



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

VILLAGE COUNCIL OF AROAB

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

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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 Aroab for the financial year ended 30 June 2012, 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 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL
ON THE ACCOUNTS OF THE VILLAGE COUNCIL OF AROAB
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012**

1. INTRODUCTION

The accounts of the Village Council of Aroab for the year ended 30 June 2012 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 Village Council on behalf of the Auditor-General and under his supervision.

Figures in the report are rounded off to the nearest Namibia 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 original audited financial statements are in agreement with the general ledger and are filed in the Office of the Auditor-General. The abridged balance sheet (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 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 Overstatement of the leave pay provision, understatement of the related provision for doubtful debts and the appropriation account

The leave pay provision is overstated by N\$ 518 619 made up of the following:

- Overstatement of the leave days for each staff member by 12,5 days valued at N\$ 57 879 resulting in the overstatement of the leave pay provision and understatement of the related appropriation account by the same amount.
- Misallocation of the provision for doubtful debts amounting to N\$ 460 740 resulting in the overstatement of the leave pay provision and understatement of the related provision for doubtful debts by the same amount.

4.2 Overstatement of the livestock inventory and the related appropriation account

The livestock inventory and the related appropriation account are overstated by N\$ 144 800 made up of the following:

- Recognition of 440 springboks valued at N\$ 242 000 despite not meeting the recognition criteria since the Village Council has no control over the movement of the springboks.
- Omission of sheep valued at N\$ 97 200.

4.3 Understatement of the bank balance and the related liability

An invalid cheque payment for N\$ 776 365 was included on the list of outstanding cheques at year-end, despite the fact that banks do not allow cheques above N\$ 500 000. As a result, the bank balance and the related liability are understated by N\$ 776 365.

4.4 Understatement of electricity bulk purchases and the related government subsidy

A government subsidy and the related electricity bulk purchases of N\$ 287 438 were not included in the Village Council's financial statements.

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Aroab 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 surplus – Opening balance 1 July 2011				1 748 126
General accounts				
– Non-profitable	2 161 533	2 777 959	(616 426)	
– Self-supporting	1 032 424	612 032	420 392	
Trade accounts				
– Water	1 204 632	1 219 175	(14 543)	
– Electricity	2 194 281	1 701 409	492 872	
– Transport	263 807	122 502	141 305	
	6 856 677	6 433 077	423 600	
Surplus for the year				423 600
Adjustments and utilisations (Note 11, Annexure D)				2 171 726
Accumulated surplus – Closing balance 30 June 2012				(347 179)
				1 824 547

7. CURRENT BANK ACCOUNTS

	2012	2011
	N\$	N\$
Cash-book balance	554 190	204 878
Outstanding cheques	1 113 957	629 878
Balance per bank statement	1 668 147	834 756

8. INVESTMENTS

	2012	2011
	N\$	N\$
The investments as at 30 June were as follows:		
Financial institutions	5 997 865	3 619 885
The investments were allocated as follows:		
Revenue Fund	1 055 064	1 097 191
Capital Reserve Fund	1 456 035	1 433 997
Housing Fund	171 992	168 856
Build Together Fund	3 314 774	919 841
	5 997 865	3 619 885
Interest was allocated as follows to the Funds:		
Revenue Fund	189 665	297 193
Capital Reserve Fund	-	-
Housing Fund	-	-
Build Together Fund	70 523	31 798
	260 188	328 991

Interest has been incorrectly allocated and should also have been allocated to Capital Reserve Fund and Housing Fund.

9. TRADE ACCOUNTS

The results of operations were as follows:

	2012	2011
	N\$	N\$
Electricity:		
Sales and royalties	1 237 281	1 086 033
Cost of bulk purchases (adjusted for reality)	(716 956)	(817 860)
Gross profit	520 325	268 173
GRN contribution	957 000	200 000
Net expenditure - normal operations	(177 684)	(140 096)
Net surplus before capital expenditure	1 299 641	328 077
Less: Capital expenditure	(806 769)	(162 092)
Net surplus for the year	492 872	165 985
Gross profit % on bulk purchases	72.6%	32,8%
Net surplus before capital expenditure % on bulk purchases	181.3%	20.1%

Electricity accounts are partly paid by the Ministry (government), being N\$ 287 438 for the year under review (2011: N\$ 315 468). These payments were not recorded in the accounting records.

	2012	2011
	N\$	N\$
Water:		
Sales	794 632	631 553
Cost of bulk purchases	(582 310)	(395 353)
Gross profit	212 322	236 200
GRN contribution	410 000	-
Net expenditure - normal operations	(258 564)	(203 459)
Net surplus before capital expenditure	363 758	32 741
Less: Capital expenditure	(378 302)	(26 690)
Net (deficit)/surplus for the year	(14 544)	6 051
Gross profit % on bulk purchases	36.5%	59.7%
Net (deficit)/surplus before capital expenditure % on bulk purchases	62.5%	8.3%

Current year bulk purchases is understated by N\$ 40 052.

Distribution losses

The Council's statistics of distribution losses are as follows:

	2012	2011
	Kw/h	Kw/h
The results are as follows:		
Electricity		
Units purchased	1 209 055	1 057 200
Units sold	(1 117 828)	(530 644)
Distribution loss	(91 227)	(526 556)
Percentage loss on bulk purchases	(7.5%)	(49.8%)

The Village Council managed to reduce the distribution losses.

	2012	2011
	m ₃	m ₃
Water		
Units purchased	78 780	55 968
Units sold	(84 429)	(50 210)
Distribution gain	5 649	5 758
Percentage gain/(loss) on bulk purchases	7.2%	(10.0%)

The gain was attributable to prepaid units sold but not yet used.

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	Expenses	Deficit	Deficit
	2012	2012	2012	2011
	N\$	N\$	N\$	N\$
Townlands	182 074	167 823	14 251	15 064
Housing	-	3 878	(3 878)	4 265
Cleansing services	763 386	403 685	359 701	91 132
Brick making	86 964	36 646	50 318	-
	1 032 424	612 032	420 392	110 461

12. SUSPENSE ACCOUNTS

The following suspense accounts are reflected under receivables:

	2012	2011
	N\$	N\$
Capital projects	-	27 475
Third party deductions	-	-
Debtor deposits	-	61 198

13. IRREGULARITIES AND LOSSES

The auditors did not find any irregularities and losses for the year under review.

14. CAPITAL PROJECTS

	2012	2011
	N\$	N\$
Expenditure:		
Municipal buildings	422 006	283 132
Electricity	806 767	277 336
Parks	-	173 198
Cleansing services	-	512 856
General administration	446 331	1 087 504
Water	378 302	26 690
Roads and street works	224 220	27 956
Townlands	-	99 502
Housing	-	1 265 414
Other (*)	14 510 860	-
	16 788 486	3 753 588
Financed by:		
Revenue account	16 788 486	2 305 620
Build Together Fund	-	1 447 968
	16 788 486	3 753 588

Other (*)

These assets were acquired in prior years but were only recognised in the current year.

15. BURSARIES

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

16. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

	2012	2011
	N\$	N\$
Contributions to capital budget	342 750	795 000
Contributions to build together fund	2 825 000	156 000
Contributions to operating budget	2 108 565	1 274 092

17. COMPENSATION PAYMENTS

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

18. VISITS TO FOREIGN COUNTRIES

A Councillor attended a workshop organised by Gender Links for Equality & Justice in Johannesburg, South Africa. The trip was approved by the Minister and expenditure incurred by the Village Council amounted to N\$ 3 184.

19. CLAIMS AGAINST THE LOCAL AUTHORITY

No such expenditure was revealed during the audit.

20. GIFTS AND DONATIONS BY THE LOCAL AUTHORITY

The Village Council approved the exemption of pensioners from paying basic tariff on water and sewerage of N\$ 27 and N\$ 20 respectively. The total amount exempted amounted to N\$ 57 296.

21. TRANSFER OF PROPERTY

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

22. TRADE AND OTHER RECEIVABLES

	2012	2011
	N\$	N\$
Build Together and Housing Fund receivables	2 127 428	1 980 965
Services, rates and taxes	2 798 994	2 353 952
Provision for bad debts	(2 102 950)	(2 102 377)
VAT claims	389 900	648 695
Suspense account	-	88 673
Other receivables	2 681	11 453
	3 216 053	2 981 361

The provision for doubtful debts is understated, refer to item 4.1.

23. TRADE AND OTHER PAYABLES

	2012	2011
	N\$	N\$
Loan instalments in arrears	492 664	432 144
Trade payables	108 082	44 412
Consumer deposits	11 623	11 663
Provision for leave	624 091	62 298
Payments in advance	-	56 722
Departmental accounts	-	2 039
	1 236 460	609 278

The provision for leave pay is overstated, refer to item 4.1.

24. ASSESSMENT RATES

	2012	2011
	N\$	N\$
Proceeds from assessment rates were	271 368	128 896
Tariffs per N\$1 valuation per annum		
Land: Residential	0.0270	0.0257
Business	0.0386	0.0368
Improvements: Residential	0.0265	0.0257
Business	0.0379	0.0368

25. LOANS

25.1 External loans

	2012	2011
	N\$	N\$
Balance on loans		
- Capital section	294 741	308 681
Instalments and interest in arrears	492 664	432 144
Total outstanding	787 405	740 825

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 and Build Together Fund are reflected as debtors.

25.3 Loans written off

No loans were written off during the year under review.

26. SALE OF ERVEN

There was no erven sold during the year under review.

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.

28. TARIFF ADJUSTMENTS

Tariff adjustments were applied in accordance with the Government Gazette.

29. APPROVALS

29.1 Internal loans

No 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

	2012	2011
At the beginning of the year	11	9
Purchased during the year	2	2
Disposed during the year	(1)	-
At end of the year	12	11

30.2 Inventory

Inventory comprised consumable stock, at cost and amounted to N\$ 36 248 (2011: N\$ 54 154).

Livestock inventory is overstated, refer to item 4.2.

31. SPECIAL INVESTIGATIONS

An investigation was conducted by the Ministry of Regional and Local Government and Housing and Rural Development on request of Aroab Village Council into alleged irregularities within the finance section involving an amount of N\$ 2 660. At the time of finalising the audit the investigation report had not been issued.

32. GENERAL

There was no 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 the Council should guard against.

33. FORMAL AND INFORMAL QUERIES

The formal queries are embodied in this report.

The informal queries have been addressed to the Chief Executive Officer.

34. QUALIFIED AUDIT OPINION

The accounts of the Village Council of Aroab for the financial year 30 June 2012 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.

A qualified audit opinion is being expressed due to the following reasons:

- Overstatement of the leave pay provision by N\$ 518 619 and understatement of the related provision for doubtful debts and the appropriation account by N\$ 460 740 and N\$ 57 879 respectively.
- Overstatement of livestock inventory and the related appropriation account by N\$ 144 800.
- Understatement of the bank balance and the related liability by N\$ 776 365.
- Understatement of electricity bulk purchases and the related Government subsidy by N\$ 287 438.
- The internal controls were not sufficient.

Except for the effects of any adjustments which might have been necessary as referred to above, in my opinion, these financial statements fairly present the financial position of the Village Council as at 30 June 2012 and the results of its operations and cash flow for the year then ended and in the manner required by the Local Authorities Act, 1992 and the State Finance Act, 1991.

WINDHOEK, May 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

VILLAGE COUNCIL OF AROAB
BALANCE SHEET AS AT 30 JUNE

	Notes	2012	2011
N\$		N\$	N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	24 905 155	10 445 414
Investments	3	5 997 865	3 619 885
Current assets			
Trade and other receivables	4	3 216 053	2 981 361
Inventory	5	770 048	54 154
Cash and cash equivalents	6	555 710	208 967
Total assets		35 444 831	17 309 781
FUNDS AND LIABILITIES			
Capital and reserves			
Capital outlay	7	24 610 414	10 136 733
Funds and accounts	8	9 303 216	6 255 089
Long-term liabilities	9	294 741	308 681
Current liabilities			
Trade and other payables	10	1 236 460	609 278
Total funds and liabilities		35 444 831	17 309 781

VILLAGE COUNCIL OF AROAB

INCOME STATEMENT AS AT 30 JUNE

	Notes	2012	2011
		N\$	N\$
Income		6 667 013	5 398 422
Expenditure		<u>(6 433 077)</u>	<u>(5 330 775)</u>
Net operating surplus		233 936	67 647
Investment income		<u>189 664</u>	<u>297 193</u>
Net surplus for the year		423 600	364 840
Adjustments through appropriation account	11	<u>(347 179)</u>	<u>(373 562)</u>
		76 421	(8 722)
Accumulated funds			
Beginning of the year		<u>1 748 126</u>	<u>1 756 848</u>
End of the year	8	<u>1 824 547</u>	<u>1 748 126</u>

VILLAGE COUNCIL OF AROAB

CASH FLOW STATEMENT AS AT 30 JUNE

	Notes	2012	2011
		N\$	N\$
Operating activities			
Cash receipts from customers		6 667 013	5 377 550
Cash paid to suppliers and employees		(7 103 660)	(3 426 406)
Cash (utilised)/generated by operations	12	(436 647)	1 951 144
Investment income		189 664	297 193
Movement in fund accounts			
Fund accounts		2 971 706	(209 339)
Capital outlay		14 473 681	-
		<u>17 198 404</u>	<u>2 038 998</u>
Investing activities			
Net capital expenditure		(14 459 741)	(3 753 588)
Change in investments		(2 377 980)	767 609
		<u>(16 837 721)</u>	<u>2 985 979)</u>
Financing activities			
Change in the long term loan		(13 940)	-
Build Together Fund, for social housing		-	1 447 968
		<u>(13 940)</u>	<u>1 447 968</u>
Net movement in cash and cash equivalents		346 743	500 987
Cash and cash equivalents - beginning of the year		<u>208 967</u>	<u>(292 020)</u>
Cash and cash equivalents - end of the year		<u>555 710</u>	<u>208 967</u>

VILLAGE COUNCIL OF AROAB**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 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 not prepared in terms of a framework.

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

Cash and cash equivalents consists of cash on hand and current accounts with banks, all of which are available for immediate use by the 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 the Council:

Fixed Property Fund

Proceeds from the sale of land that has been developed by the Aroab 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.

VILLAGE COUNCIL OF AROAB

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

1.7 Inventories**Consumables**

Inventories of consumables are measured at the lower of cost and net realisable value. The cost of inventories should comprise all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to its present location and condition.

Livestock

Inventory of livestock is measured as at fair value less cost to sell.

	2012	2011
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT, AT COST LESS DEPRECIATION		
Loan assets	481 802	491 801
Income assets	23 207 231	8 492 777
General capital assets	1 216 122	1 460 836
	24 905 155	10 445 414
3. INVESTMENTS		
Commercial banks	5 998 865	3 619 885
The investments were allocated as follows:		
Revenue Fund	1 055 064	1 097 191
Build Together Fund	3 314 774	919 841
Capital Reserve Fund	1 456 035	1 433 997
Housing Fund	171 992	168 856
Total	5 997 865	3 619 885
4. TRADE AND OTHER RECEIVABLES		
Build Together Fund receivables	2 127 428	1 980 965
Suspense accounts	-	88 673
VAT claims	389 900	648 695
Services, rates and taxes	2 798 994	2 353 952
Provision for bad debts	(2 102 950)	(2 102 377)
Other receivables	2 681	11 453
	3 216 053	2 981 361
5. INVENTORY		
Consumables	36 248	54 154
Livestock	733 800	-
	770 048	54 154

VILLAGE COUNCIL OF AROAB

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

	2012	2011
	N\$	N\$
6. CASH AND CASH EQUIVALENTS		
Bank balances	554 190	204 878
Petty cash	1 520	4 089
	555 710	208 967
7. CAPITAL OUTLAY		
General capital contributions	1 206 121	1 460 836
Loans redeemed	197 061	183 121
Revenue contributions	23 207 232	8 492 776
	24 610 414	10 136 733
8. FUNDS AND ACCOUNTS		
Build Together Fund	5 848 821	2 900 806
Capital Reserve Fund	1 456 035	1 433 997
Housing Fund	173 813	172 160
Sub-total	7 478 669	4 506 963
Revenue account kept in compliance with section 86(1) of the Local Authorities Act, 1992.	1 824 547	1 748 126
	9 303 216	6 255 089
9. LONG-TERM LIABILITIES		
The Government of the Republic of Namibia	294 741	308 681
10. TRADE AND OTHER PAYABLES		
Loan instalments in arrears	492 664	432 144
Trade payables	108 082	44 412
Consumer deposits	11 623	11 663
Provision for leave	624 091	62 298
Payments in advance	-	56 722
Departmental accounts	-	2 039
	1 236 460	609 278

VILLAGE COUNCIL OF AROAB

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

	2012	2011
	N\$	N\$
11		
. ADJUSTMENTS THROUGH APPROPRIATION ACCOUNT		
Suspense adjustment	-	(43 950)
Extra provision for bad debts	(460 740)	(330 527)
Prior year adjustment	(91 038)	915
Expenditure adjustment	(54 167)	-
Movement in the provision for leave pay	(101 053)	-
Write off of unrecovered VAT	(429 654)	-
Income adjustment	55 673	-
Inventory adjustment	733 800	-
	(347 179)	(373 562)
12		
. CASH GENERATED BY OPERATIONS		
Net surplus before adjustments	233 936	67 647
Adjustments through appropriation account (note 11)	(347 179)	(373 562)
Internal non-cash flow transactions on funds:		
Additions to fixed assets expensed	-	2 305 620
Operating cash flow before changes in working capital	(113 243)	1 999 705
Changes in working capital		
Trade and other receivables	(234 692)	(20 872)
Inventories	(715 894)	(3 699)
Trade and other payables	627 182	(23 990)
Cash (utilised)/generated by operations	(436 647)	1 951 144