



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

VILLAGE COUNCIL OF AROAB

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 Village Council of Aroab 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, December 2014

**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 2014**

1. INTRODUCTION

The accounts of the Village Council of Aroab 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 Village 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 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 (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 Lack of compliance with tender procedures

A refuse truck and a mini-bus acquired at a cost of N\$ 750 000 and N\$ 338 050 respectively were procured without following tender procedures despite the Council's minimum procurement amount qualifying for tender being N\$ 50 000.

4.2 Slow debt collection

The consumer debtors increased from N\$ 3 475 350 to N\$ 3 781 909 (9% increase) between the 2013 and 2014 financial years which is an indication of problems with debt collection that has an adverse impact on the Village Council's cash flows. Furthermore, the collection period was 445 days (2013:423 days) while the credit period allowed was 30 days.

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 are as follows:

	Revenue	Expenditure	Surplus / (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus – Opening balance 1 July 2013				1 804 451
General accounts				
– Rates and general	2 707 089	2 713 110	(6 021)	
– Non-profitable	1 174 474	1 619 822	(445 348)	
– Self-supporting	3 550 367	2 076 182	1 474 185	
Trade accounts				
– Water	3 121 929	2 862 359	259 570	
– Electricity	3 565 188	2 017 889	1 547 299	
– Transport	300 796	161 142	139 654	
	14 419 843	11 450 504	2 969 339	
Surplus for the year				2 969 339
Adjustments and utilisations (Note 11, Annexure D)				4 773 790 (119 477)
Accumulated surplus – Closing balance 30 June 2014				4 654 313

7. CURRENT BANK ACCOUNT

	2014	2013
	N\$	N\$
Cash-book balance	499 177	449 271
Outstanding cheques	675 361	480 605
Other	-	1 335
Balance per bank statement	1 174 538	931 211

8. INVESTMENTS

	2014	2013
	N\$	N\$
The investments as at 30 June are as follows:		
Commercial banks	8 883 733	6 090 268
The investments were allocated as follows:		
Revenue Fund	3 600 488	1 419 764
Capital Reserve Fund	3 871 786	2 997 420
Housing Fund	172 245	174 583
Build Together Fund	1 152 154	917 390
Social Housing Fund	87 060	581 111
	8 883 733	6 090 268
Interest was allocated to the Funds as follows:		
Revenue Fund	-	201 132
Capital Reserve Fund	371 366	-
Social Housing Fund	9 105	28
Build Together Fund	36 697	112 869
	417 168	314 029

Interest has been incorrectly allocated and should also have been allocated to the Revenue Fund.

9. TRADE ACCOUNTS

The results of operations were as follows:

	2014	2013
	N\$	N\$
Electricity:		
Sales	1 580 212	1 475 929
Cost of bulk purchases	(1 017 051)	(942 511)
Maximum demand purchases	(470 174)	-
Gross profit	92 987	533 418
GRN contribution	1 500 000	300 000
Maximum demand subsidy	470 174	-
Net expenditure – Normal operations	(256 675)	(290 905)
Net surplus before capital expenditure	1 806 486	542 513
Less: Capital expenditure	(259 187)	(222 287)
Net surplus for the year	1 547 299	320 226
Gross profit % on total purchases	6.2%	56.6%
Net surplus before capital expenditure % on bulk purchases	121.5%	57.6%

Electricity accounts are partly paid by the Ministry (Government), being N\$ 470 174 (2013: N\$ 264 892) for the year under review of which the prior year amount was not recorded in the accounting records.

	2014	2013
	N\$	N\$
Water:		
Sales	793 857	855 942
Cost of bulk purchases	(762 821)	(735 019)
Gross profit	31 036	120 923
GRN contribution	2 250 000	150 000
Net expenditure – Normal operations	(177 242)	(182 173)
Net surplus before capital expenditure	2 103 794	88 750
Less: Capital expenditure	(1 844 225)	(132 129)
Net surplus/(deficit) for the year	259 569	(43 379)
Gross profit % on bulk purchases	4.1%	16.5%
Net surplus before capital expenditure % on bulk purchases	275.8%	12.1%

Distribution losses

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

	2014	2013
	Kw/h	Kw/h
The results are as follows:		
Electricity		
Units purchased	1 317 904	1 191 142
Units sold	(1 185 087)	(1 157 353)
Distribution loss	132 817	33 789
Percentage loss on bulk purchases	(10.1%)	(2.8%)

The Village Council could not explain the causes of the distribution losses.

	2014	2013
	m ³	m ³
Water		
Units purchased	77 168	84 552
Units sold	(63 301)	(75 957)
Distribution loss	13 867	8 595
Percentage loss on bulk purchases	18.0%	10.2%

The Village Council could not explain the causes of the 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 year under review are as follows:

	Income	Expenses	Results	Results
	2014	2014	2014	2013
	N\$	N\$	N\$	N\$
Townlands	374 317	271 821	102 496	191 281
Housing	69 229	30 269	38 960	29 508
Cleansing services	3 080 238	1 743 321	1 336 917	426 629
Brick making	26 583	30 771	(4 188)	13 536
	3 550 367	2 076 182	1 474 185	660 954

12. SUSPENSE ACCOUNTS

No suspense accounts were being maintained.

13. IRREGULARITIES AND LOSSES

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

14. CAPITAL PROJECTS

	2014	2013
	N\$	N\$
Expenditure:		
Municipal buildings	106 412	54 021
Electricity	259 186	222 287
Parks	134 431	231 710
Cleansing services	1 161 402	1 300
General administration	1 179 343	812 448
Water	1 844 225	132 129
Roads and street works	304 261	288 503
Townlands	54 163	45 243
Cemeteries	134 803	46 456
Social housing	300 399	-
	5 478 625	1 834 097
Financed by:		
Revenue account	5 478 625	1 834 097
	5 478 625	1 834 097

15. BURSARIES

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

16. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

	2014	2013
	N\$	N\$
Capital Reserve Fund	500 000	1 500 000
Contributions to capital budget	7 700 000	1 700 000
Contributions to Build Together Fund	-	50 000
Contributions to operating budget	1 102 985	724 736
Contribution towards electricity bills	470 174	-

17. COMPENSATION PAYMENTS

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

18. VISITS TO FOREIGN COUNTRIES

A Councillor travelled to South Africa to attend the SADAC Protocol Summit and Awards of Gender Links in the category of Excellence. The trip was approved the by Minister and the total expenditure incurred by the Village Council amounted to N\$ 3 384.

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\$ 27.90 and N\$ 20.00 respectively. The total amount exempted amounted to N\$ 60 918 (2013: N\$ 63 878.)

21. TRANSFER OF PROPERTY

There were no transfers of properties to or from the Local Authority during the year under review.

22. TRADE AND OTHER RECEIVABLES

	2014	2013
	N\$	N\$
Build Together and Housing Fund receivables	2 150 911	2 264 138
Services, rates and taxes	3 781 909	3 475 350
Provision for bad debts	(3 274 358)	(3 012 887)
VAT receivable	975 501	310 774
	3 633 963	3 037 375

23. TRADE AND OTHER PAYABLES

	2014	2013
	N\$	N\$
Loan instalments in arrears	829 273	777 785
Trade payables	241 749	196 877
Consumer deposits	20 645	11 841
Provision for leave pay	188 326	177 233
	1 279 993	1 163 736

24. ASSESSMENT RATES

	2014	2013
	N\$	N\$
Proceeds from assessment rates were	315 047	287 531
Tariffs per N\$1 valuation per annum		
Land:		
- Residential	0.0298	0.0284
- Business	0.0425	0.0405
Improvements:		
- Residential	0.0285	0.0278
- Business	0.0408	0.0398

25. LOANS

25.1 External loans

	2014	2013
	N\$	N\$
Balance on loans		
- Capital portion	267 011	281 337
Instalments and interest in arrears	214 791	200 465
Total outstanding	481 802	481 802

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

Advances in terms of the Housing Fund and Build Together Fund are reflected as debtors. No other loans are due to the Village Council.

25.3 Loans written off

No loans were written off during the year under review.

26. SALE OF ERVEN

Proceeds of erven sales amounted to N\$ 2 609 (2013: N\$ 41 385) and were credited to the Capital Reserve Fund.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

Properties were sold on credit in terms of the Build Together Scheme during 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

	2014	2013
At the beginning of the year	10	8
Purchased during the year	2	2
At end of the year	12	10

30.2 Inventory

Inventory comprises of consumables amounting to N\$ 22 988 (2013: N\$ 24 037).

Livestock inventory comprises of sheep and cattle valued at N\$ 880 450 (2013: N\$ 806 900).

31. SPECIAL INVESTIGATIONS

There were no special investigations carried out during the year.

32. GENERAL

There was a sufficient system of internal control at the Village Council although proper segregation of duties is not possible due to the small number of staff employed. While increased management involvement reduces 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

33.1 Formal queries

Formal queries are embodied in this report.

33.2 Informal queries

Informal queries addressed to the Chief Executive Officer are as follows:

- Insufficient consumer deposits
- Creditors reconciliations
- Overstatement of the VAT receivable and the related Social Housing Fund
- Understatement of the provision for doubtful debts
- Distribution losses

34. AUDIT OPINION

The accounts of the Village Council of Aroab for the financial year 30 June 2014 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.

In my opinion, these financial statements fairly present the financial position of the Village Council of Aroab 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.

WINDHOEK, December 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

VILLAGE COUNCIL OF AROAB
BALANCE SHEET AS AT 30 JUNE

	Note	2014	2013
		N\$	N\$
ASSETS			
Non-current assets		36 141 815	30 203 330
Property, plant and equipment	2	27 258 082	24 113 062
Investments	3	8 883 733	6 090 268
Current assets		5 046 098	4 319 103
Trade and other receivables	4	3 633 963	3 037 375
Inventory	5	911 438	830 937
Cash and cash equivalents	6	500 697	450 791
Total assets		41 187 913	34 522 433
FUNDS AND LIABILITIES			
Capital and reserves		39 640 909	33 077 360
Capital outlay	7	26 991 071	23 831 726
Funds and accounts	8	12 649 838	9 245 634
Long-term liabilities			
Long-term loan	9	267 011	281 337
Current liabilities		1 279 993	1 163 736
Trade and other payables	10	1 279 993	1 163 736
Total funds and liabilities		41 187 913	34 522 433

VILLAGE COUNCIL OF AROAB

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2014	2013
		N\$	N\$
Income		14 419 843	7 130 310
Expenditure		<u>(11 450 504)</u>	<u>(6 584 211)</u>
Net operating surplus		2 969 339	546 099
Investments income		<u>-</u>	<u>201 132</u>
Surplus before appropriations		2 969 339	747 231
Adjustments through appropriation account	11	<u>(119 477)</u>	<u>(767 327)</u>
Surplus/(deficit) for the year		2 849 862	(20 096)
Accumulated funds			
Beginning of the year		<u>1 804 451</u>	<u>1 824 547</u>
End of the year	8	<u>4 654 313</u>	<u>1 804 451</u>

VILLAGE COUNCIL OF AROAB

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014	2013
		N\$	N\$
Operating activities			
Cash received from customers		14 419 843	7 130 310
Cash paid to suppliers and employees		(12 130 813)	(7 306 473)
Cash generated/(utilised) by operations	12	2 289 030	(176 163)
Investments income		-	201 132
Movement in fund accounts			
Fund accounts		554 342	(37 486)
Capital outlay		3 159 345	(778 688)
		<u>6 002 717</u>	<u>(791 205)</u>
Investing activities			
Net capital expenditure		(3 145 020)	792 093
Change in investments		(2 793 465)	(92 403)
		<u>(5 938 485)</u>	<u>699 690</u>
Financing activities			
Change in the long-term loans		(14 326)	(13 404)
		<u>(14 326)</u>	<u>(13 404)</u>
Increase/(decrease) in cash and cash equivalents		49 906	(104 919)
Cash and cash equivalents – Beginning of the year		<u>450 791</u>	<u>555 710</u>
Cash and cash equivalents – End of the year		<u><u>500 697</u></u>	<u><u>450 791</u></u>

VILLAGE COUNCIL OF AROAB

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

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) net of accumulated depreciation.

1.2 Investments

Investments are reflected at face value.

1.3 Trade receivables

Trade 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 valued at the lower of cost and net realisable value. The cost of inventories comprise of 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 at fair value less costs to sell.

	2014	2013
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT, AT COST LESS DEPRECIATION		
Loan assets	481 802	481 802
Income assets	25 733 524	22 503 027
General capital assets	1 042 756	1 128 233
	27 258 082	24 113 062
3. INVESTMENTS		
Commercial banks	8 883 733	6 090 268
The investments were allocated as follows:		
Revenue Fund	3 600 488	1 419 764
Build Together Fund	1 152 154	917 390
Capital Reserve Fund	3 871 786	2 997 420
Housing Fund	172 245	174 583
Social Housing Fund	87 060	581 111
Total	8 883 733	6 090 268
4. TRADE AND OTHER RECEIVABLES		
Build Together Fund and Housing Fund receivables	2 150 911	2 264 138
VAT receivable	975 501	310 774
Services, rates and taxes	3 781 909	3 475 350
Provision for bad debts	(3 274 358)	(3 012 887)
	3 633 963	3 037 375
5 INVENTORY		
Consumables	22 988	24 037
Livestock	888 450	806 900
	911 438	830 937

VILLAGE COUNCIL OF AROAB

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

	2014	2013
	N\$	N\$
6. CASH AND CASH EQUIVALENTS		
Bank balances	499 177	449 271
Petty cash	1 520	1 520
	500 697	450 791
7. CAPITAL OUTLAY		
General capital contributions	1 042 756	1 128 233
Loans redeemed	214 791	200 465
Revenue contributions	25 733 524	22 503 028
	26 991 071	23 831 726
8. FUNDS AND ACCOUNTS		
Build Together Fund	3 859 882	3 687 370
Capital Reserve Fund	3 871 786	2 997 420
Housing Fund	176 797	175 254
Social Housing Fund	87 060	581 139
Sub-total	7 995 525	7 441 183
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	4 654 313	1 804 451
	12 649 838	9 245 634
9. LONG-TERM LOAN		
The Government of the Republic of Namibia	267 011	281 337
10. TRADE AND OTHER PAYABLES		
Loan instalments in arrears	829 273	777 785
Trade payables	241 749	196 877
Consumer deposits	20 645	11 841
Provision for leave pay	188 326	177 233
	1 279 993	1 163 736

VILLAGE COUNCIL OF AROAB

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

	2014	2013
	N\$	N\$
11. ADJUSTMENTS THROUGH APPROPRIATION ACCOUNT		
Increase in provision for bad debts	(261 471)	(449 194)
Prior year adjustment	-	(280 718)
Inventory adjustment	-	(27 900)
Movement in the provision for leave pay	-	(13 885)
Livestock adjustments	81 550	-
Income adjustment	78 830	4 370
Other	(18 386)	-
	(119 477)	(767 327)
12. CASH GENERATED/(UTILISED) BY OPERATIONS		
Net surplus before adjustments	2 969 339	546 099
Adjustments through appropriation account (Note 11)	(119 477)	(767 327)
Operating cash flow before changes in working capital	2 849 862	(221 228)
Changes in working capital		
Trade and other receivables	(596 588)	178 678
Inventories	(80 501)	(60 889)
Trade and other payables	116 257	(72 724)
Cash generated/(utilised) by operations	2 289 030	(176 163)