



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF KHORIXAS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

Published by authority

Price (Vat excluded) N\$ 27.83

Report no 5/2014

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 Town Council of Khorixas for the financial year ended 30 June 2014 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, February 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF KHORIXAS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013**

1. INTRODUCTION

The accounts of the Town Council of Khorixas for the year ended 30 June 2013 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 Town Council on behalf of the Auditor-General and under his supervision.

Figures in the report are rounded off to the nearest Namibian Dollar. Deficits are indicated in brackets.

2. FINANCIAL STATEMENTS

The Town 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 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 Town 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, 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 Property, plant and equipment

The fixed asset register can not be used for audit purposes, there is vehicles on the fixed assets register that were sold on public auctions – N722KH Isuzu KB30. There are vehicles that do not reflect on the fixed assets register – N626KH, Tata Tipper. Purchase dates for new additions not included on the fixed assets register.

4.2 Value Added Tax (VAT)

Included in trade and other receivables is an amount of N\$ 93 824 for VAT receivable. No reconciliation of this amount could be provided to the auditors to verify the accuracy, existence and valuation of the amount.

4.3 Funds - Build Together and Capital Reserve

No supporting documentations could be provided for the movement on these Funds. The existence, accuracy and completeness of these Funds could not be verified.

4.4 Trade and other receivables

There is a difference of N\$ 512 209 between the Debtors Age Analysis and the Debtors Ledger Accounts. According to the Council this is a system error on Finstel.

No detailed Debtors Age Analsis could be provided by the Council for audit purposes.

4.5 Trade and other payables

On Trade and other payables no documentation could be provided to the auditors for the following amounts:

Regional Council	N\$ 402 863
Inland Revenue	N\$ 364 574

Leave provisions was calculated on the incorrect leave days, therefore the leave provision is over stated.

4.6 Payroll

There is a difference of N\$ 618 606 between the salary register and the financial statements which can not be explained by the Council.

4.7 Income

There is no proper marked water reading cards available for audit purposes.

4.8 Inventories

Inventories are not recorded in the general ledger of the Town Council and consequently not reflected in the financial statements.

4.9 VAT returns

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

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Town Council of Khorixas 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 deficit on 01/07/2012				(18 940 110)
General accounts				
- Non-profitable services	1 926 683	9 946 514	(8 019 831)	
- Self-supporting services	8 710 405	1 337 535	7 372 870	
Trade accounts				
- Electricity	369 950	124 061	245 889	
- Water	12 301 073	10 297 131	2 003 942	
Surplus	23 308 111	21 705 241	1 602 870	1 602 870
Adjustments and utilisations (See note 9, Annexure D)				(17 337 240) 904 298
Accumulated deficit on 30/06/2013				(16 432 942)

7. CURRENT BANK ACCOUNT

	2013	2012
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	(303 512)	(481 620)
Outstanding cheques	860 898	950 477
Balance as per bank statement	557 386	468 857

8. INVESTMENTS

The investments as at 30 June were as follows:

Institution	2013 Investment	2012 Investment
	N\$	N\$
Commercial banks	200 156	1 810 415
Distribution		
Revenue	22 068	766 895
Housing Fund	79 001	-
General capital	99 087	1 043 520
	200 156	1 810 415

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:

	Water	
	2013	2012
	N\$	N\$
Sales	12 158 303	234 389
Cost of sales	(9 085 327)	-
Gross surplus	3 072 976	234 389
Other expenses	(1 069 034)	1 215 400
Net surplus	2 003 942	1 449 789
Gross surplus percentage on sales	25.3%	100.0%
Net surplus percentage on sales	16.5%	618.5%

10.2 Distribution results

No distribution results were available.

11. SELF-SUPPORTING SERVICES

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

Service	Income 2013	Expenses 2013	Surplus/ (deficit) 2013	Surplus/ (deficit) 2012
	N\$	N\$	N\$	N\$
Sewerage	2 201 983	173 479	2 028 504	1 338 450
Cleansing services	1 356 302	-	1 356 302	965 719
Public health	360 750	508 546	(147 796)	(271 441)
Town planning	2 254 893	619 836	1 635 057	(1 350 771)
Rates and taxes	2 536 477	35 674	2 500 803	1 918 024
	8 710 405	1 337 535	7 372 870	2 599 981

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 were not reconciled on a regular basis and suspense accounts amounting to N\$ 183 824 (debit balances) and N\$ 10 028 (credit balances) were not cleared at year-end.

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 2013	Total expenditure 2012
	Revenue account		
	N\$	N\$	N\$
Councils general expenses	3 280	3 280	-
Human resources and public relations	-	-	94 648
Public health	388 919	388 919	310 279
Streets	47 748	47 748	1 189 802
Town clerk	39 112	39 112	25 989
Town planning	181 855	181 855	2 938 957
Town treasurer	14 755	14 755	26 640
Water	-	-	500 559
Workshop	1 447 754	1 447 754	-
	2 123 423	2 123 423	5 086 874

16. STUDY LOANS/BURSARIES

No bursaries were granted during the year.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

There were no contributions from Government.

18. COMPENSATION PAYMENTS

No compensation payments were claimed from the Town Council during the year under review.

19. VISITS TO FOREIGN COUNTRIES

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

22. TRANSFER OF PROPERTY

No property were transferred to or from Government.

23. TRADE AND OTHER RECEIVABLES/TRADE AND OTHER PAYABLES

23.1 Trade and other receivables at 30 June were:

	2013	2012
	N\$	N\$
Consumers	13 682 120	22 786 823
VAT receivable	93 824	96 870
Suspense accounts	90 000	466 148
Provision for bad debts	13 865 944 (12 153 303)	23 349 841 (21 756 149)
Total	1 712 641	1 593 692

23.2 Trade and other payables at 30 June were:

	2013	2012
	N\$	N\$
Trade payables	16 656 230	14 037 559
Consumer and other deposits	38 180	39 468
Provisions	694 058	333 609
Direct deposits	374 602	1 289 984
Totals	17 763 070	15 700 620

24. ASSESSMENT RATES

	2013	2012
	N\$	N\$
The net proceeds from assessment rates were	2 536 477	2 027 207
Residential		
Tariffs per N\$1 valuation per month on site value	0.0738	0.0697
Tariffs per N\$1 valuation per month on improvement value	0.0278	0.0262
Business		
Tariffs per N\$1 valuation per month on site value	0.1056	0.0996
Tariffs per N\$1 valuation per month on improvement value	0.0693	0.0654

25. LOANS

25.1 External and internal loans

There were no external or internal loans.

25.2 Housing loans due to the Council

	2013	2012
	N\$	N\$
Interest rated between 9% and 12%	2 011 846	2 129 160

26. SALE OF ERVEN

The proceeds of erven and plots sold were N\$ 223 152 (2012: N\$ 80 268) and were allocated to the town planning vote.

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 fixed assets register is not correct as there are vehicles that do not reflect on the fixed assets register and there are vehicles on the fixed assets register that were sold in the previous year's on public auction.

30.2 Inventory

No stock count was performed at year end and consequently no stock balance is reflected in the balance sheet.

31. SPECIAL INVESTIGATIONS

There were no special investigations during the year under review.

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 Town 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 was discussed with the Town Council.

34. DISCLAIMED AUDIT OPINION

The accounts of the Khorixas Town Council for the financial year ended 30 June 2013, 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.

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

Property, plant and equipment

The fixed asset register cannot be used for audit purposes.

Value Added Tax (VAT)

Included in trade and other receivables is an amount of N\$ 93 824 for VAT receivable. No reconciliation of this amount could be provided to the auditors to verify the accuracy, existence and valuation of the amount.

Funds - Build Together and Capital Reserve

No supporting documentations could be provided for the movement on these Funds.

Trade and other receivables

There is a difference of N\$ 512 209 between the Debtors Age Analysis and the Debtors Ledger Accounts.

No detailed Debtors Age Analsis could be provided by the Council for audit purposes.

Trade and other payables

No documentation could be provided for the following amounts:

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Leave provisions was calculated on the incorrect leave days, therefore the leave provision is over stated.

Payroll

There is a difference of N\$ 618 606 between the salary register and the financial statements which can not be explained by the Council.

Income

There is no proper marked water reading cards available for audit purposes.

Inventories

Inventories are not recorded in the general ledger of Town Council and consequently not reflected in the financial statements.

VAT returns

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

WINDHOEK, February 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

TOWN COUNCIL OF KHORIXAS

BALANCE SHEET AS AT 30 JUNE

	Note	2013 N\$	2012 N\$
ASSETS			
Noncurrent assets		28 752 304	30 740 949
Property, plant and equipment	2	26 540 302	26 801 374
Advances to buyers		2 011 846	2 129 160
Investments	3	200 156	1 810 415
Current assets			
Trade and other receivables	4	1 712 641	1 593 692
TOTAL ASSETS		30 464 945	32 334 641
FUNDS AND LIABILITIES			
Funds and reserves		12 398 363	16 152 401
Capital outlay	6	26 540 302	26 801 374
Funds and accounts	7	(14 141 939)	(10 648 973)
Current liabilities		18 066 582	16 182 240
Trade and other payables	8	17 763 070	15 700 620
Bank overdraft	5	303 512	481 620
TOTAL FUNDS AND LIABILITIES		30 464 945	32 334 641

TOWN COUNCIL OF KHORIXAS

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2013	2012
		N\$	N\$
INCOME		23 308 111	11 300 194
EXPENDITURE		<u>21 705 241</u>	<u>15 579 506</u>
NET OPERATING DEFICIT		1 602 870	(4 279 312)
INTEREST ON INVESTMENTS		-	100 260
APPROPRIATION ACCOUNT	9	<u>904 298</u>	<u>41 922</u>
NET (DEFICIT)/SURPLUS AFTER APPROPRIATIONS		2 507 168	(4 137 130)
REVENUE ACCOUNT - Beginning of year		<u>(18 940 110)</u>	<u>(14 802 980)</u>
REVENUE ACCOUNT - End of year		<u>(16 432 942)</u>	<u>(18 940 110)</u>

TOWN COUNCIL OF KHORIXAS

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2013 N\$	2012 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		23 308 111	11 300 194
Cash paid to suppliers		(18 857 442)	(13 212 818)
Cash (utilised)/generated by operations	10	4 450 669	(1 912 624)
Investment income		-	100 260
(Decrease)/increase in Fund accounts		(6 000 134)	(3 592 385)
Increase in Capital outlay		(261 072)	2 869 842
Net cash flow from operating activities		(1 810 537)	(2 534 907)
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital expenditure		261 072	(2 869 842)
Decrease/(increase) in investments		1 610 259	4 910 364
Decrease in advances		117 314	114 495
		1 988 645	2 155 017
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		178 108	(379 890)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		(481 620)	(101 730)
CASH AND CASH EQUIVALENTS - END OF YEAR		(303 512)	(481 620)

TOWN COUNCIL OF KHORIXAS

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

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements set out in Annexures A to D 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 the 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 the Council:

1.7.1 Build Together Fund

The purpose of this Fund is to provide for housing loan assistance to low income earners in the society. The low income earners are expected to provide their house plans and are vetted for qualification before the funds are disbursed. This is a revolving Fund, the low income earners are expected to repay these loans on a monthly basis for a period of up to twenty years, at an interest rate of five percent per annum. Income for the Fund is derived from interest earned on secured housing loans and investments.

1.7.2 Fixed Property Fund

Proceeds from the sale of land, that has been developed by the Town Council, accumulate in this Fund. Costs incurred on the development of land are charged to this Fund.

TOWN COUNCIL OF KHORIXAS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE (continued)

	2013	2012
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Revenue	13 733 862	12 826 320
General capital	12 806 440	13 975 054
Total	26 540 302	26 801 374
3. INVESTMENTS		
INVESTMENTS		
Commercial banks	200 156	1 810 415
ALLOCATED AS FOLLOWS		
Capital Development Fund	22 068	766 895
Housing Fund	79 001	-
Buid Together Fund	99 087	1 043 520
	200 156	1 810 415
4. TRADE AND OTHER RECEIVABLES		
Consumers	13 682 120	22 786 823
VAT receivable	93 824	96 870
Suspence accounts	90 000	466 148
	13 865 944	23 349 841
Provision for bad debts	(12 153 303)	(21 756 149)
	1 712 641	1 593 692
5. BANK AND CASH		
Current account	(303 512)	(481 620)
	(303 512)	(481 620)
6. CAPITAL OUTLAY		
Revenue contributions	13 733 862	12 826 320
General capital contributions	12 806 440	13 975 054
	26 540 302	26 801 374

TOWN COUNCIL OF KHORIXAS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE (continued)

	2013	2012
	N\$	N\$
7. FUNDS, ACCOUNTS AND RESERVES		
Capital Development Fund	101 070	5 118 457
Housing Fund	79 001	-
Buid Together Fund	2 110 932	3 172 680
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(16 432 942)	(18 940 110)
	(14 141 939)	(10 648 973)
8. TRADE AND OTHER PAYABLES		
Trade payables	16 656 230	14 037 559
Consumer and other deposits	38 180	39 468
Provisions	694 058	333 609
Suspense accounts	374 602	1 289 984
	17 763 070	15 700 620
9. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Opening balance difference	-	811 874
Other adjustments	2 589 195	(569 275)
Prior year expenses	900 730	650 592
Provision for bad debts	(15 642 686)	(996 972)
Stale cheques reversed	434 293	145 703
Bad debts written off	12 622 766	-
	904 298	41 922
10. CASH (UTILISED)/GENERATED BY OPERATIONS		
Net operating surplus before interest and transfers	1 602 870	(4 279 312)
Adjustments for:		
- Adjustments to appropriation account	904 298	41 922
OPERATING DEFICIT BEFORE CHANGES IN WORKING CAPITAL	2 507 168	(4 237 390)
CHANGES IN WORKING CAPITAL		
Decrease in trade and other receivables	(118 949)	1 036 869
Increase/(decrease) in trade and other payables	2 062 450	1 287 897
	1 943 501	2 324 766
CASH (UTILISED)/GENERATED BY OPERATIONS	4 450 669	(1 912 624)