



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

VILLAGE COUNCIL OF RUACANA

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Published by authority

Price (Vat excluded) N\$ 24.39
Report no 906

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 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, January 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

1. INTRODUCTION

The above accounts of the Village Council of Ruacana 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 BDO 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. The audited financial statements are in agreement with the general ledger and are filed in his Office. The abridged balance sheet at Annexure A is a true reflection of the original. The following annexures are also attached to this report:

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 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 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 OBSERVATIONS AND COMMENTS

4.1 Inventories

The auditors did not obtain sufficient audit evidence with regard to the completeness, existence, accuracy and valuation of inventories as no inventory listing could be provided nor did auditors verify the physical quantities at year-end.

4.2 Creditors

The Council did not accrue for expenditure already incurred at year end. Thus understating both expenses and creditors with an amount of N\$ 266 091.

4.3 Debtors

Insufficient provision has been made for doubtful debts. According to the auditors the provision is understated by N\$ 275 153. This is based on the subsequent to year end payments test. Council provided for all amount outstanding longer than 120 days. Amounts outstanding between 90 and 120 days amounted to N\$ 323 141. The auditors are of the opinion that this figure should also be provided for. Supporting documentation for debtors amounting to N\$ 145 090 could not be availed to the auditors for verification.

5. ACKNOWLEDGEMENT

The assistance and co-operation given by the staff of the Village Council during the audit is highly appreciated.

6. FINANCIAL RESULTS

The results of the various operations and transactions on the Revenue Account for the year are as follows:

	Revenue	Expenditure	Surplus/(Defi cit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus 01/07/2009				1 456 295
General accounts				
Non-profitable services	8 050 758	8 060 433	(9 675)	
Self-supporting services	206 714	220 567	(13 853)	
Trade accounts				
Water	1 347 745	1 145 638	202 107	
Surplus for the year	9 605 217	9 426 638	178 579	178 579
Adjustments and appropriations (Note 7, Annexure D)				1 634 874 (368 029)
Accumulated surplus 30/06/2010				1 266 845

7. CURRENT BANK ACCOUNT

The unfavourable cash book balance on the current bank account amounted to N\$ 765 620 (2009: N\$ 309 282). Outstanding cheques amounted to N\$ 642 739 (2009: N\$ 399 729) which resulted in a favourable bank statement balance of N\$ 122 881 (2009: N\$ 90 447) favourable. The prior year outstanding cheques were included under creditors.

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2010 and the interest thereon were as follows:

Institution	2010		2009	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	1 597 721	56 438	1 344 625	157 628
	1 597 721	56 438	1 344 625	157 628
Distribution				
Salary Reserve Fund	183 429	-	179 685	21 064
Build Together Housing Fund	393 623	8 316	249 136	29 206
Revenue	1 020 669	48 122	915 804	107 358
	1 597 721	56 438	1 344 625	157 628

9. FUND ACCOUNTS

The position of internal Funds and Reserves is shown in note 5 at annexure D.

10. TRADE ACCOUNTS

10.1 Operating results

The results for the financial year under review and the previous year were as follows:

	Water	
	2010	2009
	N\$	N\$
Sales	1 076 680	1 028 390
Cost of sales	(810 528)	(1 001 409)
Gross profit	266 152	26 981
Other income/ (expenses)	(64 045)	(394 537)
NET PROFIT/(LOSS)	202 107	(367 556)
Gross profit on cost of sales	33%	2.7%
Net deficit/(profit) percentage on cost of sales	25%	(36.7%)

The Council moved from a loss of N\$ 367 556 to a profit of N\$ 202 107 which is commended on.

10.2 Distribution losses were as follows:

Water and electricity distribution losses, in cubic metres (m³) and kilowatts, were as follows:

	Water	
	2010	2009
	m ³	m ³
Sold	103 862	117 609
Bought	115 306	132 470
Distribution loss	(11 444)	(14 861)
Loss as percentage of units bought	(9.9%)	(11.2%)

11. SELF-SUPPORTING EXTERNAL SERVICES

The net result of these services, compared with the previous year, is as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2010	2010	2010	2009
	N\$	N\$	N\$	N\$
Sewerage	206 714	220 567	(13 853)	(34 841)
	206 714	220 567	(13 853)	(34 841)

The above table shows that the self-supporting services indicate an improvement (reduced loss), compared with the prior year.

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed.

13. SUSPENSE ACCOUNTS

No suspense accounts are disclosed in the financial statements,

14. IRREGULARITIES AND LOSSES

14.1 No irregularities by employees were reported.

14.2 No losses were reported.

15. CAPITAL PROJECTS

According to the Capital statement provided by the Council, capital expenditure for the 2010 financial year amounted to N\$ 3 087 806 (2009: N\$ 4 092 736) and were financed from Revenue:

	REVENUE 2010	TOTAL 2010	TOTAL 2009
	N\$	N\$	N\$
General administration	*126 527	126 527	15 145
Health services	*2 700	2 700	3 932
Town Planning	2 958 579	2 958 579	3 709 705
Water supply	-	-	363 954
	3 087 806	3 087 806	4 092 736

* According to the income and expenditure votes, the capital expenditure related to general administration amounted to N\$ 128 126 and those related to health services is disclosed as N\$ 9 517. Council should investigate these differences and ensure that the fixed asset register disclose the correct amounts.

16. STUDY LOANS/BURSARIES

Bursaries amounting to N\$ 4 984 were granted to best performing learners from the surrounding schools to assist in buying school uniforms, books and stationeries during the year.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants and financial aid were made during the year.

18. COMPENSATION PAYMENTS

Compensation payments amounting to N\$ 2 331 405 were made during the year.

19. VISITS TO FOREIGN COUNTRIES

No visits to foreign countries were undertaken.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

21. GIFTS AND DONATIONS BY THE LOCAL AUTHORITY

The Council could not provide the auditors with the details nor with the supporting documentation for donations amounting to N\$ 7 010.

22. TRANSFER OF PROPERTY TO/FROM THE GOVERNMENT

No property was transferred to/or from the Government.

23. DEBTORS/CREDITORS

23.1 Debtors on 30 June 2010 comprise the following:

	2010	2009
	N\$	N\$
Consumers	2 836 017	2 751 422
Inland Revenue	616 674	463 717
Temp Advance to Build together buyers	61 599	154 374
Build Together Fund – Advances	2 624 518	2 100 964
Outstanding debtors	145 090	-
	6 283 898	5 470 477
Less: Provision for bad debts	(2 377 517)	(2 013 232)
	3 906 381	3 457 245

The provision for bad and doubtful debts is understated by a calculated amount of N\$ 275 153. Supporting documentation for debtors amounting to N\$ 145 090 could not be made available for verification.

The average collection period of trade receivables, before taking the provision for bad debts into account, is 347 days (2009: 500 days). The council should attend to the arrears as a matter of urgency.

23.2 Creditors on 30 June 2010 comprise the following:

	2010	2009
	N\$	N\$
Trade payables	40 868	122 617
Suspense account	-	224 447
Provisions for audit fees	60 000	60 000
Consumer deposits	25 970	9 750
Outstanding cheques	-	399 729
Provision for regional council levies	32 500	-
Retention: Oshikoto Phase2	29 492	-
	188 830	816 543

The council did not accrue for expenses amounting to N\$ 266 091 for goods and services provided for before the year end.

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 717 531 (2009: N\$ 234 175), of which an amount of N\$ NIL (2009: N\$ NIL) was paid to the Regional Council. The Council however made a provision of N\$ 32 500 to pay the Regional Council. (See paragraph 23.2.)

The gazetted tariffs were N\$ 0.0420 (2009: N\$ 0.0420) per dollar on site values per year and N\$ 0.0173 (2009: N\$0.0173) per dollar on improvements per year.

25. LOANS

25.1 The Council did not have loans.

25.2 Due to Village Council

	2010	2009
	N\$	N\$
Build together advances	2 624 518	2 255 338

26 SALE OF ERVEN

The proceeds of erven and plots sold were:

	2010	2009
	N\$	N\$
Ervens sold 64 (2009 : 56)	585 758	774 499
Property (Houses) sold (quantity unavailable)	110 000	-

27. PROPERTY SOLD ON AN INSTALMENT BASIS

Ervens sold on an instalment basis amounted to N\$ 585 758.

28. TARIFF ADJUSTMENTS

Tariff adjustments were applied in accordance with the relevant Official Government Notices.

29. APPROVALS

There was no over expenditure recorded during the year.

30. STOCK AND EQUIPMENT

30.1 Motor vehicles

	Sedan vehicles		LDV and kombi's		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value	Number	Value
On hand 01/07/2009	-	N\$ -	2	N\$ 52 400	2	N\$ 87 478
Acquisitions	1	95 870	-	-	2	1 112 655
Depreciation		95 870 (19 174)		52 400 (52 400)		1 200 133 (123 179)
On hand 30/06/2010	1	76 696	2	-	4	1 076 954

30.2 Inventory

Inventories amount to N\$ 125 442 (2009: N\$ 64 226). No stock listing and reconciliations could be availed to the auditors for verification. They also did not attend the stock count and thus could not verify the existence of stock at year-end.

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year.

32. GENERAL

The accounting and internal controls applied by the Council are satisfactory. Proper segregation of duties is hindered by the small number of staff employed.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 The following matters were brought to the attention of the Chief Executive Officer by way of a report to management:

- Provision for audit fees
- Value Added Taxation
- Sales income

34. QUALIFIED AUDIT OPINION

The accounts of the Village Council of Ruacana for the financial year ended 30 June 2010, summarized in Annexure A to D, were audited by me in terms of the provisions 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 following reasons:

- Inventories to the value of N\$ 125 442 could not be verified because an inventory list could not be provided.
- Creditors to the amount of N\$ 266 091 is not included in the financial statements.
- Provision for doubtful debts is understated by N\$ 275 153.
- Supporting documentation for debtors to the amount of N\$ 145 090 could not be provided by the Council.

Except for the above-mentioned issue, in my opinion, the financial statements fairly present the financial position of the Village Council at 30 June 2010 and the results of its operations and cash flows for the year then ended in the manner required by the Local Authorities Act, 1992, and the State Finance Act, 1991

WINDHOEK, January 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

BALANCE SHEET AS AT 30 JUNE 2010

	Notes	2010	2009
ASSETS		N\$	N\$
Non-current assets		13 177 271	11 089 191
Property, plant and equipment	2	11 579 550	9 744 566
Investments	3	1 597 721	1 344 625
Current assets		4 031 833	3 612 371
Accounts receivable	4	3 906 381	3 457 245
Stock		125 441	64 226
Petty cash		11	90 900
TOTAL ASSETS		17 209 104	14 701 562
EQUITY AND LIABILITIES			
Equity		16 254 654	13 885 019
Funds and accounts	5.3	3 408 259	2 684 158
Accumulated surplus	5.2	1 266 845	1 456 295
Capital outlay	5.1	11 579 550	9 744 566
Current liabilities		954 450	816 543
Accounts payable	6	188 830	816 543
Bank overdraft		765 620	-
TOTAL EQUITY AND LIABILITIES		17 209 104	14 701 562

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010	2009
		N\$	N\$
INCOME		9 557 095	6 922 820
EXPENDITURE		(9 426 638)	(7 826 321)
OPERATING PROFIT/(LOSS) FOR THE YEAR		130 457	(903 501)
Interest earned		48 122	157 268
NET PROFIT/(LOSS) FOR THE YEAR		178 579	(746 233)
Add : Appropriation and adjustments	8	(368 029)	(557 673)
RETAINED LOSS FOR THE YEAR		(189 450)	(1 303 906)
30 June 2009		1 456 295	2 760 201
30 June 2010		1 266 845	1 456 295

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	<u>Note</u>	<u>2010</u>	<u>2009</u>
		N\$	N\$
Cash flow from operating activities			
Cash receipts from customers		9 557 095	6 922 820
Cash paid to suppliers		(10 932 731)	(8 797 585)
Cash utilized by operations	8	(1 375 636)	(1 874 765)
Interest received		48 122	157 268
Cash (utilized) from financing activities		2 559 085	3 069 488
- Increase in Fund accounts		724 101	151 603
- Increase in capital outlay		1 834 984	2 917 885
Net cash flow from investing activities		(2 088 080)	(1 317 221)
Net capital expenditure		(1 834 984)	(2 917 885)
Increase / (decrease) in long-term liabilities		(253 096)	1 600 664
Net increase/(decrease) in cash and cash equivalents		(856 509)	34 770
- At the beginning of the year		90 900	56 130
- At the end of the year		(765 609)	90 900

VILLAGE COUNCIL OF RUACANA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements set out in Annexures A, B and C, are prepared on the historical cost basis and incorporate the following principal accounting policies which are consistent with those applied in the prior year:

1.1 Property, plant and equipment

Property, plant and equipment acquired are stated at a cost or at valuation where assets have been acquired by grant or by donations, less depreciation written off over the expected useful lives as determined by the Council from time to time. Property, plant and equipment acquired with loan funds are not depreciated until the loan is repaid, unless the expected lifetime of the asset is less than the repayment period of the loan in which case depreciation is calculated on the shortfall.

1.2 Fund accounts

The following Funds were maintained by the council in terms of Sections 58(1) and 80(4) of the Local Authorities Act (Act 23 of 1992):

1.2.1 Build Together Fund

The purpose of the Build Together Fund is to provide for housing loans to the low income inhabitants. Income for these Funds is derived from interest earned on secured housing loans and investments.

	2010	2009
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Consists of :		
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment	11 579 550	9 744 566
Financed by :		
Capital assets	1 536 500	1 698 800
Revenue account	10 043 050	8 045 766
	11 579 550	9 744 566

VILLAGE COUNCIL OF RUACANA

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

	2010	2009
	N\$	N\$
3. INVESTMENTS		
Fixed deposits and money on call	1 597 721	1 344 625
4. TRADE AND OTHER RECEIVABLES		
Consumers	2 836 017	2 751 422
Inland Revenue - VAT	616 674	463 717
Temp Advances to buyers	61 599	154 374
Outstanding debtors	145 090	-
Build Together Fund - advances	2 624 518	2 100 964
	6 283 898	5 470 477
<i>Less :</i>		
Provision for doubtful debts	(2 377 517)	(2 013 232)
	3 906 381	3 457 245
5. FUNDS AND ACCOUNTS		
5.1 Financing of capital		
Contributions ex revenue	10 043 050	8 045 766
Contributions revenue	1 536 500	1 698 800
	11 579 550	9 744 566
5.2 Accumulated Funds	1 266 845	1 456 295
5.3 Internal Funds		
Salary Reserve Fund	183 429	179 685
Build Together Fund	3 224 830	2 504 473
	3 408 259	2 684 158
	16 254 654	13 885 019

VILLAGE COUNCIL OF RUACANA

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

	2010	2009
	N\$	N\$
6. TRADE AND OTHER PAYABLES		
Trade payables	40 868	122 617
Suspense account	-	224 447
Provisions for audit fees	60 000	60 000
Consumer deposits	25 970	9 750
Outstanding deposits	-	399 729
Provision for regional council levies	32 500	-
Retention : Oshikoto Phase2	29 492	
	188 830	816 543
7. ADJUSTMENTS AND APPROPRIATIONS		
Income from old receivables not accounted for	-	33 352
Expenses not accounted for	-	(5 738)
Adjustment: provision for bad debts & salary reserve	(368 029)	(585 287)
	(368 029)	(557 673)
8. CASH UTILIZED BY OPERATIONS		
NET OPERATING PROFIT BEFORE TRANSFERS	130 457	(903 501)
Adjustment for:		
- Adjustment to appropriation account	(368 029)	(557 673)
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	(237 572)	(1 461 174)
CHANGES IN WORKING CAPITAL		
(Increase) in trade and other receivables	(449 136)	(410 536)
(Increase)/decrease in stock	(61 215)	14 180
(Decrease) in trade and other payables	(627 713)	(17 235)
	(1 138 064)	(413 591)
CASH UTILISED BY OPERATIONS	(1 375 636)	(1 874 765)