



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF KHORIXAS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

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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 2016, 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, December 2019

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

**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 2016**

1. ADVERSE AUDIT OPINION

I have audited the financial statements of the Town Council of Khorixas for the financial year ended 30 June 2016. These financial statements comprise the Balance Sheet, Income Statement, Statement of Cash Flow and Notes to Financial Statements for the year then ended, and a summary of significant accounting policies.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Audit Opinion paragraph, the financial statements do not present fairly, in all material respects, the financial position of the Town Council of Khorixas as at 30 June 2016 and its financial performance and its cash flows for the year then ended in accordance with Section 87(1) of the Local Authorities Act, 1992 (Act 23 of 1992).

2. BASIS FOR ADVERSE AUDIT OPINION

I conducted my audit in accordance with International Standards for Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the entity in accordance with the Code of Ethics for Supreme Audit Institutions together with the ethical requirements that are relevant to my audit of the financial statements in Namibia, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the Code of Ethics.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. An adverse audit opinion is being expressed due to the following:

- No acceptable financial reporting framework in place;
- Non-submission of supporting documents for additions to property, plant and equipment amounting to N\$ 10 242 135;
- A balance of N\$ 1 853 833 confirmed by Standard Bank in a business current account is not disclosed in the financial statements;
- Unreconciled difference of N\$ 1 636 022 between the bank balance confirmed by the Bank in a business account and the general ledger;
- Non-submission of an inventory valuation listing to support the inventory balance of N\$ 680 745;
- Difference of N\$ 1 255 214 between the revenue from water supply recorded and the recomputed amount based on the units utilised;
- Non-submission of a listing of the advances amounting to N\$ 3 766 655;
- VAT refunds amounting to N\$ 1 111 318 received from the Receiver of Revenue that were incorrectly accounted for as revenue;
- Non-submission of supporting documents amounting to N\$ 22 631 099 for revenue from cleaning services, sales of erven and assessment rates;
- Difference of N\$ 5 494 585 between the government subsidies recorded in the general ledger and the amount confirmed by the Roads Authority and the Ministry of Urban and Rural Development;

- Non-Submission of the accruals and creditors listing and supporting documents in order to substantiate the balance of N\$ 1 579 414 disclosed in the annual financial statements;
- Difference of N\$ 2 503 952 between the water expenses recorded by the Town Council in the books of accounts and the total amount as per the actual invoices received from the Namibia Water Corporation;
- Difference of N\$ 944 620 between the VAT balance per the VAT reconciliation and the VAT balance as per the general ledger;
- Non-submission of supporting documentation of journals amounting to N\$ 3 867 751 processed on the appropriation account;
- Difference of N\$ 3 521 586 between the revenue declared on the VAT returns and the actual revenue recorded in the book of accounts; and
- Non-submission of the minutes of Council meetings held during the year under review.

3. KEY AUDIT MATTERS

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. I have nothing to report.

4. OTHER INFORMATION

Management is responsible for the other information. The auditor's opinion on the financial statements does not cover the other information and, accordingly, the auditor does not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. I have nothing to report.

5. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Section 87(1) of the Local Authorities Act 1992, (Act 23 of 1992), and for such internal control as management determines it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the entity's financial reporting process.

6. AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs), will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

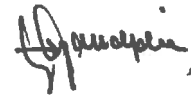
As part of an audit in accordance with the International Standards for Supreme Audit Institutions, I exercise professional scepticism throughout the audit, I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion;
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;
- Obtain an understanding of internal control relevant to the audit 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;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence, obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the entity to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit;
- Provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards;

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my report unless law or regulation precludes public disclosure about the matter or, when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

7. ACKNOWLEDGEMENT

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



JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

WINDHOEK, December 2019

KHORIXAS TOWN COUNCIL
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE

ANNEXURE A

	Note	2016 N\$	2015 N\$
Assets			
Non-current assets			
Property plant and equipment	2	38 289 395	31 291 287
Advances to buyers		3 766 655	5 773 056
Investments	3	2 097 715	7 123 501
Current assets			
Inventory		680 745	588 006
Accounts receivable	4	1 011 780	1 542 487
Cash and cash equivalents		48	221 132
Total assets		45 846 338	46 539 469
Funds and liabilities			
Funds and reserves			
Capital outlay	5	38 289 395	31 291 287
Funds and accounts	6	(9 291 778)	5 498 181
Current liabilities			
Bank overdraft		1 073 372	-
Trade and other payables	7	15 775 348	9 750 001
Total funds and liabilities		45 846 337	46 539 469

**KHORIXAS TOWN COUNCIL
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE**

	Note	<u>2016</u>	<u>2015</u>
		N\$	N\$
Income		25 417 262	27 308 472
Expenditure		(35 671 925)	(26 099 083)
Net operating (deficit)/surplus		(10 254 663)	1 209 389

KHORIXAS TOWN COUNCIL
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

ANNEXURE C

	Note	2016 N\$	2015 N\$
Cash flow from operating activities			
Cash utilised by operations	9	(4 291 366)	1 642 112
Cash flow from investing activities			
Net capital expenditure		(10 365 842)	(3 950 006)
Increase/(decrease) in investments		5 025 786	(5 790 405)
Increase/(decrease) in advance		2 006 401	1 375 102
Net cash flow from investing activities		(3 333 655)	(8 365 309)
Cash flow from financing activities			
Increase/(decrease) in Fund accounts		(667 544)	5 770 890
Increase/ (decrease) in Capital outlay		6 998 108	1 406 941
Net cash flow from operating activities		6 330 564	7 177 831
Net Increase/(Decrease) In Cash and Cash Equivalents		(1 294 457)	454 634
Cash and Cash Equivalents – Beginning of Year		221 132	(233 502)
Cash and Cash Equivalents – End of Year		(1 073 325)	221 132

**KHORIXAS TOWN COUNCIL
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 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

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.

KHORIXAS TOWN COUNCIL **ANNEXURE D**
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE (Continued)

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.

	2016 N\$	2015 N\$
2. Property plant and equipment	38 289 395	31 291 287
Income assets	30 937 914	22 132 418
General capital assets	10 685 234	11 676 118
Less: Depreciation	(3 333 753)	(2 517 249)
3. Investments	2 097 715	7 123 501
Capital development fund	127 759	3 734 418
Housing fund	1 927 910	3 347 036
Build together fund	42 046	42 047
4. Trade and other receivables	1 011 780	1 542 487
Value added tax	-	69 851
Trade debtors	20 628 849	17 010 966
Less: Provision for doubtful debts	(19 617 069)	(15 538 330)

ANNEXURE D

KHORIXAS TOWN COUNCIL
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE (Continued)

	2016	2015
	N\$	N\$
5. Capital outlay	38 289 395	31 291 287
Revenue contributions	28 470 863	20 606 053
General capital contributions	9 818 532	10 685 234
6. Funds accounts and reserves	(9 291 778)	5 498 181
Build together fund	127 285	42 046
Capital development fund	3 813 420	3 813 420
Housing fund	9 992 513	10 745 296
Revenue account.	(23 224 996)	(9 102 581)
7. Trade and other payables	15 775 348	9 750 001
Trade creditors	14 877 430	8 765 036
Consumer and other deposits	38 180	38 180
Provisions	771 965	946 785
Suspense accounts	87 773	-
8. Adjustments to appropriation account	3 867 751	1 863 777
Other adjustments	(1 079 021)	(609 654)
Prior year transactions	(94 427)	(9 000)
Provision for bad debts	5 137 338	2 513 833
Bad debts written off	60 964	-
Stale cheques reversed	(157 103)	(31 402)
9. Cash utilised by operations	(4 291 366)	1 642 112
Net surplus /(deficit) for the year, per income statement	(10 254 663)	1 209 389
Adjustments for:		
Depreciation	3 333 753	2 517 249
Adjustment to appropriation account	(3 867 751)	(1 863 777)
Assets written off	33 980	25 816
Cash operating profit before working capital changes	(10 754 681)	1 888 677
Working capital changes		
Changes in accounts payable	6 025 347	(780 713)
Changes in accounts receivable	530 707	534 148
Changes in inventory	(92 739)	-