



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
REGIONAL COUNCIL OF THE
KHOMAS REGION**

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015

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TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY

I have the honour to submit herewith my report on the accounts of the Regional Council of the Khomas region for the financial year ended 31 March 2015 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.

A handwritten signature in black ink, appearing to read 'Junias Etuna Kandjeke'.

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

WINDHOEK, September 2016

**REPORT OF THE AUDITOR-GENERAL ON THE
ACCOUNTS OF THE REGIONAL COUNCIL OF THE KHOMAS REGION
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2015**

1. Report on the Financial Statements

1.1 INTRODUCTION

The accounts of the Khomas Regional Council for the financial year ended 31 March 2015 are being reported on in accordance with provisions set out in the Regional Council Act, 1992 (Act 22 of 1992).

Figures in the report are rounded to the nearest Namibia dollar and deficits are indicated in (brackets).

I certify that I have audited the accompanying financial statements of the Khomas Regional Council for the financial year ended 31 March 2015. These financial statements comprise of the following:

Annexure A: Balance Sheet
Annexure B: Income Statement
Annexure C: Cash Flow Statement
Annexure D: Notes to the financial statements

The financial statements were submitted by the Accounting Officer to the Auditor-General in compliance with Section 40(1) of the Regional Council Act, 1992, except that they were only submitted on 14 August 2015 instead of three months (3 months) after the year end as required by the Act.

The financial statements, and general information provided by the Accounting Officer are attached as Annexure A-D.

2. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Section 39 of the Regional Council Act, 1992 and relevant legislation, and for such internal control as management deemed it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

3. AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on the audit. I conducted the audit in accordance with International Standards for Supreme Audit Institutions (ISSAIs). These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Powers and duties

Section 25(1) (c) of the State Finance Act, 1991, provides that the Auditor-General should satisfy himself that:

- (a) All reasonable precautions have been taken to ensure that all monies due to the State are collected, and that the laws relating to the collection of such monies have been complied with;
- (b) All reasonable precautions have been taken to safeguard the receipt, custody and issue of and accounting for, the State's assets, such as stores, equipment, securities and movable goods; and
- (c) The expenditure has taken place under proper authority and is supported by adequate vouchers or other proof.

In addition, Section 26(1) (b) (iv) of the State Finance Act, 1991, empowers the Auditor-General to investigate and report on the economy, efficiency and effectiveness of the use of the State's resources.

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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for the audit opinion.

4. ACKNOWLEDGMENT

The assistance and co-operation given by the management and staff of the Regional Council during the audit is appreciated

5. KEY AUDIT FINDINGS

5.1 Government subsidy and Government Grant

An amount of N\$ 824 774 for Government Subsidy was incorrectly recorded as revenue rather than Retained Income. This amount should have been recognised as revenue in the prior year. In an effort to correct this error in the year under review, the Council incorrectly credited revenue instead of Retained Income. This resulted in overstatement of revenue in the year under review.

Furthermore an amount of N\$ 7 500 000 for Government Grant received was incorrectly recorded as revenue instead of Deferred Income (Capital Project Fund Liability). The Council incorrectly treated capital project funds as operational revenue which resulted in an overstatement of revenue.

Recommendation

The Council is recommended to ensure that transactions are correctly recorded under the relevant class of accounts.

Management response

The amount in question was in fact part of an opening bank balance for the account of Rural Development projects. This account was incorporated in the Council chart of accounts during 2013/2014 financial period however, instead of capturing the closing balance of N\$ 902 345 at 31 March 2014, only an amount of N\$ 77 571 was captured. The Council concur with the auditors that in 2014/2015 the difference of N\$ 824 774 should have been captured under retained income and not under revenue as it is funds received in a prior financial period.

The Council concur that there was a wrong posting with regard to the N\$ 7 500 000. These funds were received from the National Planning Commission for the construction of services at Groot Aub.

5.2 Delegated Functions

Funds amounting to N\$ 647 500 received from the Ministry of Gender Equality and Child Welfare for delegated function purpose were not recorded as revenue. The Council could not trace the entry in the accounting records.

Recommendation

It is recommended that the Council should ensure that all transactions are correctly accounted for.

Management response

The Council agrees with the finding. The Ministry mistakenly transferred the funds in the Council's bank account instead of the Ministry of Gender Equality and Child Welfare account.

5.3 Park foods Shopping Centre

The Council did not provide all lease contracts of tenants against which revenue was recorded at the value of N\$ 217 609 and corresponding debtors of N\$ 768 906. Therefore, important audit test related to accuracy, completeness and valuation could not be performed.

Recommendation

It is recommended that the Council provide all supporting documents for auditing purpose.

Management response

The lease contracts of tenants were kept by the Agent, whom during the period under review was the administrator of the Shopping center. The Council has now managed to receive the contracts and they are available for verification at the Khomas Regional Council.

5.4 5% Rates & taxes

Revenue and Accounts Receivables relating to 5% Assessment Rates are both materially misstated by N\$ 1 644 142 due to incorrect revenue recognition.

Recommendation

It is recommended that the Council should ensure that revenue is correctly recognized.

Management response

The difference as reported is between the amounts paid by the City of Windhoek which is based on the funds received from rates and taxes and what was actually billed to the customers. The City of Windhoek pays the 5% levy based on the amount they collect from the rate payers instead of the billed amount as required by the Act, citing reasons that they cannot pay what they have not received. At the moment this situation is beyond the Council's control. However, it is proposed that a meeting should be arranged between the City of Windhoek, the Khomas Regional Council as well as representatives from the Office of the Auditor General to reach an understanding concerning this issue.

5.5 Interest income

Omission from prior period amounting to N\$ 2 412 579 was wrongly classified in the current year. This amount was supposed to have been recognised as revenue for prior year.

Recommendation

It is recommended that the Council should ensure that transactions are accounted for in the relevant year of disclosure.

Management response

The amount in question is representing interest accrued on the Directorate of Education bank account. As mentioned by the auditor the said amount was not reflected in the Council's books during the 2013/2014 financial period.

5.6 Value Added Tax

The Council did not submit VAT returns during the year under review. A material difference of N\$ 9 456 901 was noted between the VAT amount disclosed in the financial statement and the Inland Revenue statement.

Recommendation

It is recommended that the Council should ensure that VAT returns are submitted timeously and should also ensure that correct amounts are disclosed in the financial statements.

Management response

The Council agrees with the finding concerning the non-submission of VAT returns due to misunderstanding concerning the submission of VAT returns and claiming thereof by the Council. The Council in consultation with the Receiver of Revenue are attending to the issue and working on submitting all the outstanding returns to the Receiver of Revenue.

5.7 Unrecorded VAT Liabilities

There were unrecorded liabilities amounting to N\$ 1 516 333 and N\$ 1 300 015 for penalties and interest respectively from the Receiver of Revenue. This is as a result of the Council contravening the VAT Act.

Recommendation

It is recommended that the Council disclose all VAT liabilities in the financial statements. VAT returns should be submitted to avoid penalties and interest.

Management response

The Council concur with the finding and confirms that the stated amounts comprises of penalty and interest charged that emanated from the non-submission of VAT returns by the Regional Council as mentioned above. The Council is however not in the position to pay such amount to the Receiver of Revenue due to the tight financial /cash flow situation in the country thus the Council will pursue the route of requesting the Receiver to write off such amounts.

6. BASIS OF ADVERSE AUDIT OPINION

My opinion has been adverse due to the following:

- Incorrect accounting for Government Subsidy amounting to N\$ 824 774;
- Incorrect accounting for Government Grant amounting to N\$ 7 500 000;
- Unrecorded revenue amounting to N\$ 647 500;
- Misstatement of Revenue and Accounts Receivables amounting to N\$ 1 644 142;
- Incorrect accounting of revenue amounting to N\$ 2 412 579;
- A material difference of N\$ 9 456 901 related to VAT receivables;
- Unrecorded VAT penalties amounting to N\$ 1 516 333; and
- Unrecorded VAT Interest amounting to N\$ 1 300 015.

7. ADVERSE OF AUDIT OPINION

The accounts of the Khomas Regional Council for the financial year ended 31 March 2015 have been audited in terms of Section 40(1) of the Regional Council Act, 1992 (Act 22 of 1992).

In my opinion because of the significance of the matters discussed and listed in the Basis for Adverse Opinion paragraph, these annual financial statements do not present fairly the financial position of the Khomas Regional Council as at 31 March 2015 and its financial performance and cash flows for the year then ended in accordance with basis of accounting applicable to the GAAP and Regional Council Act, Section 34.

WINDHOEK, September 2016



JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

ANNEXURE A

**REGIONAL COUNCIL OF THE KHOMAS REGION
BALANCE SHEET AS AT 31 MARCH**

	Note	2015 N\$	2014 N\$
Non-Current Assets		79 763 169	72 036 225
Property, Plant & Equipment	3	62 073 684	59 979 812
Work in Progress	4	17 689 485	12 056 413
Investments (Treasury Bills)	5	1 950 137	1 967 397
Current Assets		33 062 308	26 485 028
Closing Stock		274 356	92 750
Accounts Receivable	6	16 564 133	12 693 703
Cash on hand and Bank	7	16 223 819	13 698 576
TOTAL ASSETS		114 775 614	100 488 650
EQUITY AND LIABILITIES			
Accumulated Funds	8	114 700 771	100 339 135
Current Liabilities	9	74 843	149 515
Trade Creditors		(667)	(115 889)
Other liabilities	9	75 510	265 404
TOTAL EQUITY AND LIABILITIES		114 775 614	100 488 650

REGIONAL COUNCIL OF THE KHOMAS REGION
INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH

	Note	2015	2014
		N\$	N\$
Income	10	55 375 183	40 847 422
Expenditure	11	44 341 944	33 675 272
Net operating surplus/ (Deficit)		11 033 239	7 172 150
Interest from investments	11	2 976 284	569 396
Accumulated income/(deficit)		14 009 523	7 741 546
Accumulated funds			
At the beginning of the year		100 339 135	92 687 284
Adjustments		352 113	(89 695)
At the end of the year		114 700 771	100 339 135

REGIONAL COUNCIL OF THE KHOMAS REGION
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH

	2015	2014
	N\$	N\$
CASH RETAINED FROM OPERATING ACTIVITIES		
Cash receipts from government and other sources	51 619 975	40 650 712
Cash paid to suppliers and employees	42 862 260	31 667 758
Cash generated from operations	8 757 715	8 982 953
Interest Received	2 976 284	569 396
Net cash inflow from operating activities	11 733 999	9 552 350
CASH FLOWS FROM INVESTING ACTIVITIES	(9 560 867)	(3 018 338)
Additions of property, plant and equipment	(3 945 057)	(430 366)
Investments	17 260	(14 767)
Work in Progress	(5 633 070)	(2 573 204)
Net Increase / (decrease) in cash and cash equivalents	2 173 132	6 534 012
Prior year adjustment - Stale cheques	352 113	(89 695)
Cash and cash equivalents at start of the period	13 698 576	7 254 259
Cash and cash equivalents at end of period	16 223 819	13 698 576

The management observed the cash flow statement does not reconcile to the balance sheet. A difference of N\$ 2 was indicated by the management.

**REGIONAL COUNCIL OF KHOMAS REGION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH**

1. Accounting Policies

The annual financial statements are prepared in accordance with and comply with Namibian Statements of Generally Accepted Accounting Practice.

The annual financial statements are prepared under the historical cost convention. The following accounting policies are consistent, in all material respects, with those of the previous year.

The annual financial statements are prepared in line with the accruals concept.

All fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful economic life. The estimated useful economic lives for each category of asset are as follows:

Buildings	50 Years
Vehicles	5 Years
Machinery & Equipment	5 Years
Office Equipment	3 Years
Computer Equipment	3 Years
Furniture & Fittings	3 Years

Land and Infrastructure assets are not depreciated. It is assumed that Land will appreciate in value over time, and that infrastructure assets (I.e. water, sewerage and electricity networks) will maintain their value due to the necessity of regular maintenance.

Buildings that are still under construction are classed as Work in Progress, and are not depreciated until the work is fully completed.

**REGIONAL COUNCIL OF KHOMAS REGION
NOTES TO THE FINANCIAL STATEMENTS (Continue)
FOR THE YEAR ENDED 31 MARCH**

2. Revenue and Expenditure

2.1 Government Transfers:

MRLGH&RD

The Council receives administrative grants from the Ministry of Regional, Local Government, Housing & Rural Development. The grants are for the day-to-day operations of the Council. In the current financial year, the council received N\$ 23 000 000 in grants.

2.2 Rates Levy from Local Authorities

The Council per the Local Authorities Act of 2000, Section 76A levies an amount equal to 5 % of the rates levied on all rateable property situated in local authority areas. In the current financial year rates received amounted to N\$ 9 754 530.

3. Fixed Assets

2015	Buildings	Motor Vehicles	Computers & Office Equipment	Furniture, Fixtures & Fittings	Total
	N\$	N\$	N\$	N\$	N\$
Cost as at 1 April 2014	66 507 151	4 201 819	2 426 834	2 628 402	75 764 206
Prior adjustments for 2013/2014				(27 654)	(27 654)
Additions	2 530 170	511 037	83 0047	148 891	4 020 145
Cost as at 31 March 2015	69 037 321	4 712 856	3 256 881	2 749 639	79 756 698
Depreciation as at 1 April 2014	7 188 482	4 001 309	2 311 842	2 282 762	15 784 395
Prior adjustments for 2013/2014			4 747	42 687	47 434
Charge for the year	1 336 671	209 027	160 394	144 166	1 850 258
Additional Depreciation - 2014/2015	927	-	-	-	927
Depreciation as at 31 March 2015	8 526 079	4 210 337	2 476 983	2 469 615	17 683 013
Net Book Value as at 31 March 2015	60 511 242	502 520	779 898	280 024	62 073 684

**REGIONAL COUNCIL OF KHOMAS REGION
NOTES TO THE FINANCIAL STATEMENTS (Continue)
FOR THE YEAR ENDED 31 MARCH**

3. Fixed Assets

2014	Infrastructure , Buildings N\$	Motor Vehicles N\$	Computers & Office Equipment N\$	Furniture , Fixtures & Fittings N\$	Total N\$
Cost as at 1 April 2013	66 408 067	4 567 196	2 369 390	3 018 851	76 363 504
Additions	345 555	-	78 039	33,291	456 885
Prior Adjustment for 2013/2014	(246 471)	(365 377)	(20 595)	(423 740)	(1 056 183)
Cost as at 31 March 2014	66 507 151	4 201 819	2 426 834	2 628 402	75 764 206
Depreciation as at 1 April 2013	6 995 433	3 942 180	1 703 463	2 308 939	14 950 014
Charge for the year	1 326 336	282 582	100 341	154 787	1 864 046
Prior Adjustment for 2013/2014	(1 133 287)	(223 453)	508 039	(180 964)	(1 029 665)
Depreciation as at 31 March 2014	7 188 482	4 001 309	2 311 842	2 282 762	15 784 395
Net Book Value as at 31 March 2014	59 318 669	200 510	114 992	345 641	59 979 812

**REGIONAL COUNCIL OF KHOMAS REGION
NOTES TO THE FINANCIAL STATEMENTS (Continue)
FOR THE YEAR ENDED 31 MARCH**

ANNEXURE D

4. Work in progress	2015	2014
	N\$	N\$
Katutura Central	1 706 485	1 706 484
Khomasdal Constituency	2 414 707	687 017
Groot Aub Settlement	13 555 240	9 662 912
Contribution to Rural Development	13 052	-
	17 689 485	12 056 413

5. Treasury Bills

	1 950 137	1 967 397
	1 950 137	1 967 397

Investments are initially carried at cost and thereafter at fair value/ guaranteed value with unrealised gains or losses accrued in the income statement. Fair Value is determined as net realizable value.

6. Accounts Receivable

City of Windhoek	2 713 632	2 044 380
VAT Receivable	12 283 969	9 591 433
Park foods Debtors	801 636	801 636
Embezzled Funds	320 179	320 179
Trade & Other Receivables	239 952	168 675
S & T Advances	123 029	159 276
Sundry Debtors	81 736	(391 876)
	16 564 133	12 693 703

**REGIONAL COUNCIL OF KHOMAS REGION
NOTES TO THE FINANCIAL STATEMENTS (Continue)
FOR THE YEAR ENDED 31 MARCH**

ANNEXURE D

7. Cash and Cash Equivalents	2015	2014
	N\$	N\$
HIV/AIDS CALL ACC 248907832(001)	2 471	2 398
STD BANK CALL ACC048798878(005)	68 441	468 100
STD BANK CALL ACC048798878(006)	522 766	394 888
STD BANK CURRENT ACC 041483952	4 218 407	252 296
STD BANK CALL ACC048798878(004)	8 522 199	12 029 139
STD BANK 32 DAY 008	495 721	474 184
Bank Windhoek Khomas Dev.Project	849 599	77 571
STD Directorate of Education	545 224	-
STD Bank MQE&CW	998 992	-
	16 223 819	13 698 576

Cash and Cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk in changes in value

8. Accumulated Funds

Balance, beginning of the year	100 339 135	92 687 284
Prior Year Adjustments :Net income 2013/2014)		
Prior Year Adjustments*(Closing Stock for 2011/2012)	352 113	(89 695)
Restated opening balance	<u>100 691 249</u>	<u>92 597 589</u>
Surplus for the year	14 009 523	7 741 546
Balance, end of the year	<u>114 700 771</u>	<u>100 339 135</u>

* Prior year adjustments relate to stale cheques written back and corrections of prior year fixed Asset Register balances.

REGIONAL COUNCIL OF KHOMAS REGION
NOTES TO THE FINANCIAL STATEMENTS (Continue)
FOR THE YEAR ENDED 31 MARCH

9. Accounts Payable	2015	2014
	N\$	N\$
Receiver of Revenue - PAYE	-	219 733
Pension	518	47 157
Union / Party Deductions	-	1
Housing Subsidies	3 758	4 332
Insurance	(840)	-
Garnishee / Third party loans	2 136	350
Sundry Creditors	46 339	-
Salary Advance	(5 753)	(6 871)
Medical Aid	700	700
Salary overpayment	2 272	-
S&T Advance	275	-
Other Creditors	27 987	-
Net Salary	(1 883)	-
	75 510	265 404
Creditors	(667)	(115 889)
TOTAL	74 843	149 515

10. Income

Council Operations	55 846 183	39 337 814
Government Transfers: MU&RD/OTHER OMAS	44 390 240	29 271 536
Rates Levy from Local Authorities	9 600 000	9 000 000
Rates iro Permission to Occupy (PTO)	282	4 211
Rental Income - Prestige Park	217 610	21 783
Rental Income - Community Hall and offices	157 485	432 267
Other Income	447 068	573 488
Electricity Sales	-	10 830
2.5% Commission from insurance	33 498	23 699
Delegated functions	529 000	1 509 608
Early Childhood Development	518 000	1 400 000
Income Generating Project		89 608
National Days	11 000	20 000
TOTAL INCOME	55 375 183	40 847 422

REGIONAL COUNCIL OF KHOMAS REGION
NOTES TO THE FINANCIAL STATEMENTS (Continue)
FOR THE YEAR ENDED 31 MARCH

	2015	2014
	N\$	N\$
11. EXPENDITURE		
Council Operations	41 411 616	32 824 326
Advertising	54 728	30 155
Internet/Electronic Bank Charges	216 017	202 543
Books, Magazines and Other Publications	161 972	-
Cleaning Material	3 094	17 352
Computer Expenses	18 791	36 128
Courier and Postages	4 848	9 698
Depreciation	1 851 185	1 864 046
Disasters & Emergencies	65 452	4 305
Electricity and Water	2 498 573	1 861 345
Entertainment Expenses	423 600	271 558
General Expenses	25 010	72 041
HIV/AIDS Activities	246 683	478 056
Insurance	172 784	122 531
Community Board & Fees	31 545	15 130
Constituency Development	72 564	25 262
Motor Vehicle Expenses	992 331	794 966
National Days	76 410	93 568
Printing & Stationery	112 237	220 215
Professional Fees	195 984	14 201
Protective Clothing	13 523	10 175
Rentals Paid	366 908	231 467
Repairs & Maintenance	381 157	415 981
Salaries & Wages	26 512 088	21 759 654
Security	666 913	609 925
Training Expenses	349 163	321 188
Subscriptions (ARC)	242 181	226 319
Telephone Expenses	801 820	741 691
Income Generating Activities	3 692 395	1 165 665
Contribution to Rural Development	254 454	291 936
Travel & Subsistence	907 203	917 228
Delegated functions	2 930 329	850 947
Early Childhood Development	589 280	832 264
Community Development	290 239	18 682
Grants to Basic Education	2 050 809	-
TOTAL EXPENDITURE	44 341 944	33 675 272
Interest Received from Investments	2 976 284	569 396
SURPLUS FOR THE YEAR	14 009 523	7 741 546