



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

# VILLAGE COUNCIL OF LEONARDVILLE

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

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**REPUBLIC OF NAMIBIA**



**TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY**

I have the honour to submit herewith my report on the accounts of the Village Council of Leonardville for the financial year ended 30 June 2011, in terms of Article 127(2) of the Namibian Constitution. The report is transmitted to the Honourable Minister of Finance in terms of Section 27(1) of the State Finance Act, 1991, (Act 31 of 1991) to be laid upon the Table of the National Assembly in terms of Section 27(4) of the Act.

**WINDHOEK, September 2012**

**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 2011**

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**1. INTRODUCTION**

The accounts of the Village Council of Leonardville for the year ended 30 June 2011 are being reported on in accordance with the provisions set out in the State Finance Act, 1991 (Act 31 of 1991) and the Local Authorities Act, 1992 (Act 23 of 1992).

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

Figures in the report are rounded off to the nearest 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, **except that they were only finalised and signed at 7 December 2011 instead of three months after the year-end as required by the Act.** The audited financial statements are in agreement with the general ledger and are filed in the Office of the Auditor-General. The abridged balance sheet at 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 these financial statements and for ensuring the regularity of the financial transactions. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

***Auditor's responsibility***

It is the responsibility of the Auditor-General to form an independent opinion, based on the audit, on those statements and on the regularity of the financial transactions included in them and to report his opinion to the National Assembly. The said firm conducted the audit in accordance with International Standards on Auditing. Those standards require that the firm comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

estimates made by management, as well as evaluating the overall presentation of the financial statements.

#### **4. AUDIT OBSERVATION AND COMMENTS**

##### **4.1 Internal control and accounting records**

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

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\$ 2 889 830. The fixed asset 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 Trade and other receivables**

The average collection period of trade receivables is 349 days (2010: 334 days). As previously reported, the Council should attend to the arrears as a matter of urgency.

The bad debt provision is reflected as N\$ 200 000 while the auditors are estimating that a provision of N\$ 1 718 624 would be required to cover the impairment of trade receivables. Therefore, provision for bad debts is understated by approximately N\$ 1 518 624.

##### **4.4 Inventories**

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

##### **4.5 Arrear external loans**

The instalments on external loans from Central Government were not paid. No provision for interest on arrear payments has been made.

##### **4.6 Trade and other payables**

No list of trade and other payables was available for audit purposes. The auditors were thus unable to test trade and other payables or unrecorded payables.

##### **4.7 VAT and P.A.Y.E. returns**

Not all VAT and P.A.Y.E. returns were submitted timeously to the Directorate: Inland Revenue. No provision for penalties and interest has been made in the financial statements.

##### **4.8 Consumer deposits**

No lists for consumer deposits were available at the Village Council, therefore the auditors were unable to verify these amounts.

Consumer deposits are not sufficient to cover one month's charges.

##### **4.9 Provision for bonuses and severance pay on retirement**

No provisions have been raised for the above items. The auditors could not establish the amounts which should have been provided for.

#### 4.10 Investments

No proof for investments amounted to N\$ 226 643 could be provided by the Council.

#### 4.11 Build Together advances

No list of Build Together advances amounting to N\$ 667 582 was available for audit purposes.

#### 4.12 Bank reconciliation

No bank reconciliation was available for audit purposes.

### 5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Village Council of Leonardville 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:

	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>	<b>Balance</b>
	N\$	N\$	N\$	N\$
Accumulated surplus on 01/07/2010				1 747 323
<b>General accounts</b>				
- Non-profitable services	3 064 840	3 517 801	(452 961)	
- Self-supporting services	479 525	460 419	19 106	
<b>Trade accounts</b>				
- Water	715 958	596 423	119 535	
- Electricity	675 445	542 477	132 968	
Deficit for the year	4 935 768	5 117 120	(181 352)	(181 352)
				1 565 971
Adjustments and utilisations				623 563
Accumulated deficit on 30/06/2011				<b>2 189 534</b>

### 7. CURRENT BANK ACCOUNT

	<b>2011</b>	<b>2010</b>
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	-	(9 821)
Outstanding cheques	-	154 456
Balance as per bank statement	-	<b>144 635</b>

No bank reconciliation could be provided by the Council.

## 8. INVESTMENTS

The investments as at 30 June were as follows:

<b>Institution</b>	<b>2011 Investment</b>	<b>2010 Investment</b>
Commercial banks	N\$ <b>2 453 518</b>	N\$ <b>2 885 481</b>
<b>Distribution</b>		
Housing Fund	492 188	551 158
Capital Development Fund	244 954	237 636
Revenue	1 716 376	2 096 687
	<b>2 453 518</b>	<b>2 885 481</b>

## 9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in note 7 in Annexure D.

## 10. TRADE ACCOUNT

### 10.1 The results of water operations were as follows:

	<b>Electricity</b>		<b>Water</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	N\$	N\$	N\$	N\$
Sales	665 406	571 295	715 358	733 836
Cost of sales	(486 739)	(441 483)	(508 627)	(506 056)
Gross surplus	178 667	129 812	206 731	227 780
Other expenses	(45 699)	(45 564)	(87 196)	(92 052)
<b>Net surplus</b>	<b>132 968</b>	<b>84 248</b>	<b>119 535</b>	<b>135 728</b>
Gross surplus percentage on sales	26.9%	22.7%	28.9%	31.0%
Net surplus percentage on sales	20.0%	14.7%	16.7%	18.5%

### 10.2 Distribution results were as follows:

No distribution results were available as Cenored supply the electricity, and the water are pumped from municipal boreholes.

## 11. SELF-SUPPORTING SERVICES

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

<b>Service</b>	<b>Income 2011</b>	<b>Expenses 2011</b>	<b>Surplus/ (deficit) 2011</b>	<b>Surplus/ (deficit) 2010</b>
	N\$	N\$	N\$	N\$
Cleansing services	164 603	128 093	36 510	19 962
Townlands	97 455	49 601	47 854	(6 274)
Housing	16 020	19 116	(3 096)	(1 106)
Sewerage	201 447	263 609	(62 162)	(39 723)
	<b>479 525</b>	<b>460 419</b>	<b>19 106</b>	<b>(27 141)</b>

As reported in the previous year, the Council must turn the loss making services into self-supporting services.

**12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE**

There were no such expenses.

**13. SUSPENSE ACCOUNTS**

Suspense accounts are cleared on a regular basis during the years under review.

**14. IRREGULARITIES AND LOSSES**

There were no such expenses.

**15. CAPITAL PROJECTS**

The following were spend on capital projects:

Nature of projects/ acquisitions	Financial by			Total expenditure 2011	Total expenditure 2010
	Revenue account	Internal loans	General capital		
	N\$	N\$	N\$	N\$	N\$
Cemetry	-	-	-	-	101 691
Parks and recreation	758 341	-	-	758 341	1 204 374
Streets and roads	-	-	-	-	347 548
General administration	1 118 708	-	-	1 118 708	279 287
	<b>1 877 049</b>	-	-	<b>1 877 049</b>	<b>1 932 900</b>

**16. STUDY LOANS/BURSARIES**

No bursaries were granted during the year.

**17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID.**

	2011 N\$	2010 N\$
Contribution from Government	2 090 685	1 832 730

**18. COMPENSATION PAYMENTS**

No compensation payments were claimed from the Village Council during the years under review.

**19. VISITS TO FOREIGN COUNTRIES**

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

**20. CLAIMS AGAINST THE LOCAL AUTHORITY**

There were no claims against the local authority.

**21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY**

No gifts and donations were allocated or paid during the years under review.

**22. TRANSFER OF PROPERTY**

There were no sales recorded.

**23. TRADE AND OTHER RECEIVABLES/OTHER PAYABLES**

**23.1 Trade and other receivables at 30 June were:**

	<b>2011</b>	<b>2010</b>
	N\$	N\$
Consumers	1 834 314	1 651 357
Cash not banked	667 582	604 206
VAT receivable	892 120	554 749
Provision for bad debts	3 394 016 (200 000)	2 810 312 (200 000)
<b>Total</b>	<b>3 194 016</b>	<b>2 610 312</b>

**23.2 Trade and other payables at 30 June were:**

	<b>2011</b>	<b>2010</b>
	N\$	N\$
Trade payables	783 316	1 140 796
Consumer deposits	4 350	3 640
Government loans instalments in arrear	1 217 048	1 131 366
Transfer fees	7 936	7 936
Provision for leave pay	62 436	62 435
<b>Totals</b>	<b>2 075 086</b>	<b>2 346 173</b>

**24. ASSESSMENT RATES**

	<b>2011</b>	<b>2010</b>
	N\$	N\$
The net proceeds from assessment rates were	240 346	236 829
Tariffs per N\$1 valuation per month on site value	0.250000	0.250000
Tariffs per N\$1 valuation per month on improvement value		
- All residential	0.0909	0.0909
- All others	0.1000	0.1000

**25. LOANS**

**25.1 External loans**

	<b>2011</b>	<b>2010</b>
	N\$	N\$
External loans - Government	597 562	626 829
Government loans instalments in arrear	1 217 048	1 131 366
<b>Total outstanding</b>	<b>1 814 610</b>	<b>1 758 195</b>

**25.2 Internal loans**

There were no internal loans



### **25.3 Loans written off**

No loans were written off.

### **26. SALE OF ERVEN**

There was no sale of erven.

### **27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS**

No properties were sold on instalment basis during the year under review.

### **28. TARIFF ADJUSTMENTS**

Tariff adjustments were duly approved and promulgated in the Government Gazette.

### **29. APPROVALS**

All overspending were approved by the Council.

### **30. INVENTORY AND EQUIPMENT**

#### **30.1 Motor vehicles and values thereof:**

The auditors could not obtain satisfactory information regarding the movement of motor vehicles.

#### **30.2 Inventory**

Livestock - N\$ 56 215

### **31. SPECIAL INVESTIGATIONS**

There were no special investigations.

### **32. GENERAL**

The accounting and internal controls are not satisfactory, except where indicated otherwise in this report. Proper segregation of duties is not feasible due to the small number of staff employed. While increased management involvement does reduce risks, the risk arises that management and Council override existing controls, a potentially dangerous practice which the Village Council should vigilantly guard against. The integrity of staff in appropriate positions should however be reviewed to ensure that qualified personnel are employed in respective positions.

### **33. FORMAL AND INFORMAL QUERIES**

**33.1** Formal queries are embodied in this report.

**33.2** Informal queries were discussed with the Village Council.

### **34. DISCLAIMED AUDIT OPINION**

The accounts of the Leonardville Village Council for the financial year ended 30 June 2011, summarised in Annexures A to D, were audited by me in terms of Section 85 of the Local Authority act, 1992, read with Section 25 (1) (b) of the State Finance Act, 1991.

I unable to express an audit opinion due to the following reasons:

#### **Internal control and accounting records**

There was not a sufficient system of internal control at the Village Council on which the auditors could rely upon for audit purposes.

### **Property, plant and equipment**

The fixed asset register and the general ledger does not agree with an amount of N\$ 2 889 830.

### **Trade and other receivables**

The bad debt provision is reflected as N\$ 200 000 while the auditors is estimating that a provision of N\$ 1 718 624 would be required to cover the impairment of trade receivables. Therefor provision for bad debts is understated by approximately N\$ 1 518 624.

### **Arrear external loans**

The instalments on external loans from Central Government were not paid. No provision for interest on arrear payments has been made.

### **Trade and other payables**

No list of trade and other payables were available for audit purposes. The auditors were thus unable to test trade and other payables or unrecorded payables.

### **VAT and P.A.Y.E. returns**

Not all VAT and P.A.Y.E. returns were submit timeously to the Directorate: Inland Revenue. No provision for penalties and interest has been made in the financial statements.

### **Provision for bonuses and severance pay on retirement**

No provisions have been raised for the above items. The auditors could not establish the amounts which should have been provided for.

### **Investments**

No proof for investments amounted to N\$ 226 643 could be provided by the council.

### **Build Together advances**

No list of Build Together advances amounting to N\$ 667 582 was available for audit purposes.

### **Bank reconciliation**

No bank reconciliation was available for audit purposes.

**WINDHOEK, September 2012**

**JUNIAS ETUNA KANDJEKE  
AUDITOR- GENERAL**

## VILLAGE COUNCIL OF LEONARDVILLE

## BALANCE SHEET AT 30 JUNE

	Note	2011 N\$	2010 N\$
<b>ASSETS</b>			
<b>Non-current assets</b>		12 175 690	10 730 604
Property, plant and equipment	2	9 722 172	7 845 123
Investments	3	2 453 518	2 885 481
<b>Current assets</b>		3 250 876	2 610 836
Trade and other receivables	4	3 194 016	2 610 312
Inventory - Lifestock		56 215	-
Petty cash	5	645	524
<b>TOTAL ASSETS</b>		<b>15 426 566</b>	<b>13 341 440</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Funds and reserves</b>		12 718 866	10 358 617
Capital outlay	6	9 124 609	7 218 294
Funds and accounts	7	3 594 257	3 140 323
<b>Non-current liabilities</b>			
Long-term loans	8	597 562	626 829
<b>CURRENT LIABILITIES</b>		2 110 138	2 355 994
Trade and other payables	9	2 075 086	2 346 173
Bank overdraft	5	35 052	9 821
<b>TOTAL FUNDS AND LIABILITIES</b>		<b>15 426 566</b>	<b>13 341 440</b>

## VILLAGE COUNCIL OF LEONARDVILLE

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2011</u>	<u>2010</u>
		N\$	N\$
INCOME		4 871 204	4 250 195
EXPENDITURE		5 117 120	4 368 497
NET OPERATING DEFICIT		(245 916)	(118 302)
INTEREST ON INVESTMENTS		64 564	281 740
NET OPERATING (DEFICIT)/SURPLUS AFTER INTEREST		(181 352)	163 438
APPROPRIATION ACCOUNT	10	623 563	(127 214)
NET SURPLUS AFTER APPROPRIATIONS		442 211	36 224
REVENUE ACCOUNT - Beginning of the year		1 747 323	1 711 099
REVENUE ACCOUNT - End of the year		<b>2 189 534</b>	<b>1 747 323</b>

## VILLAGE COUNCIL OF LEONARDVILLE

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2011 N\$	2010 N\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		4 871 204	4 250 195
Cash paid to suppliers		(5 404 563)	(2 863 202)
Cash (utilised)/generated by operations	11	(533 359)	1 386 993
Investment income		64 564	281 740
Increase in Fund accounts		11 723	394 119
Increase in Capital outlay		1 906 315	-
Net cash flow from operating activities		1 449 243	2 062 852
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net capital expenditure		(1 877 049)	(1 932 900)
Increase/(decrease) in investments		431 963	(360 825)
		(1 445 086)	(2 293 725)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Decrease in long-term liabilities		(29 267)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(25 110)	(230 873)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR		(9 297)	221 576
CASH AND CASH EQUIVALENTS - END OF THE YEAR		<b>(34 407)</b>	<b>(9 297)</b>

## VILLAGE COUNCIL OF LEONARDVILLE

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

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**1. ACCOUNTING POLICIES****1.1 Introduction**

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

**1.2 Property, plant and equipment**

Property, plant and equipment are stated at cost or valuation where assets have been acquired by grant or by donation. No provision for depreciation is made.

**1.3 Investments**

Investments are reflected at face value.

**1.4 Trade receivables**

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

**1.5 Cash and cash equivalents**

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

**1.6 Trade and other payables**

All financial liabilities are recorded at cost.

**1.7 Internal Funds**

Internal Funds were created as follows by Council:

**1.7.1 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.

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.

**1.7.2 Capital Development Fund**

This Fund was created to make provision for unforeseen expenditure, as approved by the Council.

## VILLAGE COUNCIL OF LEONARDVILLE

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

	<b>2011</b>	<b>2010</b>
	N\$	N\$
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>		
Loan assets	835 396	835 396
Income assets	7 020 572	5 143 523
General capital assets	1 866 204	1 866 204
Total	<b>9 722 172</b>	<b>7 845 123</b>
<b>3. INVESTMENTS</b>		
INVESTMENTS		
Commercial banks	<b>2 453 518</b>	<b>2 885 481</b>
ALLOCATED AS FOLLOWS		
Housing Fund	492 188	551 158
Capital Development Fund	244 954	237 636
Revenue	1 716 376	2 096 687
	<b>2 453 518</b>	<b>2 885 481</b>
<b>4. TRADE AND OTHER RECEIVABLES</b>		
Consumers	1 834 314	1 651 357
Housing Fund	667 582	604 206
VAT receivable	892 120	554 749
	3 394 016	2 810 312
Provision for bad debts	(200 000)	(200 000)
	<b>3 194 016</b>	<b>2 610 312</b>
<b>5. BANK AND CASH</b>		
Current account	(35 052)	(9 821)
Petty cash	645	524
	<b>(34 407)</b>	<b>(9 297)</b>
<b>6. CAPITAL OUTLAY</b>		
Loans redeemed	237 833	208 567
Revenue contributions	7 020 572	5 143 523
General capital contributions	1 866 204	1 866 204
	<b>9 124 609</b>	<b>7 218 294</b>

## VILLAGE COUNCIL OF LEONARDVILLE

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

	<b>2011</b>	<b>2010</b>
	N\$	N\$
<b>7. FUNDS, ACCOUNTS AND RESERVES</b>		
Capital Development Fund	244 954	237 636
Housing Fund	1 159 769	1 155 364
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	2 189 534	1 747 323
	<b>3 594 257</b>	<b>3 140 323</b>
<b>8. LONG-TERM LIABILITIES</b>		
External loans - Government	597 562	626 829
<b>9. TRADE AND OTHER PAYABLES</b>		
Trade payables	783 316	1 140 796
Consumer and other deposits	4 350	3 640
Government loans instalments in arrear	1 217 048	1 131 366
Transfer fees	7 936	7 936
Provision for leave pay	62 436	62 435
	<b>2 075 086</b>	<b>2 346 173</b>
<b>10. ADJUSTMENTS TO APPROPRIATION ACCOUNT</b>		
Adjustment on investments	106 095	-
Prior year adjustments	517 468	(127 214)
	<b>623 563</b>	<b>(127 214)</b>
<b>11. CASH (UTILISED)/GENERATED BY OPERATIONS</b>		
Net operating deficit before interest and transfers	(245 916)	(118 302)
Adjustments for:		
- Adjustments to appropriation account	623 563	(127 214)
- Additions to fixed assets expensed	-	1 694 683
- Loan redemption and interest expensed	-	85 682
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	377 647	1 534 849
CHANGES IN WORKING CAPITAL		
Increase in trade and other receivables	(583 704)	(497 814)
(increase)/decrease in livestock inventory	(56 215)	64 794
(Decrease)/increase in trade and other payables	(271 087)	285 164
	(911 006)	(147 856)
CASH (UTILISED)/GENERATED BY OPERATIONS	<b>(533 359)</b>	<b>1 386 993</b>