	
Self-supporting services	2 930 670	(2 564 056)	366 614	
Trade accounts				
Water	3 425 257	(2 655 798)	769 459	
	16 268 858	(18 714 278)	(2 445 420)	
Surplus for the year				(2 445 420)
Adjustments and appropriations (Note 8, Annexure D)				(1 433 274)
Accumulated deficit 30/06/2014				(2 015 127)

7. CURRENT BANK ACCOUNT

	2014	2013
	N\$	N\$
Balance per bank statement	516 122	742 093
Outstanding cheques	(1 591 181)	(405 791)
Cashbook balance	(1 075 059)	336 302

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2014 and the interest thereon are as follows:

Institution	2014		2013	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	1 823 184	118 860	2 730 644	145 778
	1 823 184	118 860	2 730 644	145 778
Distribution				
Salary Reserve Fund	59 463	-	461 761	-
Build Together Housing Fund	1 763 721	63 643	1 604 363	39 277
Revenue	-	55 217	664 520	106 501
	1 823 184	118 860	2 730 644	145 778

9. FUND ACCOUNTS

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

10. TRADE ACCOUNTS

10.1 Operating results

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

	Water	
	2014	2013
	N\$	N\$
Sales	2 866 586	2 711 985
Cost of sales	(1 985 759)	(1 967 908)
Gross profit	880 827	744 077
Other (expenses)/income	(111 368)	(125 322)
NET PROFIT	769 459	618 755
Gross profit percentage on sales	31%	27%
Net profit percentage on sales	27%	23%

10.2 Distribution losses were as follows:

Water distribution losses, in cubic metres (m³) are as follows:

	Water	
	2014	2013
	m ³	m ³
Sold	196 345	179 541
Bought	(180 933)	(214 478)
Distribution gain/(loss)	15 412	(34 937)
Loss as percentage of units sold	7.85%	(19.46%)

11. SELF-SUPPORTING EXTERNAL SERVICES

The net results of these services are as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2014	2014	2014	2013
	N\$	N\$	N\$	N\$
Sewerage	2 930 670	(2 564 056)	366 614	(504 390)
	2 930 670	(2 564 056)	366 614	(504 390)

Council should put measures in place to ensure that the sewerage is self-supporting.

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 There were no irregularities and losses that were revealed.

15. CAPITAL PROJECTS

Capital expenditure for the financial year amounted to N\$ 7 085 982 (2013: N\$ 10 257 133) and comprised of the following:

	Financed by	Total 2014	Total 2013
	Revenue 2014		
	N\$	N\$	N\$
General administration	1 798 073	1 798 073	165 230
Health services	-	-	12 366
Town planning	3 171 238	3 171 238	6 341 089
Sewerage	2 116 671	2 116 671	3 681 335
Water	-	-	57 113
	7 085 982	7 085 982	10 257 133

As reported on paragraph 4.1 the recorded capital expenditure was understated by N\$ 370 056.

16. STUDY LOANS/BURSARIES

Bursaries amounting to N\$ 55 176 (2013: N\$ 42 969) 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\$ 1 423 218 (2013: N\$ 1 370 359) were made during the year.

18. VISITS TO FOREIGN COUNTRIES

There were no visits to foreign countries during the year.

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\$ 3 152 (2013: N\$ 14 899).

22. TRANSFER OF PROPERTY TO/FROM THE TOWN COUNCIL

Erven to the value of N\$ 32 725 049 (2013: N\$ 3 106 457) were transferred from the Council.

23. DEBTORS/CREDITORS

23.1 Debtors on 30 June 2014 comprised the following:

	2014	2013
	N\$	N\$
Consumers	5 217 899	7 489 736
Inland Revenue	455 048	534 710
Temporary advances (Build Together)	169 493	910 867
Build Together Advances	4 036 560	2 944 913
Outstanding debtors	-	122 594
	9 879 000	12 002 820
Less: Provision for bad debts	(5 185 520)	(4 292 234)
	4 693 480	7 710 586

The average collection period of trade receivables was 246 days (2013: 355 days). The Council should attend to the arrears as a matter of urgency. Trade and other receivables are qualified, refer to paragraph 4.5.

23.2 Creditors on 30 June 2013 comprised the following:

	2014	2013
	N\$	N\$
Trade payables	311 217	39 795
Consumer deposits	153 254	115 348
Provisions	491 835	2 708 118
Accrual for regional council levy	93 096	45 697
	1 049 402	2 908 958

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 1 131 804 (2013: N\$ 764 558).

The gazetted tariffs were as follows:

N\$ 0.0420 (2013: N\$ 0.0420) per dollar on site values per year and N\$ 0.0173 (2013: 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

	2014	2013
	N\$	N\$
Build Together advances (included in Trade and other receivables)	4 206 053	3 855 780

26. SALE OF ERVEN

The proceeds of erven and properties sold were:

	2014	2013
Erven sold	N\$ 511 198	N\$ 4 659 222

27. PROPERTY SOLD ON AN INSTALMENT BASIS

Erven sold on an instalment basis amounted to N\$ 275 932 (2013: N\$ 2 662 573).

28. TARIFF ADJUSTMENTS

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

29. APPROVALS

There was no approval of overspending 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 01/07/2013	4	N\$ 390 142	4	N\$ 590 562	4	N\$ 664 476
Acquisitions	-	-	-	-	1	1 319 834
Depreciation	4	390 142	4	590 562	5	1 984 310
	-	(78 028)	-	(118 112)	-	(396 862)
On hand 30/06/2014	4	312 114	4	472 450	5	1 587 448

30.2 Inventory

Inventories at year-end amounted to N\$ 313 959 (2013: N\$ 459 941). Inventories are qualified, refer to paragraph 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, however, 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.

33.1.1 Informal queries were addressed to the Chief Executive Officer.

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Ruacana for the financial year ended 30 June 2014, 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\$ 370 056;
- Omission of investment in equity;
- Lack of supporting documents for physical quantities of inventories valued at N\$ 313 959;
- Overstatement of the bulk water purchases account by N\$ 266 897;
- Overstatement of the provision for doubtful debts by N\$ 306 007; and
- Incorrect recognition of sale of erven revenue.

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 2014, 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.

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WINDHOEK, May 2015

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

BALANCE SHEET AS AT 30 JUNE 2014

	Notes	2014 N\$	2013 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	36 061 112	29 439 027
Investments	3	34 237 928	26 708 383
		1 823 184	2 730 644
Current assets			
Trade and other receivables	4	5 007 996	8 507 386
Inventories		4 693 480	7 710 586
Cash and cash equivalents	5	313 959	459 941
		557	336 859
TOTAL ASSETS		41 069 108	37 946 413
EQUITY AND LIABILITIES			
Equity			
Funds and accounts	6.2	38 944 647	35 037 455
Accumulated Fund	6.1	6 721 846	6 465 505
Capital outlay	6.1	(2 015 127)	1 863 567
		34 237 928	26 708 383
Current liabilities			
Trade and other payables	7	2 124 461	2 908 958
Bank overdraft	5	1 049 402	2 908 958
		1 075 059	-
TOTAL EQUITY AND LIABILITIES		41 069 108	37 946 413

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	<u>Note</u>	<u>2014</u>	<u>2013</u>
		N\$	N\$
INCOME		16 137 030	21 863 596
EXPENDITURE		<u>(18 714 278)</u>	<u>(20 571 070)</u>
OPERATING (DEFICIT)/SURPLUS FOR THE YEAR		(2 577 248)	1 292 526
Investments income		<u>131 828</u>	<u>106 501</u>
NET (DEFICIT)/SURPLUS FOR THE YEAR		(2 445 420)	1 399 027
Add : Appropriation and adjustments	8	<u>(1 433 274)</u>	<u>(336 954)</u>
(DEFICIT)/SURPLUS FOR THE YEAR		(3 878 694)	1 062 073
RETAINED (DEFICIT)/SURPLUS			
- BEGINNING OF THE YEAR		<u>1 863 567</u>	<u>801 494</u>
- END OF THE YEAR		<u>(2 015 127)</u>	<u>1 863 567</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 N\$	2013 N\$
Cash flows from operating activities			
Cash receipts from customers		16 137 030	21 863 596
Cash paid to suppliers		(18 844 020)	(21 139 805)
Cash (utilised)/generated by operations	9	(2 706 990)	723 791
Investments income		131 828	106 501
Net cash flows from operating activities		(2 575 162)	830 292
Cash flows from investing activities			
Net capital expenditure in property, plant and equipment		(7 529 545)	(181 246)
Decrease/(Increase) in investments		907 460	(351 337)
Net cash flows from investing activities		(6 622 085)	(532 583)
Cash flows from financing activities			
Change in revenue Funds		256 341	315 829
Increase in capital outlay		7 529 545	181 246
Net cash flows from financing activities		7 785 886	497 075
Net (decrease)/increase in cash and cash equivalents		(1 411 361)	794 784
Cash and cash equivalents at the beginning of the year		336 859	(457 925)
Cash and cash equivalents at the end of the year	5	(1 074 502)	336 859

TOWN COUNCIL OF RUACANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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.

1.2 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.

1.3 Fund accounts

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):

1.3.1 Build Together Fund

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

	<u>2014</u>	<u>2013</u>
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Consists of :		
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings, computer equipment, plant and other equipment	34 237 928	26 708 383
Financed by :		
Capital assets	1 303 343	1 587 685
Revenue account	32 934 585	25 120 698
	34 237 928	26 708 383
3. INVESTMENTS		
Fixed deposits and money on call	1 823 184	2 730 644

TOWN COUNCIL OF RUACANA

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

	2014	2013
	N\$	N\$
4. TRADE AND OTHER RECEIVABLES		
Consumer debtors	5 217 899	7 489 736
Value Added Taxation	455 048	534 710
Temporary advances (Build Together)	169 493	910 867
Other	-	122 594
Build Together Advances	4 036 560	2 944 913
	9 879 000	12 002 820
<i>Less :</i>		
Provision for doubtful debts	(5 185 520)	(4 292 234)
	4 693 480	7 710 586
5. CASH AND CASH EQUIVALENTS		
Cash balances	557	557
Bank balances	-	336 302
	557	336 859
Bank overdraft	(1 075 059)	-
	(1 074 502)	336 859
6. FUNDS AND ACCOUNTS		
6.1 Financing of capital		
Contributions ex Revenue	32 934 585	25 120 698
Contributions ex GRN	1 303 343	1 587 685
	34 237 928	26 708 383
Accumulated Fund	(2 015 127)	1 863 567
6.2 Internal Funds		
Salary Reserve Fund	474 871	461 761
Build Together Fund	6 246 975	6 003 744
	6 721 846	6 465 505
	38 944 647	35 037 455

TOWN COUNCIL OF RUACANA

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

	2014	2013
	N\$	N\$
7. TRADE AND OTHER PAYABLES		
Trade payables	311 217	215 693
Provisions	285 412	902 579
Consumer deposits	153 254	115 348
Accrual for regional council levy	93 096	45 697
Land compensation	206 423	1 629 641
	1 049 402	2 908 958
8. ADJUSTMENTS AND APPROPRIATIONS		
Adjustment: provision for bad debts and salary reserve	(906 395)	(502 942)
VAT refund received (correction)	(119 381)	119 381
NORED surcharges for prior year	-	77 118
Prior period expenditure	(159 775)	-
Capital expenditure	(245 971)	-
Other	(1 752)	(30 511)
	(1 433 274)	(336 954)
9. CASH (UTILISED)/GENERATED BY OPERATIONS		
Net operating (deficit)/surplus before transfers	(2 577 248)	1 292 526
- Adjustments to appropriation account	(1 433 274)	(336 954)
Operating (deficit)/surplus before changes in working capital	(4 010 522)	955 572
Changes in working capital		
(Decrease)/Increase in trade and other payables	(1 859 556)	2 163 882
Decrease/(Increase) in inventories	145 982	(320 702)
Decrease/(Increase) in trade and other receivables	3 017 106	(2 074 961)
	1 303 532	(231 781)
	(2 706 990)	723 791