



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
VILLAGE COUNCIL OF ARANOS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

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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 Aranos for the financial years ended 30 June 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, August 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL
ON THE ACCOUNT OF THE VILLAGE COUNCIL OF ARANOS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010**

1. INTRODUCTION

The accounts of the Village Council of Aranos for the year ended 30 June 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 PKF (Namibia) 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 die Office of the Auditor-General. The abridged balance sheet at Annexure A is a true reflection of the original signed by the Accounting Officer.

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 the 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 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 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

4.1 Internal control and accounting records

The system of internal control was not sufficient for the auditors to rely upon for audit purposes.

4.2 Rental income

I must again report that rental income from camps leased out by Council is not properly accounted for in the accounting records. Invoices are not issued and payments by lessees are credited to a suspense account in Accounts Receivable, causing credits to be built up on this account.

4.3 Inventories

No inventories are disclosed in the financial statements of the Village Council. The auditors were unable to calculate the estimated value.

4.4 Trade and other payables

The financial statements of the Council include a provision for leave pay. The auditors concluded that the leave provision is understated by approximately N\$35 632 for the year under review.

Financial year	Provision as per financial statements	Provision as calculated	Over /(under) provision
	N\$	N\$	N\$
2010	386 529	350 897	35 632
2009	67 081	322 981	(255 900)

As reported in my previous report no provision has been made for severance pay on retirement.

4.5 External loans

External loans are as in previous years, not repaid. Arrears are reflected in the accounts, as a creditor to the amount of N\$ 1 829 222. The loan position has not been reconciled with Ministry of Finance.

4.6 Consumer deposits

The consumer deposits held by the Village Council are not sufficient to cover one month's consumption by the consumers.

4.7 VAT

The VAT receivable as per financial statements does not agree to the balance calculated by the auditors. According to the auditors VAT is overstated by N\$ 171 996. Part of this difference may be ascribed to amounts not refunded by the Receiver but utilised to redeem outstanding interest and penalties.

4.8 Accounts receivable

Payments by certain debtors, including Government accounts, are not always matched with invoices, resulting in credits to the amount of N\$ 297 969 being built up as "unknown accounts" within Accounts Receivable.

4.9 Fixed Assets

The additions to Housing to the value of N\$ 1 469 500 could not be supported by audit evidence. The additions to general administration is misstated by N\$ 199 269 when comparing the financial statements with the fixed assets register.

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Aranos 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	Expendi ture	Surplus / (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit as at 1 July 2009				(751 601)
General accounts				
– Non-profitable	595 208	3 313 082	(2 717 874)	
– Self-supporting	2 940 556	1 227 456	1 713 100	
– Rates and taxes	683 200	13 073	670 127	
Trade accounts				
– Water	1 895 115	1 302 734	592 381	
– Electricity	1 596 195	960 052	636 143	
	7 710 274	6 816 397	893 877	893 877
Deficit for the year				142 276
Adjustments and utilizations (See note 10, Annexure D)				*(2 534 905)
Accumulated deficit as at 30 June 2010				(2 392 629)

* In the financial statements submitted by the Council this adjustment is only described as “prior year adjustment”. This Office is of the opinion that huge adjustments like this should be defined more clearly.

7. CURRENT BANK ACCOUNTS

	2010	2009
	N\$	N\$
Negative cash book balance	(79 811)	(93 006)
Outstanding cheques	149 610	51 883
Adjustments	3 429	718
Balance per bank statement	73 228	(40 405)

8. INVESTMENTS

The investments as at 30 June were as follows:

	2010	2009
	N\$	N\$
Commercial banks	1 577 306	813 730
Unexplained differences	-	(92 148)
	1 577 306	721 582
The investments were allocated as follows:		
Fixed Property Fund	1 080 516	-
Housing Fund	-	87 172
Build Together Fund	496 790	634 410
	1 577 306	721 582

9. TRADE ACCOUNTS

9.1 The results of operations were as follows:

	2010	2009
	N\$	N\$
Electricity		
Sales and royalties	1 447 658	1 229 647
Cost of bulk purchases	(843 576)	(659 148)
Gross profit	604 082	570 499
Nett income - normal operations	32 061	(88 482)
Nett surplus/ (loss) before capital expenditure	636 143	482 017
Less: Capital expenditure	-	(105 938)
Nett surplus / (loss) for the year	636 143	376 079
Gross profit % on bulk purchases	71,61%	86,55%
Nett surplus before capital expenditure % on bulk purchases	75,41%	73,13%
Water		
Sales	1 483 153	1 263 755
Cost of bulk purchases	(1 178 948)	(982 798)
Gross profit	304 205	280 957
Nett income - other	288 176	181 834
	592 381	462 791
Gross profit % on bulk purchases	25,80%	28,59%
Net profit % on bulk purchases	50,25%	47,09%

From the above tables it is clear that water and electricity votes are operating on a sound basis.

9.2 Distribution losses

The Council did not keep statistics of distribution losses.

10. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed during the audit.

11. SELF-SUPPORTING SERVICES

11.1 The results for the years under review are as follows:

	Income 2010	Expenses 2010	Surplus 2010	Surplus 2009
	N\$	N\$	N\$	N\$
Street, roads and storm water	504 460	270 102	234 358	17 180
Townlands and pound	177 368	6 842	170 526	2 708
Housing	86 185	246	85 939	50 230
Natis	412 210	138 838	273 372	127 149
Cleansing services	571 942	75 036	496 906	268 738
Sewerage	1 188 391	736 392	451 999	295 599
	2 940 556	1 227 456	1 713 100	761 604

12. SUSPENSE ACCOUNTS

No suspense accounts are carried in the accounts.

It however appears that payments, mainly by Ministries, which cannot be matched with specific invoices or which are duplicated, are left in an account named "Unknown deposits" in account receivable register. (See paragraph 4.2)

13. IRREGULARITIES AND LOSSES

The auditors did not find any irregularities and losses for the year under review, except to the extend that the matter referred to in paragraph 4.2 may cause losses to the Council.

14. CAPITAL PROJECTS

	2010	2009
	N\$	N\$
Expenditure:		
Housing	*1 469 500	-
Electricity	-	105 938
Parks	-	251 929
Streets and roads	-	260 779
General administration	917 790	37 583
	2 387 290	656 229
Financed by:		
Loan capital	-	970
Revenue account	2 387 290	655 259
	2 387 290	656 229

*According to the financial statements (votes) expenses of a capital nature amounted to N\$ 973 679. According to the fixed asset register this amount should have only been N\$ 774 410. The results in a difference of N\$ 199 269, Council should look into this difference and rectify this issue.

No supporting documentation could be provided by the Council for the addition to Housing to the amount of N\$ 1 469 500.

15. BURSARIES

No bursaries were granted or paid during the year under review.

16. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants and financial aid were paid during the year under review.

17. COMPENSATION PAYMENTS

No compensation payments were allocated or paid during the year under review.

18. VISITS TO FOREIGN COUNTRIES

Council did not pay for any visits to foreign countries during the year under review.

19. CLAIMS AGAINST THE LOCAL AUTHORITY

The auditors could not trace any claims against the local authority.

20. GIFTS AND DONATIONS BY THE LOCAL AUTHORITY

No gifts and donations were allocated or paid during the year.

21. TRANSFER OF PROPERTY

There were no transfers of property to or from the local authority for the year under review.

22. TRADE AND OTHER RECEIVABLES

	2010	2009
	N\$	N\$
Build Together Fund receivables	3 200 656	3 249 062
Services, rates and taxes	3 027 965	2 452 091
Provision for bad debts	(2 751 882)	(220 880)
VAT claims	313 910	-
Other receivables	185 924	90 818
	3 976 573	5 571 091

23. TRADE AND OTHER PAYABLES

	2010	2009
	N\$	N\$
Loan instalments in arrears	1 829 222	1 670 339
Trade payables	239 037	305 957
Consumer deposits	17 088	17 668
Sundry creditors	102 942	-
Provisions for leave	386 529	67 081
	2 574 818	2 061 045

24. ASSESSMENT RATES

	2010	2009
	N\$	N\$
Proceeds from assessment rates	683 200	261 454

As also reported in my previous report rates were not levied on the approved rates of 2008.

25. LOANS

25.1 External loans

	2010	2009
	N\$	N\$
Balance on loans		
– Capital section	1 062 784	1 081 900
– Housing Fund	1 861	2 141
Namibia Housing Enterprises (18%)	112 044	112 044
	1 176 689	1 196 085
Instalments and interest in arrears	1 829 222	1 670 339
Total outstanding	3 005 911	2 866 424

No repayments were done on the loans from Government but are provided for under current liabilities as instalments and interest in arrears.

25.2 Due to the Village Council

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

25.3 Loans written off

No loans were written off during the year under review.

26. SALE OF ERVEN

Due to unavailability of a sale of erven register, this information was not available.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

Properties were sold on credit in terms of the Build Together Scheme for the year under review, but the value thereof could not be provided by the Council.

28. TARIFF ADJUSTMENTS

Not all tariff adjustments published in the Government Gazette were followed. (See paragraph 24)

29. APPROVALS

29.1 Internal loans

No further internal loans were granted during the year under review.

29.2 Revenue written off

No revenue was written off during the year under review.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles

	Sedan Vehicles		LDV's and Kombi's		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value	Number	Value
On Hand 01/07/2009	2	108 450	2	264 886	5	999 000
Acquisitions	-	-	-	-	1	750 000
Depreciation	2	108 450 (60 485)	2	264 886 (128 886)	6	1 749 000 (214 900)
On hand 30/06/2010	2	47 965	2	136 000	6	1 534 100

These figures were obtained from the fixed asset register.

30.2 Inventory

No inventory was disclosed in the financial statements nor were any records available for the year under review.

31. SPECIAL INVESTIGATIONS

No special investigations were conducted into the Councils activities during the year under review.

32. GENERAL

There is not 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, potentially a dangerous practice, which Council should guard against.

33. FORMAL AND INFORMAL QUERIES

The formal queries are embodied in this report.

The following informal queries have been addressed to the Chief Executive Officer by way of a management letter:

- Income
- Expenses
- VAT
- Current assets
- Current liabilities
- Fixed assets

34. DISCLAIMED AUDIT OPINION

The accounts of the Village Council of Aranos for the financial year 30 June 2010 summarised in annexure A, 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.

I am unable to express an opinion on the financial statements, results of operations and the cash flow of the Council for the year ended 30 June 2010 due to the following reasons:

- Rental income is not properly accounted for.
- Inventories are not disclosed in the financial statements.
- External loans have not been reconciled with the Ministry of Finance.
- Consumer deposits are not sufficient to cover one month's compensation.
- The VAT as per financial statements does not agree with the balance of the Receiver of Revenue.
- Additions to fixed assets to the amount of N\$ 1 469 500 could not be supported by audit evidence. Furthermore the financial statements and the fixed asset register differs with N\$ 199 269.

WINDHOEK, August 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

VILLAGE COUNCIL OF ARANOS

BALANCE SHEET AS AT 30 JUNE

	Notes	2010 N\$	2009 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	9 681 644	7 189 669
Investments	3	8 104 338	6 468 087
		1 577 306	721 582
Current assets			
Trade and other receivables	4	5 184 694	5 574 629
Build Together projects in progress		3 976 573	5 571 091
Cash balances	5	1 204 583	-
		3 538	3 538
Total assets		14 866 338	12 764 298
EQUITY AND LIABILITIES			
Capital and reserves			
Capital outlay	6	11 035 020	9 414 164
Funds and accounts	7	6 929 510	5 274 145
		4 105 510	4 140 019
Long-term liabilities	8	1 176 689	1 196 085
Current liabilities		2 654 629	2 154 049
Bank overdraft		79 811	93 004
Trade and other payables	9	2 574 818	2 061 045
Total funds and liabilities		14 866 338	12 764 298

VILLAGE COUNCIL OF ARANOS

INCOME STATEMENT AS AT 30 JUNE

	Note	2010	2009
		N\$	N\$
Income		7 688 191	5 688 833
Expenditure		<u>(6 816 397)</u>	<u>(6 055 138)</u>
Net operating profit / (loss)		871 794	(366 305)
Investment income		<u>22 083</u>	<u>-</u>
Net profit /(loss) for the year		893 877	(366 305)
Adjustments through accumulated funds account	10	<u>(2 534 905)</u>	<u>(228 926)</u>
		(1 641 028)	(595 231)
Accumulated funds			
- Beginning of the year		<u>(751 601)</u>	<u>(156 370)</u>
- End of the year	7	<u>(2 392 629)</u>	<u>(751 601)</u>

VILLAGE COUNCIL OF ARANOS

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Notes	2010	2009
		N\$	N\$
Cash flow/(outflow) from operating activities			
Cash receipts from customers	7	067 251	4 297 075
Cash paid to suppliers	(7)	033 129)	(5 375 586)
Cash generated by operations	11	34 122	(1 078 511)
Investment income		22 083	-
Movement in fund accounts			
Fund accounts	12	106 518	185 591
Housing and Build Together grant		1 500 000	-
		<u>1 662 723</u>	<u>(892 920)</u>
Cash flow from investing activities			
Net capital expenditure		(774 410)	(656 227)
Change in investments		(855 724)	1 322 480
		(1 630 134)	666 253
Cash flow from financing activities			
Change in long-term loans		(19 396)	(37 720)
Net movement in cash and cash equivalents		13 193	(264 387)
Cash and cash equivalents			
- Beginning of the year		(89 466)	174 921
Cash and cash equivalents			
- End of the year		<u>(76 273)</u>	<u>(89 466)</u>

VILLAGE COUNCIL OF ARANOS

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

1. Accounting policies

The annual financial statements have been prepared on the historical cost basis and incorporate the following accounting policies which are consistent with those applied in the previous year.

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

1.1 Property plant and equipment

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

1.2 Investments

Investments are reflected at face value.

1.3 Trade receivables

Accounts receivable are recorded at originated cost less an allowance for bad debts.

1.4 Cash and cash equivalents

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

1.5 Trade and other payables

All financial liabilities are recorded at cost.

1.6 Internal Funds

Internal Funds were created as follows by Council:

Fixed Property Fund

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

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.

Capital Reserve Fund

This fund was created to make provision for unforeseen expenditures as approved by the Council.

Build Together Fund

The purpose of the Fund is to enable the poorer part of the population to acquire affordable housing. Income is derived from Government contributions, redemption payments and interest.

VILLAGE COUNCIL OF ARANOS

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

	2010	2009
	N\$	N\$
2. Property, plant and equipment, at cost		
Property development, vehicles, plant and equipment	8 104 338	6 468 087
3. Investments		
Commercial banks	1 577 306	721 852
The investments were allocated as follows:		
Build Together Fund	496 790	634 410
Fixed Property Fund	1 080 516	-
Housing fund	-	87 172
Total	1 577 306	721 582
4. Trade and other receivables		
Build Together Fund receivables	3 200 656	3 249 062
VAT claims	313 910	90 818
Services, rates and taxes	3 027 965	2 452 091
Other receivables	185 924	-
Provision for bad debts	(2 751 882)	(220 880)
	3 976 573	5 571 091
5. Cash and bank balances		
Petty cash	3 538	3 538
6. Capital outlay		
General capital contributions	1 183 465	1 384 956
Loans redeemed	439 734	563 999
Revenue contributions	5 306 311	3 325 190
	6 929 510	5 274 145

VILLAGE COUNCIL OF ARANOS

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

	2010	2009
	N\$	N\$
7. Funds and accounts		
Build Together Fund	5 052 004	4 198 040
Capital Reserve Fund	67 106	67 106
Fixed Property Fund	1 294 052	541 443
Housing Fund	84 977	85 031
Revenue account kept in compliance with section 86(1) of the Local Authority Act, 1992.	(2 392 629)	(751 601)
	4 105 510	4 140 019
8. Long-term liabilities		
Namibia Housing Enterprises	112 044	112 044
The Government of Namibia		
– Capital section	1 062 784	1 062 785
– Housing fund	1 861	2 141
Finance agreements	-	19 115
	1 176 689	1 196 085
9. Trade and other payables		
Loan installments in arrears	1 829 222	1 670 339
Trade payables	239 037	305 957
Consumer deposits	17 088	17 668
Sundry creditors	102 942	-
Provisions for leave	386 529	67 081
	2 574 818	2 061 045
10. Adjustments through accumulated funds account		
Prior year adjustment (2010 – net)	(2 534 905)	8 022
VAT control account	-	(236 948)
	(2 534 905)	(228 926)

VILLAGE COUNCIL OF ARANOS

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

	2010	2009
	N\$	N\$
11. Cash generated by operations		
Net surplus /(deficit) before adjustments	871 794	(366 305)
Adjustments to appropriation account	315 546	(228 926)
Internal non-cash flow transactions on funds	-	38 417
Additions to fixed assets expensed	774 410	655 259
Hire purchase redemption expensed	19 115	-
Operating cash flow before changes in working capital	1 980 865	98 445
Changes in working capital		
Trade and other receivables	(936 485)	(1 391 758)
Build together projects in progress: spending to date	(1 204 583)	-
Trade and other payables	194 325	214 802
Cash generated by operations	34 122	(1 078 511)
12. Fund accounts		
Build Together grants from GRN	622 000	60 000
Sundry income	181 559	20 593
Sundry expenses	(13 686)	(9 555)
Interest received	118 307	160 200
Servicing of properties	(801 662)	(45 647)
	106 518	185 591