



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

VILLAGE COUNCIL OF LEONARDVILLE

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Published by authority

Price (Vat excluded) N\$ 30.55
Report no 992

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 Leonardville for the financial year 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, September 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

1. INTRODUCTION

The accounts of the Village Council of Leonardville 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, **but was only signed on 24 November 2010** and not within three months as required by the Act. 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: Income statements

Annexure C: Cash flow statements

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 misstatements.

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 always sufficient for the auditors to rely upon for audit purposes. Control over salaries may be sufficient but controls are lacking over receipts and banking.

As can be seen in the comments hereafter, certain balance sheet items are clearly not correct and unless the errors/weaknesses identified are rectified in the financial systems and records the annual financial statements cannot be seen as a fair reflection of the financial position of the Council.

4.2 Property, plant and equipment

The fixed asset register and the general ledger does not agree with an amount of N\$ 350 561. This difference can mainly be attributed to the following:

- Property that are disclosed in the fixed asset register were sold and transferred but not removed from the registers;
- A L.D.V. vehicle was stolen but is still on the register;
- A playground is on the register but does not exist;
- A sewerage pump disclosed in the register does not exist;
- Repairs on the tractor was wrongly capitalized and
- A multi tanker was never bought.

The fixed on register is clearly outdated and incomplete. Currently it does not reflect the true value of the Council's assets. The Council is urged to reconcile the general ledger with the fixed asset register to reflect the true value of the Council's assets.

4.3 Accounts receivable

Accounts receivable escalated further and it is calculated that the average collection period is now 334 days, compared with 295 days at 30 June 2009.

The bad debt provision is reflected as N\$ 200 000 while the auditors is estimating that a provision of N\$ 1 215 639 would be required to cover the impairment of debtors. Therefor provision for bad debts is understated by approximately N\$1 015 639. (See paragraph 22)

4.4 Inventories

The fixed assets register contained an amount of N\$ 152 689 in respects of non-existing cattle. All the livestock of Council were sold. This asset consequently did not exist and should be removed from the asset register.

Council did not keep proper records to reflect the movement on the inventory account.

No other inventories are reflected in financial statements of Village Council, which appears to be the correct position.

4.5 Long-term liabilities

No installments were paid on external loans, nor were the interest paid.

Arrears to the amount of N\$1 131 368 in this regard are reflected under creditors.

4.6 Trade and other payables

Accounts payable are probably grossly overstated.

The list of trade creditors contain a number of incorrect balances, including a double payment of the amount of N\$ 575 000 on an office building received from the government during the year 2000. It further contains duplicated amount totaling to N\$ 76 492 in respect of Nampower and Namwater. Non-existing commitments in respect of audit and accounting fees amounts to N\$ 194 000. On the list there are creditors with outstanding amount totaling to N\$ 61 600 which are outstanding for more than three years. The auditors could not find any supporting documentation and they are of the opinion that this amount should be written back. Creditors to the amount of N\$ 202 688 could not be confirmed due to a lack of documentation.

A creditors ledger is not kept at all and the Council only processes commitments as and when cheques are issued.

Consumer deposits amounts to N\$ 3 640 which is not merely sufficient to cover one months consumption by the consumers.

4.8 VAT

Council did not submitted any VAT returns since May 2008.

As a result it is doubtful whether the receivable of N\$ 554 749 can ever be recovered as penalties and fines, once levied by the Receiver, will probably exceed this amount.

Council is negligent when dealing with VAT issues.

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the 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 2009				1 711 099
General accounts				
– Non-profitable	2 810 241	2 839 638	(29 397)	
– Self-supporting	401 327	428 468	(27 141)	
Trade accounts				
– water	734 436	598 708	135 728	
– electricity	585 931	501 683	84 248	
	4 531 935	4 368 497	163 438	
Surplus for the year				163 438
				1 874 537
Adjustments (See note 10, Annexure D)				*(127 214)
Accumulated surplus				
– closing balance 30 June 2010				1 747 323

*The adjustment in the appropriation account should be analysed in future.

7. CURRENT BANK ACCOUNTS

	2010	2009
	N\$	N\$
(Negative)/favourable cash book balance	(9 821)	219 730
Outstanding cheques	154 456	84 382
Balance per bank statement	144 635	304 112

8. INVESTMENTS

	2010	2009
	N\$	N\$
The investments as at 30 June were as follows:		
Commercial banks	2 885 481	2 482 658
Unexplained differences	-	42 000
	2 885 481	2 524 658
The investments were allocated as follows:		
Property, plant and equipment	-	238 217
Capital Reserve Fund	237 636	161 480
Housing Fund	551 158	224 918
Revenue account	2 096 687	1 900 041
	2 885 481	2 524 656

9. TRADE ACCOUNTS

9.1 The results of operations were as follows:

	2010	2009
	N\$	N\$
Electricity:		
Sales	571 295	545 403
Cost of bulk purchases	(441 483)	(334 134)
Gross profit	129 812	211 269
Net expenditure	(45 564)	(55 678)
Net surplus for the year	84 248	155 591
Gross profit % on bulk purchases	29,4%	63,2%
Net surplus % on bulk purchases	19,1%	46,6%
The above figures are unreliable. Council did not account for payments made by the Ministry to the amount of N\$165 250 during the year under review.		
These payments were made to Nampower on behalf of the Council. Taking afore-mentioned into account bulk purchases is understated by the amount and net surplus should be a net loss of (N\$ 81 002).		
Water:		
Sales	733 836	704 607
Cost of bulk purchases	(506 056)	(422 908)
Gross profit	227 780	281 699
Net income - other	(92 052)	(76 273)
Net surplus for the year	135 728	205 426
Gross profit % on bulk purchases	45,0%	66,6%
Net profit % on bulk purchases	26,8%	48,6%

9.2 Distribution losses

Council does not keep record of distribution losses and the auditors calculated that 10,24% of units purchased from Namwater were not recovered. The percentage for electricity cannot be calculated as the data for prepaid sales is not sufficient.

10. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed during the audit.

11. SELF-SUPPORTING SERVICES

The results for the year under review are as follows:

	Income	Expenses	Surplus/ (deficit)	Surplus/ (deficit)
	2010	2010	2010	2009
	N\$	N\$	N\$	N\$
Townlands	69 639	75 913	(6 274)	40 071
Housing	16 420	17 526	(1 106)	(7 401)
Cleansing services	143 097	123 135	19 962	58 863
Sewerage	172 171	211 894	(39 723)	32 763
	401 327	428 468	(27 141)	124 296

The table above is a clear indication that the self-supporting services are not self-supportive anymore. Council should immediately put measures in place to rectify this situation.

12. SUSPENSE ACCOUNTS

No suspense accounts are disclosed in the accounts of the Council.

13. IRREGULARITIES AND LOSSES

The auditors did not find any irregularities or losses for the year under review, except if the matters referred to in paragraph 4.2 cause losses to the Council.

14. CAPITAL PROJECTS

	2010	2009
	N\$	N\$
Expenditure:		
Cemetery	101 691	-
Parks and recreation	1 204 374	485 280
Streets and roads	347 548	261 163
General administration	279 287	204 932
	1 932 900	951 375
Financed by:		
General capital	238 217	485 280
Revenue account	1 694 683	466 095
	1 932 900	951 375

15. BURSARIES

The audit did not reveal that any bursaries were allocated or paid during the year under review.

16. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

Nature	Vote	2010	2009
		N\$	N\$
Contribution from	Electricity	632 730	-
Central Government	General administration	200 000	450 000
	Capital projects	1 000 000	750 000

The Government approved a subsidy of N\$ 1 200 000 but the Council received an amount of N\$ 1 926 208. Included in the N\$ 1 926 208 is an additional amount of N\$ 632 730 that was specific provide to extend an electricity line. The difference of N\$ 93 478 could not be explained by the Council.

17. COMPENSATION PAYMENTS

The audit did not reveal that any compensation payments were paid during the year under review.

18. VISITS TO FOREIGN COUNTRIES

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

CLAIMS AGAINST THE LOCAL

19. AUTHORITY

The auditors could not trace any claims against the Local Authority.

20. GIFTS AND DONATIONS BY THE LOCAL AUTHORITY

The auditors could not find evidence of gifts or donations that were funded by the Council 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\$
Housing advances	604 206	612 483
Services, rates and taxes	1 651 357	1 359 443
VAT claims	554 749	340 572
Less: Provision for bad debts	(200 000)	(200 000)
	2 610 312	2 112 498

Debtors outstanding before provision for bad debts are 334 (2009: 295) days. As previously reported, Council should attend to the arrears as a matter of urgency. The provision for bad debts is currently N\$ 200 000 but according to the calculations of the auditors it should be approximately N\$ 1 215 639 and is therefore understated by N\$ 1 015 639.

23. TRADE AND OTHER PAYABLES

	2010	2009
	N\$	N\$
Loan instalments in arrears	1 131 366	1 045 685
Trade payables	310 196	26 131
Consumer deposits	3 640	2 540
Transfer fees	7 936	7 936
Provisions for leave pay	62 435	62 435
Double payment from Government during 2000	575 000	575 000
Audit and accounting fee provision	194 000	194 000
Long outstanding provisions for expenses	61 600	61 600
	*2 346 173	1 975 327

*The creditors are materially overstated. (See paragraph 4.6)

24. ASSESSMENT RATES

	2010	2009
	N\$	N\$
Proceeds from assessment rates were	236 829	229 898
Tariffs per N\$1 valuation per annum		
Land	0.25	0.25
Improvements: Residential	0.0909	0.04
Business	0.10	0.075

25. LOANS

25.1 External loans

	2010	2009
	N\$	N\$
Government of the Republic of Namibia	626 829	653 680
Installments and interest in arrears	1 131 366	1 045 685
Total outstanding	1 758 195	1 699 365

No repayments were made 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

According to the financial statements no loans were due to the Village Council. Advances in terms of the housing fund are reflected as debtors.

25.3 Loans written off

The audit did not reveal that any 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 for audit purposes. However, the auditors detected two deposits to the amount of N\$ 69 200. These deposits were, according to the auditors, for the sale of erf 125 and another unknown erf.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

There were no such transactions revealed during the audit for the year under review.

28. TARIFF ADJUSTMENTS

A complete Government Gazette related to tariffs for the year under review was not available. The auditors had to work on the Gazette for 2010/2011 which includes the tariffs for 2009/2010 for comparative reasons.

29. APPROVALS

29.1 Excess on approved budget

All budget excesses were approved.

29.2 Internal loans

According to the financial statements no further internal loans were granted during the year under review.

29.3 Revenue written off

The audit did not reveal that any revenue was written off during the year nor did the Council disclose such transactions.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles

The data regarding the number of motor vehicles on hand extracted from the fixed assets register could not be used due to the fact that certain vehicles were sold and other vehicles were purchased, but these transactions were not yet accounted for.

30.2 Inventory

Council does not keep any inventory.

30.3 Livestock

According to the previous report livestock was valued at N\$ 64 794 at year end. This left an unexplained difference on the value of the livestock to an amount of N\$ 108 503 as reported. During the current year all livestock was sold for an amount of N\$ 56 440 resulting in a loss of N\$ 8 354. Due to accounting errors only the loss is disclosed in the financial statements. The sales and cost of sales should have been separately disclosed.

Furthermore it must be reported that the fixed asset register still disclose an amount of N\$ 152 689 as the value of cattle on hand. This is wrong and should be rectified. (See also paragraph 4.4)

31. SPECIAL INVESTIGATIONS

The auditors are not aware of any special investigations that were conducted into the Council's 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 matters have been addressed to the Chief Executive Officer by way of a management letter:

- The billing system
- Accounting for expenditure
- VAT
- Banking transactions
- Trade and other receivables
- Trade and other payables
- Livestock transactions
- Property, plant and equipment
- Government loans
- Adjusting your accounts

34. DISCLAIMED AUDIT OPINION

The accounts of the Village Council of Leonardville 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 due to the following reasons:

- Provision for bad debts is understated by at least N\$ 1 015 639.
- Trade and other payables to the amount of N\$ 830 600 are doubtful.
- The fixed assets register is not a reliable record of the assets of Council.
- The VAT claims are probably irrecoverable because the Council did not submit VAT returns since May 2008.

WINDHOEK, September 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

THE VILLAGE COUNCIL OF LEONARDVILLE

BALANCE SHEET AS AT 30 JUNE

	Notes	2010 N\$	2009 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	7 845 123	5 912 223
Investments	3	2 885 481	2 524 656
Current assets			
Trade and other receivables	4	2 610 312	2 112 498
Livestock		-	64 794
Cash balances	5	524	221 576
Total assets		13 341 440	10 835 747
EQUITY AND LIABILITIES			
Capital and reserves			
Capital outlay	6	7 218 294	5 496 760
Fund accounts	7	3 140 323	2 709 980
Long-term liabilities	8	626 829	653 680
Current liabilities			
Bank overdraft		9 821	-
Trade and other payables	9	2 346 173	1 975 327
Total funds and liabilities		13 341 440	10 835 747

THE VILLAGE COUNCIL OF LEONARDVILLE

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2010 N\$	2009 N\$
Income		4 250 195	3 391 688
Expenditure		(4 368 497)	(2 751 587)
Net operating profit / (loss)		(118 302)	640 101
Investment income		281 740	278 245
Net profit /(loss) for the year before adjustments		163 438	918 346
Adjustments through accumulated funds account	10	(127 214)	216 335
Net profit /(loss) for the year		36 224	1 134 681
Accumulated funds			
beginning of the year		1 711 099	576 418
end of the year		1 747 323	1 711 099

THE VILLAGE COUNCIL OF LEONARDVILLE

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Notes	2010 N\$	2009 N\$
Cash flow /(outflow) from operating activities			
Cash receipts from customers		3 839 476	3 391 688
Cash paid to suppliers		(2 452 483)	(2 568 869)
Cash generated by operations	11	1 386 993	822 819
Investment income		281 740	278 245
Movement in fund accounts			
Fund accounts	12	394 119	21 857
Capital outlay		-	114 383
		<u>2 062 852</u>	<u>1 237 304</u>
Cash flow from investing activities			
Net capital expenditure		(1 932 900)	(563 672)
Change in investments		(360 825)	(514 338)
		<u>(2 293 725)</u>	<u>(1 078 010)</u>
Cash flow from financing activities			
Change in long-term loans		-	(35 991)
Net movement in cash and cash equivalents		(230 873)	123 303
Cash and cash equivalents - beginning of the year		<u>221 576</u>	<u>98 273</u>
Cash and cash equivalents - end of the year	5	<u><u>(9 297)</u></u>	<u><u>221 576</u></u>

Note:

The corresponding figures for 2009 have not been adjusted for the more sophisticated approach regarding the movement in fund accounts.

THE VILLAGE COUNCIL OF LEONARDVILLE

NOTES TO THE ANNUAL 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 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:

1.6.1 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.

1.6.2 Capital Reserve Fund

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

THE VILLAGE COUNCIL OF LEONARDVILLE

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

	2010	2009
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT AT COST		
Loan assets	835 396	835 396
Income assets	5 143 523	3 448 840
General capital assets	1 866 204	1 627 987
	7 845 123	5 912 223
3. INVESTMENTS		
Commercial banks	2 885 481	2 524 656
The investments were allocated as follows:		
Capital	-	238 217
Capital Reserve Fund	237 636	161 480
Housing Fund	551 158	224 918
Revenue account	2 096 687	1 900 041
	2 885 481	2 524 656
4. TRADE AND OTHER RECEIVABLES		
Housing Fund receivables	604 206	612 483
VAT claims	554 749	340 572
Services, rates and taxes	1 651 357	1 359 443
Less provision for bad debts	(200 000)	(200 000)
	2 610 312	2 112 498
5. CASH AND BANK BALANCES		
Current account	-	219 730
Petty cash	524	1 846
	524	221 576
6. CAPITAL OUTLAY		
General capital contributions	1 866 204	1 866 204
Loans redeemed	208 567	181 716
Revenue contributions	5 143 523	3 448 840
	7 218 294	5 496 760

THE VILLAGE COUNCIL OF LEONARDVILLE

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

	2010	2009
	N\$	N\$
7. FUNDS AND ACCOUNTS		
Capital development fund	237 636	161 480
Housing Fund	1 155 364	837 401
Revenue account kept in compliance with section 86(1) of the Local Authorities Act, 1992.	1 747 323	1 711 099
	3 140 323	2 709 980
8. LONG-TERM LIABILITIES		
The Government of Namibia		
– Capital section	626 829	653 680
9. TRADE AND OTHER PAYABLES		
Loan installments in arrears	1 131 366	1 045 685
Trade payables	1 140 796	856 731
Consumer deposits	3 640	2 540
Transfer fees	7 936	7 936
Provision for leave pay	62 435	62 435
	2 346 173	1 975 327
10. ADJUSTMENTS THROUGH ACCUMULATED FUNDS ACCOUNT		
Prior year adjustments	(127 214)	216 335
11. CASH GENERATED BY OPERATIONS		
Net surplus/(deficit) before adjustments	(118 302)	640 101
Adjustments to appropriation account	(127 214)	216 335
Internal non-cash flow transactions on funds		
- Additions to fixed assets expensed	1 694 683	-
- Loan redemption and interest expensed	85 682	-
Operating cash flow before changes in working capital	1 534 849	856 436
Changes in working capital		
(Increase)/decrease Trade and other receivables	(497 814)	(350 598)
(Increase)/decrease Livestock inventory	64 794	169 025
(Increase)/decrease Trade and other payables	285 164	147 956
Cash generated by operations	1 386 993	822 819

THE VILLAGE COUNCIL OF LEONARDVILLE

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

	2010	2009
	N\$	N\$
12. FUND ACCOUNTS		
Build Together grants from GRN	300 000	-
Loans created	7 198	-
Property sold	69 200	-
Interest received	17 721	-
	394 119	-
