



**REPUBLIC OF NAMIBIA**



**AUDIT REPORT ON THE ACCOUNTS OF THE**

# **VILLAGE COUNCIL OF RUACANA**

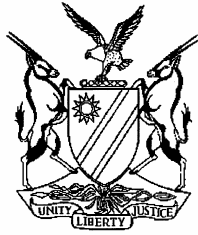
**FOR THE FINANCIAL YEARS ENDED 30 JUNE 2006 & 2007**

Published by authority

Price (Vat excluded) N\$ 27.49

Report no 726

**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 Ruacana for the financial years ended 30 June 2006 and 2007, 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, July 2009**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE  
VILLAGE COUNCIL OF RUACANA  
FOR THE FINANCIAL YEARS ENDED 30 JUNE 2006 AND 2007**

---

**1. INTRODUCTION**

The accounts of the Village Council of Ruacana for the years ended 30 June 2006 and 30 June 2007 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 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, **except that they were only submitted on 3 June 2008 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 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 the opinion of the Auditor-General to the National Assembly. The said firm conducted the audit in accordance with International Standards on Auditing. Those standards require that the firm complies with ethical requirements and plans and performs 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 Distribution losses

The percentage distribution losses of 22.5% for water during the financial year ended 30 June 2007 are unacceptable high. Council must implement measures to reduce these losses.

##### 4.2 Trade and other receivables

The average collection period of trade receivables, before taking the provision for bad debts into account, is 382,7 days (2006 - 193,3 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 215,4 days (2006 - 193,3 days). Council should attend to the arrears as a matter of urgency. Due to these statistics, the auditors are of the opinion that the provision for bad debts is understated by N\$ 394 248 based on amounts outstanding for 90 days and longer.

#### 5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Ruacana 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:

	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (Deficit)</b>	<b>Balance</b>
	N\$	N\$	N\$	N\$
Accumulated surplus on 01/07/2006				2 165 350
General accounts				
- Non-profitable	4 855 074	3 989 475	865 599	
- Self-supporting	236 911	7 314	229 597	
Trade account				
- Water	1 177 027	820 218	356 809	
Profit for the year	6 269 012	4 817 007	1 452 005	1 452 005
Adjustments and utilizations (See note 9)				367 561
Accumulated surplus on 30/06/2007				<b>3 984 916</b>

	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (Deficit)</b>	<b>Balance</b>
	N\$	N\$	N\$	N\$
Accumulated surplus on 01/07/2005				-
General accounts - Non-profitable	2 727 597	598 194	2 129 403	
Trade account - Water	192 109	529 013	(336 904)	
Profit for the year	2 919 706	1 127 207	1 792 499	1 792 499
Adjustments and utilizations (See note 9)				372 851
Accumulated surplus on 30/06/2006				<b>2 165 350</b>

## 7. CURRENT BANK ACCOUNT

	<b>2007</b>	<b>2006</b>
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	40 744	304 634
Outstanding cheques	162 613	81 685
Outstanding deposits	-	(9 416)
Unexplained difference	-	7 039
Balance as per bank statement	<b>203 357</b>	<b>383 942</b>

## 8. INVESTMENTS

The investments as at 30 June were as follows:

<b>Institution</b>	<b>2007</b>	<b>2006</b>
	N\$	N\$
Commercial banks	<b>2 646 456</b>	<b>*1 557 704</b>

The investments were allocated as follows:

<b>Allocation</b>	<b>2007</b>	<b>2006</b>
	N\$	N\$
Salary Reserve Fund	55 957	*5 693
Build Together Fund	45 104	-
Revenue	2 545 395	1 552 011
	<b>2 646 456</b>	<b>1 557 704</b>

\* The balance sheet as prepared by the Council for 2006 differs with N\$ 270 from the actual amount invested. The amount is reflected as N\$ 5 963. This difference should be investigated and rectified.

Investments and the Build Together Fund are understated with an amount of N\$ 87 000 due to a processing mistake. This mistake was corrected in the financial year 2007/08.

## 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>2007</b>	<b>2006</b>
	N\$	N\$
Sales	945 576	191 823
Cost of bulk purchases	(820 218)	(529 013)
Gross profit/(loss)	125 358	(337 190)
Other income	231 451	286
<b>Net surplus/(deficit)</b>	<b>356 809</b>	<b>(336 904)</b>
Gross profit/(loss) percentages on bulk purchases	15.3%	(63.7%)
Net profit/(loss) percentage on bulk purchases	43.5%	(63.7%)

### 10.2 Water distribution results, in cubic meters

	<b>2007</b>	<b>2006</b>
	Units	Units
Sales	86 965	-
Purchases	112 148	-
(Loss)	<b>(25 183)</b>	<b>*-</b>
Percentage loss in units	(22.5%)	

\* No distribution results were available for the 2006 financial year.

## 11. SELF-SUPPORTING SERVICES

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

	<b>Income 2007</b>	<b>Expenses 2007</b>	<b>Surplus 2007</b>	<b>Surplus 2006</b>
	N\$	N\$	N\$	N\$
Cleansing	92 079	7 314	84 765	-
Sewerage	144 832	-	144 832	-
	<b>236 911</b>	<b>7 314</b>	<b>229 597</b>	<b>-</b>

## 12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No such expenses for the years under review were revealed by the audit.

### 13. SUSPENSE ACCOUNTS

Suspense accounts are cleared on a regular basis.

### 14. IRREGULARITIES AND LOSSES

No irregularities and losses were revealed by the audit.

### 15. CAPITAL PROJECTS

#### 2005/06

Nature of projects/ acquisitions	Financed by		Total expenditure 2005/2006
	Revenue account	General capital	N\$
General Administration: Office furniture and equipment, tractor and trailer, buildings and vehicles	N\$  202 552	N\$  2 300 000	N\$  2 502 552
	<b>202 552</b>	<b>2 300 000</b>	<b>2 502 552</b>

The income statements reflect an amount of N\$ 225 232 as capital projects. The difference of N\$ 22 680 could not be explained by the Village Council.

#### 2006/07

Nature of projects/ acquisitions	Financed by		Total expenditure 2006/2007	Total expenditure 2005/2006
	Revenue account	General capital	N\$	N\$
General Administration: Office furniture, equipment and tractor	N\$  225 362	N\$  40 000	N\$  265 362	N\$  2 502 552
Health Services: Infrastructure and cleansing	732 949	-	732 949	-
Technical Services: Roads	141 134	-	141 134	-
Town Planning: Infrastructure and street lights	364 807	-	364 807	-
	<b>1 464 252</b>	<b>40 000</b>	<b>1 504 252</b>	<b>2 502 552</b>

The income statements reflect an amount of N\$ 1 537 782 as capital projects. The difference of N\$ 73 530 could not be explained by the Village Council. The Council should investigate the differences for both years and rectify the capital accounts as well as the fixed asset register.

### 16. BURSARIES

There were no such expenses for the years under review.

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

	<b>2007</b>	<b>2006</b>
	N\$	N\$
Contribution from Government	4 000 000	2 542 859

**18. COMPENSATION PAYMENTS**

There were no such expenses for the years under review.

**19. VISITS TO FOREIGN COUNTRIES**

There were no such expenses for the years under review.

**20. CLAIMS AGAINST THE LOCAL AUTHORITY**

There were no claims against the Local Authority for the years under review.

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

There were no such expenses for the years under review.

**22. TRANSFER OF PROPERTY**

**22.1** There were no transfers of property to the Local Authority for the years under review.

**22.2** There were no transfers of property by the Local Authority to others for the years under review.

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

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

	<b>2007</b>	<b>2006</b>
	N\$	N\$
Services, rates and taxes	2 210 128	198 918
VAT	367 411	109 787
Build Together advances	311 940	-
	2 889 479	308 705
Provision for bad debts	(966 001)	-
<b>Total</b>	<b>1 923 478</b>	<b>308 705</b>

The average collection period of trade receivables, before taking the provision for bad debts into account, is 382,7 days (2006 - 193,3 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 215,4 days (2006 - 193,3 days). Council should attend to the arrears as a matter of urgency. Due to these statistics, the auditors are of the opinion that the provision for bad debts is understated by N\$ 394 248 based on amounts outstanding for 90 days and longer.



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

	<b>2007</b>	<b>2006</b>
	N\$	N\$
Trade payables	156 369	-
Suspense account	24 642	-
Provisions – Audit fees	30 000	-
Consumer deposits	1 750	-
<b>Totals</b>	<b>212 761</b>	<b>-</b>

On 30 June 2006 the Nampower account to N\$ 66 226 was not provided for.

**24. ASSESSMENT RATES**

	<b>2007</b>	<b>2006</b>
	N\$	N\$
The proceeds from assessment rates were	246 907	-
Tariffs per N\$1 valuation per annum - Residential properties	0.0095	-
Tariffs per N\$1 valuation per annum - Business/Institutional properties	0.0350	-

**25. LOANS**

**25.1 External loans**

There are no external loans.

**25.2 Due to the Village Council**

	<b>2007</b>	<b>2006</b>
	N\$	N\$
Build together advances - Included in trade and other receivables	<b>311 940</b>	<b>-</b>

**25.3 Loans written off**

No loans were written off by the Council.

**26. SALE OF ERVEN**

There were no sales of erven for the years under review.

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

None

**28. TARIFF ADJUSTMENTS**

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

## 29. APPROVALS

### 29.1 Excess on approved budget

All budget excesses were approved.

### 29.2 Internal loans

There were no internal loans.

### 29.3 Revenue written off

None

## 30. INVENTORY AND EQUIPMENT

### 30.1 Motor vehicles and values thereof - 2005/2006 financial year

	LDV's, 4x4's and Combi's		Other	
	Number	Value	Number	Value
Balance - 01/07/2005	-	N\$ -	-	N\$ -
Additions	2	262 000	1	119 130
Sub-total	2	262 000	1	119 130
Depreciation	-	(52 400)	-	(11 913)
Balance - 30/06/2006	<b>2</b>	<b>209 600</b>	<b>1</b>	<b>107 217</b>

### 30.1 Motor vehicles and values thereof – 2006/07 financial year

	LDV's, 4x4's and Combi's		Other	
	Number	Value	Number	Value
Balance - 01/07/2006	2	N\$ 209 600	1	N\$ 107 217
Additions	-	-	1	40 000
Sub-total	2	209 600	2	147 217
Depreciation	-	(52 400)	-	(19 913)
Balance - 30/06/2007	<b>2</b>	<b>157 200</b>	<b>2</b>	<b>127 304</b>

### 30.2 Inventory

There is no inventory value reflected in the statements of the Village Council.

## 31. SPECIAL INVESTIGATIONS

None.

## **32. GENERAL**

There is 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 reduce risks, it causes the risk that management and Council override existing controls, a potentially dangerous practice, which Council should vigilantly guard against.

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

**33.1** Formal queries are embodied in paragraph 4 of this report.

**33.2** Informal queries

**33.2.1** The expenses for income assets in the capital statement for income assets reflect an amount of N\$ 73 530 (2006: N\$22 680) less than the expenses in the income statement for capital contributions.

**33.2.2** Investments and the Build Together Fund are understated with an amount of N\$ 87 000 due to a processing error. This error was corrected in the financial year 2007/08.

**33.2.3** No inventories are carried on the financial statements.

**33.2.4** On 30 June 2006 the Namwater account of N\$ 66 226 was not provided for.

## **34. QUALIFIED AUDIT OPINION**

The accounts of the Village Council of Ruacana for the financial years ended 30 June 2006 and 2007, summarised in Annexures A to D, 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.

The audit opinion has been qualified due to the underprovision of bad debts to the amount of N\$ 294 248.

Except for the above-mentioned issue, in my opinion, the financial statements fairly present the financial position of the Village Council at 30 June 2006 and 2007 and the results of its operations and cash flows for the years then ended in the manner required by the Local Authorities Act, 1992, and the State Finance Act, 1991.

**WINDHOEK, July 2009**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

## VILLAGE COUNCIL OF RUACANA

## BALANCE SHEETS AT 30 JUNE

	Note	2007 N\$	2006 N\$
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	2	3 462 606	2 321 555
Investments	3	2 646 456	1 557 704
<b>CURRENT ASSETS</b>			
Trade and other receivables	4	1 923 478	308 705
Bank and cash	5	40 744	304 634
<b>TOTAL ASSETS</b>		<b>8 073 284</b>	<b>4 492 598</b>
<b>FUNDS AND LIABILITIES</b>			
<b>FUNDS AND RESERVES</b>			
Capital outlay	6	3 462 606	2 321 555
Funds and accounts	7	4 397 917	2 171 043
<b>CURRENT LIABILITIES</b>			
Trade and other payables	8	212 761	-
<b>TOTAL FUNDS AND LIABILITIES</b>		<b>8 073 284</b>	<b>4 492 598</b>

## VILLAGE COUNCIL OF RUACANA

## INCOME STATEMENTS FOR THE YEARS ENDED 30 JUNE

---

	<u>Note</u>	<u>2007</u>	<u>2006</u>
		N\$	N\$
INCOME		6 269 012	2 919 706
EXPENDITURE		<u>(4 817 007)</u>	<u>(1 127 207)</u>
NET OPERATING SURPLUS		1 452 005	1 792 499
APPROPRIATION ACCOUNT	9	<u>367 561</u>	<u>372 851</u>
		1 819 566	2 165 350
REVENUE ACCOUNT - Beginning of year		<u>2 165 350</u>	-
REVENUE ACCOUNT - End of year		<u><b>3 984 916</b></u>	<u><b>2 165 350</b></u>

## VILLAGE COUNCIL OF RUACANA

## CASH FLOW STATEMENT FOR THE YEARS ENDED 30 JUNE

	Note	2007 N\$	2006 N\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		6 269 012	2 919 706
Cash paid to suppliers		(5 851 458)	(1 063 061)
Cash generated by operations	10	417 554	1 856 645
Increase in Fund accounts		407 308	5 693
Increase in Capital outlay		1 141 051	2 321 555
Net cash flow from operating activities		1 965 913	4 183 893
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net capital expenditure		(1 141 051)	(2 321 555)
Increase in investments		(1 088 752)	(1 557 704)
		(2 229 803)	(3 879 259)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(263 890)	304 634
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		304 634	-
CASH AND CASH EQUIVALENTS - END OF YEAR	5	<b>40 744</b>	<b>304 634</b>

## VILLAGE COUNCIL OF RUACANA

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEARS ENDED 30 JUNE

**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. Assets are depreciated over their estimated useful life's.

**1.3 Internal Funds**

The following Funds were created by the Town Council:

**1.3.1 Salary Reserve Fund**

The purpose of this Fund is to provide for accrued leave of the Council's staff.

**1.3.2 Build Together Fund**

The purpose of this Fund is to provide for housing loans. Income to this Fund is transferred from the general income account, contributions from Government and interest on investments and loans.

	<u>2007</u>	<u>2006</u>
	N\$	N\$
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>		
Income assets	1 439 206	175 855
General capital assets	<u>2 023 400</u>	<u>2 145 700</u>
	<b><u>3 462 606</u></b>	<b><u>2 321 555</u></b>
<b>3. INVESTMENTS</b>		
INVESTMENTS		
Commercial banks	<u><u>2 646 456</u></u>	<u><u>1 557 704</u></u>
ALLOCATED AS FOLLOWS		
Salary Reserve Fund	55 957	5 693
Build Together Fund	45 104	-
Revenue	<u>2 545 395</u>	<u>1 552 011</u>
	<b><u>2 646 456</u></b>	<b><u>1 557 704</u></b>

## VILLAGE COUNCIL OF RUACANA

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

	<b>2007</b>	<b>2006</b>
	N\$	N\$
<b>4. TRADE AND OTHER RECEIVABLES</b>		
Services, rates and taxes	2 210 128	198 918
VAT	367 411	109 787
Build Together advances	311 940	-
	<u>2 889 479</u>	<u>308 705</u>
Provision for bad debts	(966 001)	-
	<u><b>1 923 478</b></u>	<u><b>308 705</b></u>
<b>5. CASH AND BANK BALANCES</b>		
Current account	<u><b>40 744</b></u>	<u><b>304 634</b></u>
<b>6. CAPITAL OUTLAY</b>		
Revenue contributions	1 439 206	175 855
General Capital contributions	2 023 400	2 145 700
	<u><b>3 462 606</b></u>	<u><b>2 321 555</b></u>
<b>7. FUNDS AND ACCOUNTS</b>		
Salary Reserve Fund	55 957	5 693
Build Together Fund	357 044	-
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	<u>3 984 916</u>	<u>2 165 350</u>
	<u><b>4 397 917</b></u>	<u><b>2 171 043</b></u>
<b>8. TRADE AND OTHER PAYABLES</b>		
Trade payables	156 369	-
Suspense account	24 642	-
Provisions	30 000	-
Consumer deposits	1 750	-
	<u><b>212 761</b></u>	<u><b>-</b></u>



## VILLAGE COUNCIL OF RUACANA

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

	<u>2007</u>	<u>2006</u>
	N\$	N\$
<b>9. ADJUSTMENTS TO APPROPRIATION ACCOUNT</b>		
Balances from yellow cards	-	175 361
Income from old receivables not accounted for in 2006	1 386 060	-
Nampower retrospective levies	-	203 453
Provision for bad debts	(966 001)	-
Provision for leave	(49 994)	(5 963)
Sundry expenses	(2 504)	-
	<u><b>367 561</b></u>	<u><b>372 851</b></u>
<b>10. CASH GENERATED BY OPERATIONS</b>		
Net operating profit before transfers	1 452 005	1 792 499
Adjustments for:		
- Adjustments to appropriation account	<u>367 561</u>	<u>372 851</u>
<b>OPERATING INCOME BEFORE CHANGES IN WORKING CAPITAL</b>	<u>1 819 566</u>	<u>2 165 350</u>
<b>CHANGES IN WORKING CAPITAL</b>		
(Increase) in trade and other receivables	(1 614 773)	(308 705)
Increase in trade and other payables	<u>212 761</u>	<u>-</u>
	<u>(1 402 012)</u>	<u>(308 705)</u>
<b>CASH GENERATED BY OPERATIONS</b>	<u><b>417 554</b></u>	<u><b>1 856 645</b></u>