



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
VILLAGE COUNCIL OF GOCHAS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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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 Village Council of Gochas for the financial year ended 30 June 2011, 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, February 2012

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
VILLAGE COUNCIL OF GOCHAS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

1. INTRODUCTION

The accounts of the Village Council of Gochas for the year ended 30 June 2011 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 Mostert Landgrebe of Windhoek has been appointed in terms of Section 26 (2) of the State Finance Act, 1991, to audit the accounts of the Village Council on behalf of the Auditor-General and under his supervision.

Figures in the report are rounded off to the nearest Namibian dollar.

2. FINANCIAL STATEMENTS

The Village Council's financial statements were submitted to the Auditor-General by the Accounting Officer in compliance with Section 87 (1) of the Local Authorities Act, 1992. The audited financial statements are in agreement with the general ledger and are filed in the Office of the Auditor-General. The abridged balance sheet at 30 June 2011, Annexure A, is a true reflection of the original.

The financial statements also include:

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 Village 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 OBSERVATION AND COMMENTS

4.1 Bad and doubtful debts

The average collection period of trade receivables, before taking the provision for bad debts into account, is 333 days (2010: 318 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 73 days (2010: 68 days). Based on an average collection period of 60 days, the auditors are of the opinion that the debtors provision is understated by at least N\$ 73 800 (2010: N\$ 42 294).

4.2 Inventories

The auditors did not observe the counting of inventories on 30 June 2011, as they were not appointed at that time. There were no alternative practical audit procedures that the auditors could perform to confirm the existence and value of inventories on hand at year-end.

As reported previously, no inventories of consumables are reflected in the financial statements of the Village Council. The auditors were unable to calculate the estimated amount.

4.3 Other payables

No creditors reconciliation are performed by the Council. However, supporting documents were available, thus the creditors balance could be verified by the auditors. The Council should start performing creditors reconciliation as the matter of urgency.

4.4 Build Together advances

Build Together loan files are incomplete. The auditors found that in some files there are no identification documents, no pay slips and also sometimes no approval forms. Furthermore, there are in some no signed loan agreements. The Council is thus urged to update and maintain files.

4.5 Fixed assets - Depreciation

Although required, in accordance with Generally Accepted Accounting Practice (GAAP), the accounting system does not make any provision for calculating depreciation on a pro-rata basis. As in previous years, all assets are depreciated annually instead of on a pro-rata basis. This practice was consistently applied since the system was introduced and implemented.

4.6 Vat control receivable

Not all VAT returns were submitted on time. The Council should submit VAT returns on time in order to avoid penalties and interest from the Receiver of Revenue.

4.7 Sewerage and assessment rates

Sewerage and assessment rates were under charged. The Council must ensure that all charges are in accordance with the Government gazette.

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Gochas Village Council during the audit is appreciated.

6. FINANCIAL RESULTS

The results of the operations of, and transactions on the Revenue account for the year were as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit 01/07/2010				(1 096 677)
General accounts				
- Non-profitable	2 974 892	4 074 025	(1 099 133)	
- Self-supporting	197 845	375 215	(177 370)	
Trade accounts				
- Water	1 248 185	900 248	347 937	
- Electricity	1 396 213	1 025 206	371 007	
Deficit for the year	5 817 135	6 374 694	(557 559)	(557 559)
Adjustments and utilisations (See note 11, Annexure D)				(1 654 236) (309 660)
Accumulated deficit 30/06/2011				(1 963 896)

7. CURRENT BANK ACCOUNT

	2011	2010
	N\$	N\$
Favourable/(unfavourable) cash-book balance on 30 June	(97 545)	(99 415)
Unexplained difference	(3 949)	-
Outstanding cheques	122 042	111 114
Bank balance at 30 June	20 548	11 699

8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June the investments were as follows:

	2011	2010
	N\$	N\$
Commercial banks	1 577 627	2 170 344
	1 577 627	2 170 344

The investments were allocated as follows between the Funds:

	2011	2010
	N\$	N\$
Fixed Property Fund	73 326	77 597
Capital Reserve Fund	-	14 443
Build Together Fund	1 386 327	1 274 135
Build Together Prepaid Fund	-	17 042
Housing Fund	-	114 753
Capital outlay	117 974	117 974
Revenue account	-	554 400
	1 577 627	2 170 344

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in note 9 in Annexure D.

10. TRADE ACCOUNTS

10.1 The results of operations were as follows:

	Electricity		Water	
	2011	2010	2011	2010
	N\$	N\$	N\$	N\$
Sales	1 276 715	945 426	1 243 060	548 913
Cost of bulk purchases	(575 956)	(590 653)	(384 946)	(262 955)
Gross profit	700 759	354 773	858 114	285 958
Net expenditure	(329 752)	(445 610)	(510 177)	(119 738)
Net surplus/(deficit)	371 007	(90 837)	347 937	166 220
Gross profit percentages on bulk purchases	121.67%	60.06%	222.92%	108.75%
Net profit/(loss) percentage on bulk purchases	64.2%	(15.38%)	90.39%	63.21%

10.2 Distribution results

No distribution results were available at the Village Council.

11. SELF-SUPPORTING SERVICES

11.1 The result for the year under review is as follows:

	2011	2010
	N\$	N\$
Cleansing services	(171 144)	(555 464)
Cemetery	(6 226)	(13 347)
(Loss) for the year	(177 370)	(568 811)

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorized or avoidable expenditure was incurred during the year under review.

13. SUSPENSE ACCOUNTS

These accounts are properly maintained, controlled and reconciled on a regular basis.

14. IRREGULARITIES AND LOSSES

No irregularities and losses took place during the year under review.

15. CAPITAL PROJECTS

The following expenditure was incurred during the year for capital projects or acquisitions:

Nature of projects/acquisitions	Financed by		Total expenditure 2011	Total expenditure 2010
	Revenue account	General capital		
	N\$	N\$	N\$	N\$
Electricity	194 718	-	194 718	576 993
General administration	768 278	-	768 278	94 443
Streets and roads	664 941	-	664 941	1 103 840
Townlands	85 349	-	85 349	99 133
Water	14 479	-	14 479	92 095
Parks and recreation	283 633	-	283 633	-
Fire brigade	-	912 213	912 213	-
	2 011 398	912 213	2 923 611	1 966 504

The income statements reflect an amount of N\$ 721 608 more for additions than the revenue capital statement.

The capital statements reflect an amount of N\$ 74 149 more than the amount disclosed in the balance sheet.

No explanations for the above differences could be provided by the Council.

16. BURSARIES

There were no bursaries granted for the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID RECEIVED FROM GOVERNMENT

	2011	2010
	N\$	N\$
Total	1 500 000	1 239 478

18. COMPENSATION PAYMENTS

There were no compensation payments made during the year.

19. VISITS TO FOREIGN COUNTRIES

The audit revealed that no visits to foreign countries took place.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

There were no claims against the Local Authority.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

There were no gifts or donations granted by the Local Authority.

22. TRANSFER OF PROPERTY

There were no transfers of property to or from the Local Authority.

The Council made an arrangement for the sale of certain property to local inhabitants. Such transactions will be finalised only after the purchase price has been paid in full. Payments to date are reflected as deposits on even to be sold under trade and other payables in the balance sheet.

23. TRADE AND OTHER RECEIVABLES/PAYABLES

23.1 Trade and other receivables at 30 June were:

	2011	2010
	N\$	N\$
Trade receivables	1 910 982	1 629 112
Value Added Tax	163 783	171 206
Housing Fund receivables	829 406	791 516
Provision for doubtful debts	(1 492 666)	(1 279 939)
Total	1 411 505	1 311 895

23.2 Trade and other payables at 30 June were:

	2011	2010
	N\$	N\$
Trade creditors	333 037	523 051
Deposits on erven sales	45 038	30 102
Provision for staff leave	231 204	166 152
Consumer deposits	13 942	12 492
Totals	623 221	731 797

24. ASSESSMENT RATES

	2011	2010
	N\$	N\$
Proceeds from assessment rates	84 531	66 217

The Village council did not levy for the benefit of the funds of the Regional Council an amount equal to five percent (5%) of the rates levied. The Council did not pay this levy, neither did they provide for it to be paid over in future and are therefore the Council is in breach with Section 77 of the Local Authorities Act.

25. LOANS

25.1 External loans

The balances due to the Government of Namibia were as follows:

	2011	2010
	N\$	N\$
Capital section	516 963	567 998
Housing Fund	-	114 753
Instalments in arrears	1 396 035	1 300 344
	1 912 998	1 983 095

25.2 Internal loan balances

	2011	2010
	N\$	N\$
Balance	1 620	2 331

25.3 Loans written off

No loans were written off during the year.

25.4 Loans due to the Village Council

No loans were due to the Village Council. Advances in terms of the Housing Fund are reflected as debtors.

26. SALE OF ERVEN

Council sold properties during the year under review on an instalment basis. Transfer will only take place when fully paid.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

At year-end deposits to the amount of N\$ 45 038 were already made as down payment on future property transactions. (See paragraph 26)

28. TARIFF ADJUSTMENTS

All tariff adjustments were in accordance with the relevant Official Government notice.

29. APPROVALS

All necessary approvals were obtained.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicle and values thereof:

	Vehicles, tractors and implements	
	2011	2010
On hand as at 01 July	8	7
Acquisitions during the year	-	1
On hand 30 June	8	8

30.2 Inventory

No inventory records are kept for consumables.

Records relating to livestock have been established and are maintained. The value of livestock at year-end was N\$ 102 500 (2010: N\$ 134 382).

31. SPECIAL INVESTIGATIONS

There were no special investigations carried out during the year.

32. GENERAL

There is a sufficient system of internal control at the Village Council. Proper segregation of duties is not possible due to the small number of staff employed. While increased management involvement does not reduce risks, it causes the risk that management and Council override existing controls, a potentially dangerous practice, which the Council should vigilantly guard against.

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 were the following:

- Trade and other receivables
- Trade and other payables
- Fixed assets – Depreciation
- Consumer deposits
- Build Together advances
- VAT control receivable
- Distribution losses
- Bank reconciliations
- Sewerage and assessment rates

34. QUALIFIED AUDIT OPINION

The accounts of the Village Council of Gochas for the financial year end 30 June 2010, summarised in Annexures A to D, were audited by me in terms of Section 85 of the Local Authorities Act, 1992, read with Section 25 (1) (b) of the State Finance Act, 1991.

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

Provision for bad debts

According to calculations of the auditors, the provision for bad debts is understated by N\$ 73 800.

Fixed assets - Depreciation

Although required in accordance with Generally Accepted Accounting Practice (GAAP), the accounting system does not make any provision for calculating depreciation on a pro-rata basis. As in previous years, all assets are depreciated annually instead of pro-rata basis, practice being consistently applied since the system was introduced and implemented.

VAT control receivable

Not all VAT returns were submitted on time, thus the Council should submit VAT returns on time in order to avoid penalties and interest from the Receiver of Revenue.

Sewerage and assessment rates

Sewerage and assessment rates were under charged. The Council must ensure that all charges are in accordance with the government gazette.

Except for the effects of any adjustments which might have been necessary as referred to in the preceding paragraphs, in my opinion these financial statements fairly present the financial position of the Village Council at 30 June 2011 and the result of its operations and cash flows for the year then ended.

WINDHOEK, February 2012

**JUNIAS ETUNA KANDJEKE
AUDITOR- GENERAL**

VILLAGE COUNCIL OF GOCHAS

BALANCE SHEET AT 30 JUNE

	Notes	2011 N\$	2010 N\$
ASSETS			
Non-current assets			
		10 619 673	9 400 135
Property, plant and equipment	2	9 042 046	7 229 791
Investments	3	1 577 627	2 170 344
Current assets			
		1 554 919	1 449 242
Trade and other receivables	4	1 411 505	1 311 895
Inventories	5	140 449	134 382
Cash and bank balances	6	2 965	2 965
TOTAL ASSETS		12 174 592	10 849 377
FUNDS AND LIABILITIES			
Funds and reserves			
		9 540 828	8 035 070
Capital outlay	7	8 641 437	6 777 437
Funds and accounts	8	899 391	1 257 633
Long-term liabilities			
Long-term loans	9	516 963	682 751
Current liabilities			
		2 116 801	2 131 556
Trade and other payables	10	623 221	731 797
Bank overdraft	6	97 545	99 415
Short-term portion of long-term loans	9	1 396 035	1 300 344
TOTAL FUNDS AND LIABILITIES		12 174 592	10 849 377

VILLAGE COUNCIL OF GOCHAS

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2011	2010
		N\$	N\$
INCOME		5 773 585	3 748 788
EXPENDITURE		(6 374 694)	(4 614 181)
NET OPERATING (DEFICIT)		(601 109)	(865 393)
INVESTMENT INCOME		43 550	59 633
		(557 559)	(805 760)
APPROPRIATION ACCOUNT	11	(309 660)	(1 041 068)
		(867 219)	(1 846 828)
ACCUMULATED FUNDS - Beginning of the year		(1 096 677)	750 151
ACCUMULATED FUNDS - End of the year		(1 963 896)	(1 096 677)

VILLAGE COUNCIL OF GOCHAS

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2011</u>	<u>2010</u>
		N\$	N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		5 773 585	3 748 788
Cash paid to suppliers		<u>(6 898 607)</u>	<u>(4 393 652)</u>
Cash utilised by operations	12	(1 125 022)	(644 864)
Investment income		43 550	59 633
Movement in Fund accounts			
- Increase in Fund accounts		508 977	639 652
- Increase in capital outlay		<u>1 864 000</u>	<u>1 241 757</u>
Net cash flow from operating activities		<u>1 291 505</u>	<u>1 296 178</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital expenditure		(1 812 255)	(1 193 246)
Decrease/(increase) in investments		<u>592 717</u>	<u>(181 045)</u>
		<u>(1 219 538)</u>	<u>(1 374 291)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
(Decrease)/increase in long-term liabilities		<u>(70 097)</u>	47 960
		<u>(70 097)</u>	47 960
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1 870	(30 153)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR		<u>(96 450)</u>	<u>(66 297)</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR		<u>(94 580)</u>	<u>(96 450)</u>

VILLAGE COUNCIL OF GOCHAS**NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE**

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements set out in Annexures A to C were prepared on the historical cost basis and incorporate the following principal accounting policies, which are consistent in all material aspects with those applied in the previous year.

The financial statements are prepared on a going-concern basis.

1.2 Property, plant and equipment

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

1.3 Investments

Investments are reflected at face value.

1.4 Trade receivables

Trade receivables are recorded at originated cost less an allowance for bad debts.

1.5 Cash and cash equivalents

It consists of cash on hand and the current account with banks, all of which are available for immediate use by the Council.

1.6 Trade and other payables

All financial liabilities are recorded at cost.

1.7 Internal Funds

The following Funds were maintained by the Village Council in terms of section 58(1) and 80(4) of the Local Authorities Act, 1992 (Act 23 of 1992).

1.7.1 Fixed Property Fund

Proceeds from the sale of land that has been developed by the Gochas Village Council, accumulated in this Fund. Costs incurred on the development of land are charged to this Fund.

1.7.2 Housing Fund

The purpose of this Fund is to provide for housing loans. Income to this Fund is transferred from the general income account, external loans from Government and interest on investments and loans.

VILLAGE COUNCIL OF GOCHAS

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

Internal Funds (continued)**1.7.3 Capital Reserve Fund**

The purpose of this Fund is to build up a general capital reserve to ensure that the Village Council's financial position is stable. Income to this Fund is transferred from the general income account.

1.7.4 Revenue account

All monies received by and accrued to and expenses paid, except for allocations to other Funds, are reflected in this account, and are kept in compliance with Section 86(1)(b) of the Act.

1.7.5 Build Together Fund

The purpose of this Fund is to provide housing loans to the low income group. Income to this Fund is derived from Government contributions, repayments, interest on investments and loans.

	<u>2011</u>	<u>2010</u>
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
TOTAL	<u>9 042 046</u>	<u>7 229 791</u>
3. INVESTMENTS		
INVESTMENTS		
Commercial banks	<u>1 577 627</u>	<u>2 170 344</u>
ALLOCATED TO FUNDS		
Fixed Property Fund	73 326	77 597
Capital Reserve Fund	-	14 443
Build Together Fund	1 386 327	1 274 135
Build Together Prepaid Fund	-	17 042
Housing Fund	-	114 753
Capital outlay	117 974	117 974
Revenue account	-	554 400
	<u>1 577 627</u>	<u>2 170 344</u>

VILLAGE COUNCIL OF GOCHAS

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

	2011	2010
	N\$	N\$
4. TRADE AND OTHER RECEIVABLES		
Trade receivables	1 910 982	1 629 112
Value Added Tax	163 783	171 206
Housing Fund receivables	829 406	791 516
Provision for doubtful debts	(1 492 666)	(1 279 939)
	1 411 505	1 311 895
5. INVENTORY		
Livestock	102 500	134 382
Work in progress - Incomplete Build Together projects	37 949	-
	140 449	134 382
6. CASH AND BANK BALANCES		
Current bank account	(97 545)	(99 415)
Petty cash	2 965	2 965
	(94 580)	(96 450)
7. CAPITAL OUTLAY		
Loans redeemed	645 904	594 157
Revenue contributions	3 776 837	2 375 136
General capital contributions	4 218 696	3 808 144
	8 641 437	6 777 437
8. FUNDS AND ACCOUNTS		
Fixed Property Fund	77 597	77 596
Capital Reserve Fund	16 983	16 774
Housing Fund	114 753	-
Built Together Fund	2 495 890	2 103 020
Built Together Prepaid Fund	158 064	156 920
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(1 963 896)	(1 096 677)
	899 391	1 257 633

VILLAGE COUNCIL OF GOCHAS

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

	2011	2010
	N\$	N\$
9. LONG-TERM LIABILITIES		
The Government of Namibia		
Capital section	1 912 998	1 868 342
Housing Fund	-	114 753
	<u>1 912 998</u>	<u>1 983 095</u>
Short-term portion stated as current liabilities	<u>(1 396 035)</u>	<u>(1 300 344)</u>
	<u>516 963</u>	<u>682 751</u>
10. TRADE AND OTHER PAYABLES		
Trade creditors	333 037	523 051
Deposits on erven sales	45 038	30 102
Provision for staff leave	231 204	166 152
Consumer deposits	13 942	12 492
	<u>623 221</u>	<u>731 797</u>
11. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Prior year adjustments	(31 882)	405 023
Provision for bad debts	(212 726)	(1 279 939)
Provision for leave	(65 052)	(166 152)
	<u>(309 660)</u>	<u>(1 041 068)</u>
12. CASH UTILISED BY OPERATIONS		
NET OPERATING DEFICIT BEFORE INVESTMENT INCOME	(601 109)	(865 393)
ADJUSTMENT FOR:		
- Adjustments to appropriation account	<u>(309 660)</u>	<u>(1 041 068)</u>
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	<u>(910 769)</u>	<u>(1 906 461)</u>
CHANGES IN WORKING CAPITAL		
(Increase)/decrease in trade and other receivables	(99 610)	943 692
Increase in inventories	(6 067)	(28 182)
(Decrease)/increase in trade and other payables	<u>(108 576)</u>	<u>346 087</u>
	(214 253)	1 261 597
CASH UTILISED BY OPERATIONS	<u>(1 125 022)</u>	<u>(644 864)</u>