



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

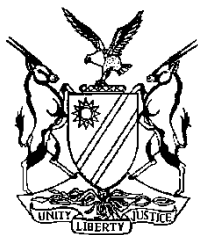
TOWN COUNCIL OF RUACANA

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

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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 2015, 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, March 2016

**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 2015**

1. INTRODUCTION

The accounts of the Town Council of Ruacana for the year ended 30 June 2015 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 Omission of equity investment

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.

4.2 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\$ 527 143.

4.3 Completeness of site rental income

There were no controls to ensure that all residents of the informal settlements are registered and charged site rental. In addition, there were no lease agreements with the said residents who were charged the recorded site rental. As a result, the validity and completeness of the site rental income could not be established.

4.4 Lack of supporting documents for quarry surcharges revenue

No quantity of gravel sold and delivered as well as unit price were provided to support quarry surcharges revenue invoiced amounting to N\$ 1 185 240. As a result, the validity and accuracy of the surcharges revenue could not be verified.

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 deficit at 01/07/2014	N\$	N\$	N\$	N\$ (2 015 127)
General accounts				
Non-profitable services	14 691 454	(16 797 164)	(2 105 710)	
Self-supporting services	3 065 932	(2 419 512)	646 420	
Trade accounts				
Water	4 082 456	(3 509 757)	572 699	
	21 839 842	(22 726 433)	(886 591)	
Deficit for the year				(886 591)
Adjustments and appropriations (Note 8, Annexure D)				795 925
Accumulated deficit at 30/06/2015				(2 105 793)

7. CURRENT BANK ACCOUNT

	2015	2014
	N\$	N\$
Balance per bank statement	264 688	516 122
Outstanding cheques	(1 644 553)	(1 591 181)
Cashbook balance	(1 379 865)	(1 075 059)

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2015 and the interest thereon were as follows:

Institution	2015		2014	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	787 742	114 080	1 823 184	118 860
	787 742	114 080	1 823 184	118 860
Distribution				
Salary Reserve Fund	143 839	-	59 463	-
Build Together Housing Fund	643 903	11 620	1 763 721	63 643
Revenue	-	102 460	-	55 217
	787 742	114 080	1 823 184	118 860

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 were as follows:

	Water	
	2015	2014
	N\$	N\$
Sales	3 527 070	2 866 586
Cost of sales	(2 244 633)	(1 985 759)
Gross profit	1 282 437	880 827
Other expenses	(709 738)	(111 368)
NET PROFIT	572 699	769 459
Gross profit percentage on sales	36%	31%
Net profit percentage on sales	16%	27%

10.2 Distribution losses were as follows:

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

	Water	
	2015	2014
	m ³	m ³
Sold	200 114	196 345
Bought	(189 484)	(180 933)
Distribution gain	10 630	15 412
Loss as percentage of units sold	5.31%	7.85%

11. SELF-SUPPORTING EXTERNAL SERVICES

The net results of these services are as follows:

	Revenue	Expenditure	Surplus	Surplus
	2015	2015	2015	2014
	N\$	N\$	N\$	N\$
Sewerage	3 065 932	(2 419 512)	646 420	366 614
	3 065 932	(2 419 512)	646 420	366 614

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

Unauthorised salaries paid amounted to N\$ 173 997.

13. SUSPENSE ACCOUNTS

No suspense accounts are 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\$ 6 118 222 (2014: N\$ 7 085 982) and comprised of the following:

	Financed by	Total 2015	Total 2014
	Revenue 2015		
	N\$	N\$	N\$
General administration	1 278 819	1 278 819	1 798 073
Health services	26 550	26 550	-
Town planning	2 539 415	2 539 415	3 171 238
Sewerage	1 888 850	1 888 850	2 116 671
Water	384 588	384 588	-
	6 118 222	6 118 222	7 085 982

16. STUDY LOANS/BURSARIES

Bursaries amounting to N\$ 67 025 (2014: N\$ 55 176) were granted to employees and school children to further their studies and study loans for staff members amounted to N\$ 28 300 (2014: N\$ NIL).

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\$ 1 775 529 (2014: N\$ 1 423 218) were made during the year.

18. VISITS TO FOREIGN COUNTRIES

The staff members visited Buffalo City, South Africa to participate in the Southern Africa Inter-Municipal Games at a total cost of N\$ 81 172. 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\$ 3 000 (2014: N\$ 3 152).

22. TRANSFER OF PROPERTY TO/FROM THE TOWN COUNCIL

There was no transfer of property to or from the Council during the year under review.

23. DEBTORS/CREDITORS

23.1 Debtors on 30 June 2015 comprised the following:

	2015	2014
	N\$	N\$
Consumers	6 561 615	5 217 899
Value Added Taxation	166 936	455 048
Temporary advances (Build Together)	781 871	169 493
Build Together Advances	3 612 246	4 036 560
	11 122 668	9 879 000
Less: Provision for bad debts	(3 772 716)	(5 185 520)
	7 349 952	4 693 480

23.2 Creditors on 30 June 2013 comprised the following:

	2015	2014
	N\$	N\$
Trade payables	514 065	311 217
Consumer deposits	283 927	153 254
Provisions	153 363	491 835
Accrual for regional council levy	93 096	93 096
Deposits for sale of erven	1 109 234	-
	2 153 685	1 049 402

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 1 256 875 (2014: N\$ 1 131 804).

The gazetted tariffs were as follows:

N\$ 0.0420 (2014: N\$ 0.0420) per dollar on site values per year and N\$ 0.0173 (2014: 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

	2015	2014
	N\$	N\$
Build Together advances (included in Trade and other receivables)	4 394 117	4 206 053

26. SALE OF ERVEN

The proceeds of erven and properties sold were:

	2015	2014
Erven sold	N\$ 1 109 234	N\$ 511 198

27. PROPERTY SOLD ON AN INSTALMENT BASIS

Erven sold on an instalment basis amounted to N\$ 1 109 234 (2014: N\$ 275 932).

28. TARIFF ADJUSTMENTS

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

29. APPROVALS

All overspending was approved by the Council.

30. STOCK AND EQUIPMENT

30.1 Motor vehicles

The Town Council did not provide the details of the motor vehicles stock.

30.2 Inventory

Inventories at year-end amounted to N\$ 527 143 (2014: N\$ 313 959). Inventories are qualified, refer to item 4.2.

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.

33.2 Informal queries addressed to the Chief Executive Officer by way of a management letter consist of:

- Lack of compliance with Ministerial directive; and
- Slow debt collection.

34. QUALIFIED AUDIT OPINION

The accounts of the Town Council of Ruacana for the financial year ended 30 June 2015, 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:

- Omission of equity investment;
- Lack of supporting documents for physical quantities of inventories valued at N\$ 527 143;
- Completeness and validity of site rental income; and
- Lack of supporting documents for quarry surcharges 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 2015, 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, March 2016

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

BALANCE SHEET AS AT 30 JUNE 2015

	Note	2015 N\$	2014 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	35 821	36 061
Investments	3	35 033	34 237
		787 742	1 821
Current assets			
Trade and other receivables	4	7 879	5 007
Inventories		7 349	4 691
Cash and cash equivalents	5	527 143	313 959
		2 057	557
TOTAL ASSETS		43 700	41 069
EQUITY AND LIABILITIES			
Equity			
Funds and accounts	6.2	40 167	38 944
Accumulated Fund	6.1	7 239	6 721
Capital outlay	6.1	(2 105 7)	(2 015)
		35 033	34 237
Current liabilities			
Trade and other payables	7	3 533	2 124
Bank overdraft	5	2 153	1 049
		1 379	1 071
TOTAL EQUITY AND LIABILITIES		43 700 586	41 069 108

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

	<u>Note</u>	<u>2015</u>	<u>2014</u>
		N\$	N\$
INCOME		21 737 382	16 137 030
EXPENDITURE		(22 726 433)	(18 714 278)
OPERATING DEFICIT FOR THE YEAR		(989 051)	(2 577 248)
Investments income		102 460	131 828
NET DEFICIT FOR THE YEAR		(886 591)	(2 445 420)
Add : Appropriation and adjustments	8	795 925	(1 433 274)
DEFICIT FOR THE YEAR		(90 666)	(3 878 694)
RETAINED (DEFICIT)/SURPLUS			
- BEGINNING OF THE YEAR		(2 015 127)	1 863 567
- END OF THE YEAR		(2 105 793)	(2 015 127)

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 N\$	2014 N\$
Cash flows from operating activities			
Cash receipts from customers		21 737 382	16 137 030
Cash paid to suppliers		(23 695 881)	(18 844 020)
Cash utilised by operations	9	(1 958 499)	(2 706 990)
Investments income		102 460	131 828
Net cash flows from operating activities		(1 856 039)	(2 575 162)
Cash flows from investing activities			
Net capital expenditure in property, plant and equipment		(795 764)	(7 529 545)
Decrease in investments		1 035 442	907 460
Net cash flows from investing activities		239 678	(6 622 085)
Cash flows from financing activities			
Change in Funds		517 291	256 341
Increase in capital outlay		795 764	7 529 545
Net cash flows from financing activities		1 313 055	7 785 886
Net decrease in cash and cash equivalents		(303 306)	(1 411 361)
Cash and cash equivalents at the beginning of the year		(1 074 502)	336 859
Cash and cash equivalents at the end of the year	5	(1 377 808)	(1 074 502)

TOWN COUNCIL OF RUACANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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

1.2.1 Build Together Fund

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

	2015	2014
	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	35 033 692	34 237 928
Financed by :		
Revenue Fund	34 014 692	32 934 585
General Capital Fund	1 019 000	1 303 343
	35 033 692	34 237 928
3. INVESTMENTS		
Fixed deposits and money on call	787 742	1 823 184

TOWN COUNCIL OF RUACANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015 (continued)

	2015	2014
	N\$	N\$
4. TRADE AND OTHER RECEIVABLES		
Consumer debtors	6 561 615	5 217 899
Value Added Taxation	166 936	455 048
Temporary advances (Build Together)	781 871	169 493
Build Together Advances	3 612 246	4 036 560
	11 122 668	9 879 000
<i>Less :</i>		
Provision for doubtful debts	(3 772 716)	(5 185 520)
	7 349 952	4 693 480
5. CASH AND CASH EQUIVALENTS		
Cash balances	2 057	557
Bank balances	-	-
	2 057	557
Bank overdraft	(1 379 865)	(1 075 059)
	(1 377 808)	(1 074 502)
6. FUNDS AND ACCOUNTS		
6.1 Financing of capital		
Contributions ex Revenue	34 014 692	32 934 585
Contributions ex GRN	1 019 000	1 303 343
	35 033 692	34 237 928
Accumulated Fund	(2 105 793)	(2 015 127)
6.2 Internal Funds		
Salary Reserve Fund	758 192	474 871
Build Together Fund	6 480 945	6 246 975
	7 239 137	6 721 846
	40 167 036	38 944 647

TOWN COUNCIL OF RUACANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015 (continued)

	2015	2014
	N\$	N\$
7. TRADE AND OTHER PAYABLES		
Trade payables	514 065	311 217
Provisions	153 363	285 412
Consumer deposits	283 927	153 254
Accrual for regional council levy	93 096	93 096
Deposits for sale of erven	1 109 234	-
Land compensation		206 423
	2 153 685	1 049 402
8. ADJUSTMENTS AND APPROPRIATIONS		
Adjustment: provision for bad debts and salary reserve	1 412 803	(906 395)
Increase in leave pay provision	(283 320)	-
VAT refund received (correction)	(265 118)	(119 381)
Prior period expenditure		(159 775)
Capital expenditure	(275 033)	(245 971)
Prior year bulk water purchases	206 593	-
Other	-	(1 752)
	795 925	(1 433 274)
9. CASH UTILISED BY OPERATIONS		
Net operating deficit before transfers	(989 051)	(2 577 248)
- Adjustments to appropriation account	795 925	(1 433 274)
Operating deficit before changes in working capital	(193 126)	(4 010 522)
Changes in working capital		
Increase/(decrease) in trade and other payables	1 104 283	(1 859 556)
(Increase)/decrease in inventories	(213 184)	145 982
(Increase)/decrease in trade and other receivables	(2 656 472)	3 017 106
	(1 765 373)	1 303 532
	(1 958 499)	(2 706 990)