

REPUBLIC OF NAMIBIA

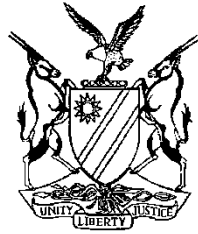


REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF KHORIXAS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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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 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, September 2015

**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 2014**

1 INTRODUCTION

The accounts of the Khorixas Town Council for the year ended 30 June 2014 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, (Act 23 of 1992).

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

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

2 FINANCIAL STATEMENTS

The 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, Annexure A, is a true reflection of the original.

The following annexures are also attached to this report:

Annexure A: Abridged balance sheet

Annexure B: Abridged income statement

Annexure C: Cash flow income

Annexure D: Notes to the financial statements

3 SCOPE OF THE AUDIT

Management's responsibility for the financial statements

The Accounting Officer of the 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 use 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 VAT

The Council provided VAT returns submitted for the period under review to the Receiver of Revenue. Auditors could not establish that all returns were submitted and some of returns were submitted late. The penalties and fines for late submissions are severe and could lead to financial losses.

4.2 Accounting system

Auditors recommend that all accounts be reconciled on a monthly basis. This will ensure that errors and omissions are corrected timeously. This will improve the cash flow of the Council dramatically and ensure that the accounting system is in a good state.

4.3 Fixed assets per financial statements

The fixed assets as disclosed in the financial statements are shown at the net carrying value only. This does not have any effect on the accounts in terms of the net equity of the Council, but is incorrect in terms of disclosure requirements. The figures in the abridged balance sheet per annexure "A" to the report were adjusted to include accumulated depreciation.

The fixed asset register does not properly describe the assets and does not show the acquisition date. The Council needs to reconcile the register on a monthly basis with the general ledger to ensure the safeguarding of assets and to reflect the true value of assets.

4.4 Cash and bank

The bank accounts are reconciled on a monthly basis but reconciling items are not followed up. This has an effect on the cash flow management of the Council.

4.5 Provision for bad debts

A considerable provision for bad debts has been raised. This is an indication that the Council needs to improve its debt collection system. This could rectify the tendency to operate at a loss and improve the cash flow.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

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

	Revenue	Expenditure	Surplus/ (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit at 01/07/2013				(16 432 942)
General services				
Non-profitable	-	(458 678)	(458 678)	
Self-supporting	18 313 786	(17 452 871)	860 915	
Trade accounts				
Abattoir	-	-	-	
Electricity services	1 020 545	(141 105)	879 440	
Water supply	7 724 044	(6 091 545)	1 632 499	
Deficit for the year	27 058 375	(24 144 199)	2 914 176	2 914 176
Adjustments and utilisations				5 070 573
Accumulated deficit at 30/06/2014				(8 448 193)

7. CURRENT BANK ACCOUNT

The cash book reflected a negative balance of N\$ 233 550 (2013: negative N\$ 303 512) while the bank statement reflected a favorable balance of N\$ 71 863. Cheques not presented for payment amounted to N\$ 720 113 and deposits not banked by the Council amounted to N\$ 414 700.

8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June 2014 there was N\$ 1 333 096 (2013: N\$ 200 156) invested at financial institutions and other institutions as follows:

	2014	2013
	N\$	N\$
Commercial banks	1 333 096	200 156
	1 333 096	200 156

The investments were allocated as follows:

	2014	2013
	Investment N\$	Interest N\$
Capital reserve fund	22 068	1 636
Build together fund	21 373	37 706
Housing fund	1 289 655	58 957
	1 333 096	98 299

9. FUND ACCOUNTS

The position of the fund accounts at the end of the year is shown in note 5 of annexure D.

10. TRADE ACCOUNTS

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

	2014	2013
	N\$	N\$
Sales	7 724 044	12 158 303
Cost of bulk purchases	4 427 959	9 085 327
Gross profit	3 296 085	3 072 976
Expenses (net)	(1 663 586)	(1 069 034)
Net surplus	1 632 499	2 003 942
Mark-up % on bulk purchases	43%	25%
Net profit % on bulk purchases	21%	16%

10.2 The results of water distribution losses were as follows:

	2014	2013
	N\$	N\$
Units sold	312 660	-
Units purchased	(399 240)	-
Gross loss	(86 580)	-
Gross loss % on bulk purchases	22%	0%

No figures were available for 2013.

11. SELF-SUPPORTING SERVICES

The net results of self-supporting services were as follows:

	2014	2013
	N\$	N\$
Council general expenses	937 541	-
Town Clerk's department	1 315 699	-
Human resources	1 602 198	-
Town treasurer's department	2 570 821	-
Workshop	4 101 086	-
Cemetery	(883 323)	-
Fire brigade	(32 220)	-
Town planning	(1 674 141)	1 635 057
Housing	278 433	-
Public Health	(439 114)	(147 796)
Street, sidewalks and storm water	(1 019 498)	-
Sewerage	(2 465 111)	2 028 504
Cleaning services	(1 510 328)	1 356 302
NATIS	(122 832)	-
Rates and taxes	(3 520 126)	2 500 803
	(860 915)	7 372 870

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorised or avoidable expenditure was revealed during the audit.

13. SUSPENSE ACCOUNTS

No money was accounted for in the suspense accounts during the year under review.

14. IRREGULARITIES AND LOSSES

No irregularities and losses were revealed by the audit for the year under review.

15. CAPITAL PROJECTS

The following expenditure was incurred during the year for capital projects or acquisitions:

	2014	2013
	N\$	N\$
Council general expenses	5 296	3 280
Public health	12 041	388 919
Streets	1 323 870	47 748
Town clerk	10 355	39 112
Town planning	520 426	181 855
Town Treasurer	7 635	14 755
Water supply	149 325	-
Cemetery	2 155 934	-
Workshop	2 142 996	1 447 754
Total	6 327 878	2 123 423

Expenditure was financed as follows:

	2014	2013
	N\$	N\$
Capital development fund	6 327 878	2 123 423
Total	6 327 878	2 123 423

16. BURSARIES

No bursaries were granted during the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

The following Government subsidies were received during the year:

	2014	2013
	N\$	N\$
Town planning	400 000	-
Streets	2 860 000	-
Cemetary	3 000 000	-
Workshop	135 350	-
Water reticulation	1 490 000	-
	7 885 350	-

18. COMPENSATION PAYMENTS

No compensation payments were made during the year under review.

19. VISITS TO FOREIGN COUNTRIES

No expenditure was incurred on visits to other countries during the year under review.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No material claims against the Local Authority were received during the year under review.

21. GIFTS / DONATIONS BY / TO THE LOCAL AUTHORITY

No amount was paid as donations for the year under review.

22. TRANSFER OF PROPERTY TO / FROM GOVERNMENT

No such transfers took place during the year.

23. DEBTORS AND CREDITORS

23.1 Debtors at 30 June were:

	2014	2013
	N\$	N\$
Consumers	14 850 060	13 682 120
Provision for bad debts	(13 120 089)	(12 153 303)
Suspense account	346 664	90 000
VAT Receivable	-	93 824
	2 076 635	1 712 641
Consumer deposits	38 180	38 180

23.2 Creditors at 30 June were:

	2014	2013
	N\$	N\$
Trade creditors	8 813 617	16 656 230
Suspense account	1 017 987	374 602
Provision for staff leave	660 930	694 058
	10 492 534	17 724 890

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 3 651 438 (2013: N\$ 2 536 477). Tariffs for private and business properties of between N\$ 0.0738 and N\$ 0.1056 per dollar per year on site valuations and N\$.0278 and N\$.0693 per dollar per year on valuation of improvements are in line with gazette rates.

25. SALE OF ERVEN

Cash proceeds of N\$ 633 026 (2013: N\$ 223 152) were received for erven sold and allocated to the Fixed Property Fund during the current financial year.

26. PROPERTY SOLD ON INSTALLMENT BASIS

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

27. TARIFF ADJUSTMENTS

Tariffs were charged as per Government gazette but no difference was made between residential and business even. All rates were charged on residential rates.

28. STOCK AND EQUIPMENT

28.1 Property, plant and equipment

Due to the format of the fixed asset register kept by the Council it is difficult to identify the different assets. The fixed asset register was not complete.

28.2 Inventory

According to the Council, stock comprising of stationery, consumables and parts amounted to N\$ 588 006 (2013: N\$ Nil). The auditors did not attend the stock take.

29. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year.

30. GENERAL

30.1 Internal controls

The accounting and internal controls are 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 reduces risks, the risk arises that management and Council override existing controls, a potential dangerous practice which the Council should vigilantly guard against.

31. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report. Informal queries were addressed to the Chief Executive Officer.

32. UNQUALIFIED AUDIT OPINION

The accounts of the Khorixas Town Council for the financial year ended 30 June 2011, 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.

Except for the matter referred to in the preceding paragraph, the annual financial statements, in my opinion present fairly, in all material respects the financial position of the Council as at 30 June 2014 and of its financial performance and its cash flows for the year then ended.

Matter of emphasis

Without qualifying the audit report, I draw attention to the income statement and balance sheet which reflects on the organisation's ability to operate as a going concern. The income statement shows a net loss of N\$ 8 448 193 (2013: N\$ 16 432 942) and the balance sheet indicates that the Council's current liabilities exceed the current assets by N\$ 8 099 575 (2012: N\$ 16 353 941). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Council's ability to continue as a going concern without the continued financing by the Council's bankers and support by Government, and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments to the classification or valuation of assets and liabilities that may be necessary if the council is not able to continue operating as a going concern.

WINDHOEK, September 2015

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

BALANCE SHEET AS AT 30 JUNE

	Note	2014 N\$	2013 N\$
ASSETS			
Non-current assets		38 365 600	28 752 304
Property, plant and equipment	2	29 884 346	26 540 302
Advances to buyers		7 148 158	2 011 846
Investments	3	1 333 096	200 156
Current assets		2 664 689	1 712 641
Inventory	4	588 006	-
Accounts receivable	5	2 076 635	1 712 641
Cash and cash equivalents	6	48	-
TOTAL ASSETS		41 030 289	30 464 945
EQUITY AND LIABILITIES			
Equity		30 266 025	12 398 363
Capital outlay	7	29 884 346	26 540 302
Funds and accounts	8	381 679	(14 141 939)
Current liabilities		10 764 264	18 066 582
Bank overdraft	6	233 550	303 512
Trade and other payables	9	10 530 714	17 763 070
TOTAL EQUITY AND LIABILITIES		41 030 289	30 464 945

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

INCOME STATEMENT	Note	2014 N\$	2013 N\$
Income		27 058 378	23 308 111
Expenditure		(24 144 202)	(21 705 241)
Net operating surplus/(deficit)		2 914 176	1 602 870
Investment income earned		-	-
Net (deficit)/surplus		2 914 176	1 602 870
Transfer to funds		-	-
Appropriation account	10	5 070 573	904 298
Accumulated loss		7 984 749	2 507 168
– beginning of the year		(16 432 942)	(18 940 110)
– adjustments for the year		-	-
End of the year		(8 448 193)	(16 432 942)

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2014 N\$	2013 N\$
CASH FLOW STATEMENT FROM OPERATING ACTIVITIES			
Cash receipts from customers		27 058 378	23 308 111
Cash paid to suppliers		(24 274 153)	(18 857 442)
Cash (Utilised)/generated by operations	11	2 784 225	4 450 669
Investment income		-	-
Movement in Fund accounts			
- (Decrease)/increase in Fund accounts		6 538 869	(6 000 134)
- Increase/(decrease) in capital outlay		3 344 044	(261 072)
Net cash inflow from operating activities		12 667 138	(1 810 537)
Investing activities			
Net capital expenditure		(6 327 876)	261 072
Decrease/(Increase) in investments		(1 132 940)	1 610 259
Decrease in advance		(5 136 312)	117 314
		(12 597 128)	1 988 645
Financing activities			
Net decrease in long-term liabilities		-	-
Net increase in cash and cash equivalents		70 010	178 108
Net cash and cash equivalents			
– at beginning of the year		(303 512)	(481 620)
– at the end of the year		(233 502)	(303 512)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR 30 JUNE

1. ACCOUNTING POLICIES**1.1 Introduction**

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

1.2 Property, plant and equipment

Fixed assets are stated at cost or at valuation where assets have been acquired by grant or donation, less depreciation written off over the expected useful lives as determined by the Council from time to time. Fixed assets 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.

1.3 Internal Funds**Revenue account**

The following funds were created by the Town Council:

1.3.1 Housing fund

The purpose of the fund is to provide for housing loans. Income for this fund is derived from interest earned on secured housing loans and investments as well as profits made on the resale of housing scheme houses. Interest paid on external housing loans is charged to the fund.

1.3.2 Capital Reserve fund

The purpose of this Fund is to build up a general capital reserve to ensure a stable financial position. Income for this fund is derived from general revenue contribution and interest earned on internal loans and investments.

1.3.3 Betterment fund

The purpose of this fund is to provide for future improvements of municipal assets. Part of the proceeds of the sale of land as well as interest earned on internal loans and investments are allocated to this fund.

1.3.4 Fixed property fund

Proceeds of sale of developed by the Municipality, interest earned on loans for the sale of land as well as interest earned on internal loans and investment accumulate in this fund, which is used to develop properties.

1.3.5 Renewal fund

Its purpose is to provide for replacement of assets and for additional depreciation on assets which abnormally decreased in value. Income for this account is derived from general revenue contribution as well as interest earned on investments.

1.4 Capital redemption on loans

Capital redemption on external and internal loans are charged against income. A similar amount is credited to the loan redemption fund for the duration of the loan. As and when the loan is fully redeemed, the loan redemption fund is transferred to the revenue contribution.

1.5 Inventories

Fuel inventory is valued at cost on the first-in-first-out basis.

KHORIXAS TOWN COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR 30 JUNE

	2014	2013
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Income assets	19 769 309	14 949 743
General capital assets	12 738 269	13 975 054
Less: Depreciation	(2 623 232)	(2 384 495)
	29 884 346	26 540 302
3. INVESTMENTS		
Commercial banks	1 333 096	200 156
Total investments at year end	1 333 096	200 156
ALLOCATED TO FUNDS		
Capital development fund	22 068	22 068
Housing fund	1 289 655	79 002
Build together fund	21 373	99 086
	1 333 096	200 156
4. INVENTORY		
Comprising of fuel and lubricants	588 006	-
5. TRADE AND OTHER RECEIVABLES		
Value added tax	-	93 824
Sundry debtors	346 664	90 000
Trade debtors	14 850 060	13 682 120
Less: Provision for doubtful debts	(13 120 089)	(12 153 303)
	2 076 635	1 712 641

6. **CASH AND BANK BALANCES**

Current bank account	(233 550)	(303 512)
Petty cash	48	-
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	(233 502)	(303 512)

7. **CAPITAL OUTLAY**

Revenue contributions	18 208 229	13 733 862
General Capital contributions	11 676 117	12 806 440
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	29 884 346	26 540 302

KHORIXAS TOWN COUNCIL

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE 30 JUNE

	2014	2013
	N\$	N\$
8. FUNDS AND ACCOUNTS		
Build together fund	40 887	2 110 932
Capital development fund	101 070	101 070
Housing fund	8 687 915	79 001
Revenue account kept in compliance with Section 86(1) of the Local Authority Act, 1992	(8 448 193)	(16 432 942)
	381 679	(14 141 939)
9. TRADE AND OTHER PAYABLES		
Trade creditors	8 813 617	16 656 230
Consumer and other deposits	38 180	38 180
Provisions	660 930	694 058
Suspense accounts	1 017 987	374 602
	10 530 714	17 763 070
10. ADJUSTMENT TO APPROPRIATION ACCOUNT		
Opening balance difference	-	-
Other adjustments	987 817	2 589 195
Prior year expenses	161 263	900 730
Provision for bad debts	1 342 168	(15 642 686)
Namwater account adjustment	(6 789 802)	-
Stale cheques reversed	(184 012)	434 293
Bad debts written off	-	12 622 766
Stock Adjustment	(588 007)	-
	(5 070 573)	904 298
11. CASH GENERATED BY OPERATING ACTIVITIES		
Net surplus /(deficit) for the year, per income statement	2 914 176	1 602 870
Adjustments for:		
- Depreciation	2 623 232	-

- Adjustment to appropriation account	5 070 573	904 298
- Assets written off	360 600	-
- Transfer to Funds	-	-
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Cash operating profit before working capital changes	10 968 581	2 507 168
Working capital changes		
- accounts payable	(7 232 356)	2 062 450
-accounts receivable	(363 994)	(118 949)
-inventory	(588 006)	-
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CASH (UTILIZED)/ GENERATED BY OPERATIONS	2 784 225	4 450 669
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