



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF HENTIES BAY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013**

Published by authority

Price (Vat excluded) N\$ 28.78
Report no 44/2014

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 Municipality of Henties Bay for the financial year ended 30 June 2013, 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, June 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR - GENERAL
ON THE ACCOUNT OF THE MUNICIPALITY OF HENTIES BAY
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2013**

1. INTRODUCTION

The accounts of the Municipality of Henties Bay 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 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 Municipality 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 Municipality'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 B: Abridged income statement

Annexure C: Cash flow statements

Annexure D: Notes to the financial statements

3. SCOPE OF THE AUDIT

Management's responsibility for the financial statements.

The Accounting Officer of the Municipality 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

A major part of the VAT outstanding reported on in the previous year was recovered, the Receiver of Revenue still withhold VAT refunds against penalties charged in the past. This should be taken up with the receiver to clear the matter as the outstanding amount reflects negatively on the cash flow of the Municipality.

4.2 Erongo Red

The income derived from this source in the form of surcharges represents approximately a 12% return on investment. The exact nature of the investment and the extend of the shareholding in Erongo Red could not be established from the records available.

4.3 Fixed assets

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 Municipality 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.

4.4 Waterfront company – Investment

This investment was written off during the previous year and Municipality is still awaiting Government's approval to continue with the project after a proper investigation was done on the proposal. Government's approval should be followed up as a matter of urgency.

4.5 Provision for bad debts

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

5. ACKNOWLEDGEMENT

The assistance and co-operation given by the management and staff of the Municipality 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 01/07/2012				(14 106 482)
General services				
Non-profitable	10 500 068	(19 238 383)	(8 738 315)	
Self-supporting	2 705 038	(2 141 688)	563 350	
Trade accounts				
Electricity services	3 416 205	(811 477)	2 604 728	
Water supply	6 380 011	(4 065 467)	2 314 544	
	23 001 322	(26 257 015)	(3 255 693)	
Deficit for the year				(3 255 693)
Adjustments and utilisations (See note 8, Annexure D)				(1 956 839)
Accumulated deficit at 30/06/2013				(19 319 014)

7. CURRENT BANK ACCOUNT

The cash-book reflected a favourable balance of N\$ 832 351 (2012: favourable N\$ 569 146) while the bank statement reflected a favourable balance of N\$ 5 193 650. Cheques not presented for payment amounted to N\$ 4 446 815.

8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June 2013 there was N\$ 40 118 670 (2012: N\$ 33 947 916) invested at financial institutions and other institutions as follows:

	2013	2012
	N\$	N\$
Commercial banks	12 103 126	10 816 754
Nampost	7 578 873	2 781 007
	19 681 999	13 597 761
Investment - Erongo Red	20 073 828	20 073 828
Listed shares	362 843	276 326
	40 118 670	33 947 916

The investments and interest earned were allocated as follows:

	2013		2012	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Fixed Property Fund	7 954 289	435 257	3 069 907	223 346
Jetty Fund	402 908	18 099	384 809	18 631
Reserve Fund	-	316	-	343
Sewerage Fund	3 991 658	201 096	4 237 306	211 780
Build Together Fund	4 550 629	293 330	5 538 157	366 586
Social Housing Fund	2 563 214	1 714	-	-
Low Cost Housing Fund	582 143	25 678	643 909	29 398
	20 044 842	975 490	13 874 088	850 085

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:

	2013	2012
	N\$	N\$
Sales	6 380 011	6 514 606
Cost of bulk purchases	3 463 991	3 480 839
Gross profit	2 916 020	3 033 767
Expenses (net)	(601 475)	(677 012)
Net surplus	2 314 545	2 356 755
Mark-up % on bulk purchases	84%	87%
Net profit % on bulk purchases	67%	68%

10.2 The results of water distribution losses were as follows:

	2013	2012
	N\$	N\$
Units sold	331 962	371 451
Units purchased	(512 866)	(515 033)
Gross loss	(180 904)	(143 582)
Gross loss % on bulk purchases	35%	28%

11. SELF-SUPPORTING SERVICES

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

	2013	2012
	N\$	N\$
Tourism (deficit)	(358 491)	(321 464)
Health and cleaning services	921 440	1 053 717
	562 949	732 253

Municipality should put measures in place in order to make Tourism to be self-supporting.

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 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.

	2013	2012
	N\$	N\$
Infrastructure	2 663 955	3 516 903
Plant & equipment	2 117 801	-
Office equipment	605 193	57 160
Motor vehicles	-	708 228
Total	5 386 949	4 282 291

Expenditure was financed as follows:

	2013	2012
	N\$	N\$
Capital account	-	3 574 063
Loans	-	708 228
Income	5 386 949	-
Total	5 386 949	4 282 291

16. BURSARIES

No bursaries were granted during the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

An amount of N\$ 175 016 was received from the Government as a subsidy for street maintenance.

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:

	2013	2012
	N\$	N\$
Consumers	9 823 133	8 062 966
Provision for bad debts	(7 399 540)	(5 884 145)
	2 423 593	2 178 821
Surcharges - Erongo Red	591 431	394 287
	3 015 024	2 573 108

23.2 Creditors at 30 June were:

	2013	2012
	N\$	N\$
Trade creditors	2 190	2 850
Accruals	206 581	-
Sundry creditors	7 883	10 921
Consumer deposits	982 352	559 660
Provision for audit fees	82 793	82 793
Provision for staff leave	992 618	328 495
	2 274 416	984 719

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 8 556 633 (2012: N\$ 6 697 393). Tariffs for private and business properties of between N\$ 0.0143 and N\$ 0.0192 per dollar per year on site valuations and N\$ 0.00892 per dollar per year on valuation of improvements are in line with gazette rates.

25. SALE OF ERVEN

Cash proceeds of N\$ 12 924 077 (2012: N\$ 2 983 232) were received for erven sold and allocated to the Fixed Property Fund during the current financial year.

26. PROPERTY SOLD ON INSTALMENT BASIS

Due to the non-disclosure of property sold on an instalment basis in the financial statements as prepared by the Municipality, the auditors could not determine the value of these properties nor the revenue received.

27. TARIFF ADJUSTMENTS

All tariff adjustments were in accordance with the relevant Official Government notice.

28. STOCK AND EQUIPMENT

28.1 Motor vehicles

Due to the format of the fixed asset register kept by the Municipality it is difficult to identify the motor vehicles.

28.2 Inventory

According to the Municipality, stock comprising of stationery and consumables amounted to N\$ 624 188 (2012: N\$ 578 092).

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. AUDIT OPINION

The accounts of the Municipality of Henties Bay for the financial year ended 30 June 2013, summarised 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 annual financial statements, in my opinion present fairly, in all material respects the financial position of the Municipality as at 30 June 2013 and of its financial performance and its cash flows for the year then ended.

HENTIES BAY MUNICIPALITY

BALANCE SHEET FOR THE YEAR ENDED 30 JUNE

	Notes	2013 N\$	2012 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	109 747 456	102 236 270
Property loans	9	56 828 304	56 838 704
Work in progress		11 514 927	9 350 445
Investments	3	1 285 555	2 099 206
		40 118 670	33 947 916
Current assets			
Inventory		9 886 928	10 701 975
Accounts receivable	4	624 188	578 092
VAT claims		3 015 024	2 573 108
Cash and cash equivalents		5 413 324	6 979 589
		834 392	571 186
Total assets		119 634 384	112 938 245
EQUITY AND LIABILITIES			
Equity			
Funds	5	116 812 653	111 283 373
Accumulated loss		136 131 667	125 389 856
		(19 319 014)	(14 106 482)
Non-current liabilities			
Finance agreements	6	547 314	670 153
Current liabilities			
Trade and other payables	7	2 274 416	984 719
Total equity and liabilities		119 634 384	112 938 245

HENTIES BAY MUNICIPALITY

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	2013	2012
	N\$	N\$
Income	23 001 322	21 122 050
Expenditure	(26 257 015)	(21 837 354)
Net operating profit /(loss)	<u>(3 255 692)</u>	<u>(715 304)</u>
Accumulated loss		
– Beginning of the year	(14 106 482)	(9 816 384)
– Adjustments for the year	<u>(1 956 839)</u>	<u>(3 574 795)</u>
End of the year	<u>(19 319 014)</u>	<u>(14 106 482)</u>

HENTIES BAY MUNICIPALITY

CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE

	Note	2013	2012
		N\$	N\$
Operating activities			
Interest received	8	1 577 277	3 161 395
		975 490	850 085
		<u>2 552 767</u>	<u>4 011 480</u>
Capital and funds accounts		10 741 811	(533 431)
Net cash inflow from operating activities		<u>13 294 578</u>	<u>3 478 049</u>
Investing activities			
Property, plant and equipment purchased		(4 573 298)	(6 381 497)
Decrease/(Increase) in property loans		(2 164 482)	(1 807 408)
Increase in investments		(6 170 754)	4 739 921
		<u>(12 908 533)</u>	<u>(3 448 984)</u>
Financing activities			
Net decrease in finance agreements		(122 839)	381 895
Net increase in cash and cash equivalents		263 206	410 959
Net cash and cash equivalents:			
– At beginning of the year		571 186	160 227
– At the end of the year		<u>834 392</u>	<u>571 186</u>

HENTIES BAY MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE

1. ACCOUNTING POLICIES

The annual financial statements are compiled in accordance with the historical convention modified by the restatement of the financial instruments to fair value, except where otherwise stated.

The principal accounting policies of the Town Council, which are set out below, have been consistent and comply with Namibian Statements of Generally Accepted Accounting Practices. The financial statements have been prepared in accordance with the requirements of the Namibian Local Authorities Act.

1.1 Fixed assets and depreciation

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.

1.2 Inventories

Inventories are measured at lower of cost and net realizable value. The cost of inventories comprise all cost of purchases, cost of conversion and other cost incurred in bringing the inventories to their present location and condition.

1.3 Funds**Revenue account**

All monies received by and accrued to and expenses paid, except for allocation to other funds, are reflected in this account, and are kept in compliance with section 86(1)(b) of the Local Authorities Act of 1992.

Reserve Fund

The purpose of this Fund is to provide for replacement of moveable assets.

Capital Development Fund

The purpose of this Fund is to finance electrical reticulation network projects. Revenue is derived from interest on investments, internal loans and contributions from revenue.

Betterment Fund

The purpose of this Fund is to provide for future improvements of Council assets.

Fixed Property Fund

Proceeds of sale of development property accumulate in this Fund, which is used to develop properties.

Jetty Fund

The purpose of this Fund is to create a jetty at the river mouth. Income consists of contributions made by the public.

Low Cost Housing Fund

The purpose of the Fund is to provide for housing loans to lower income groups of people. Revenue is derived from the sale of houses and instalments received.

HENTIES BAY MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE

ACCOUNTING POLICIES (continued)

Mayoral Relief Fund

The purpose of this Fund is to provide funding to enable the mayor to make donations/contributions towards various events. Income is derived from the revenue accounts and donations from the public.

Sewerage Fund

The purpose of this Fund is to create a sewerage system. Income is derived from the monthly basic charges on sewerage.

	<u>2013</u>	<u>2012</u>
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment, at cost	75 536 647	70 149 698
Less: Depreciation	<u>(18 708 343)</u>	<u>(13 310 994)</u>
	<u>56 828 304</u>	<u>56 838 704</u>
3. INVESTMENTS		
Erongo Red		
– unlisted shares, at cost	549 997	549 997
– assets made over	19 523 831	19 523 831
Shares		
– listed, at market price	362 843	276 326
Fixed deposits and money on call	<u>19 681 999</u>	<u>13 597 761</u>
Total investments at year-end	<u>40 118 670</u>	<u>33 947 916</u>
4. TRADE AND OTHER RECEIVABLES		
Consumers	9 823 133	8 062 966
Less: Provision for doubtful debts	<u>(7 399 540)</u>	<u>(5 884 145)</u>
	2 423 593	2 178 821
Subsidies	-	-
Surcharge Erongo Red	<u>591 431</u>	<u>394 287</u>
	<u>3 015 024</u>	<u>2 573 108</u>

HENTIES BAY MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE

	2013	2012
	N\$	N\$
5. FUNDS AND ACCOUNTS		
5.1 Internal Funds	79 850 677	69 221 305
Build Together Fund	16 004 405	15 177 387
Betterment Fund	46 372	46 372
Capital Development Fund	4 699 003	4 263 746
Fixed Property Fund	42 760 504	35 580 832
Jetty Fund	463 011	444 912
Low Cost Housing Fund	3 371 139	3 377 266
Mayoral Relief Fund	11 570	11 570
Reserve Fund	43 880	43 880
Social Housing Fund	2 563 214	-
Sewerage Fund	9 887 578	10 275 339
5.2 Capital Funds	56 280 990	56 168 551
Loans redeemed	160 913	38 075
Contributions from general capital	32 807 388	36 323 233
Contributions from revenue	23 312 688	19 807 243
	136 131 667	125 389 856
6. LONG-TERM LIABILITIES		
External loans		
Suspensive sale agreements	547 314	670 153
7. TRADE AND OTHER PAYABLES		
Trade creditors	2 190	2 850
Accruals	206 581	-
Sundry creditors	7 883	10 920.64
Consumer deposits	982 352	559 660
Provision for audit fees	82 793	82 793
Provision for leave	992 618	328 495
	2 274 416	984 719

HENTIES BAY MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE

	2013	2012
	N\$	N\$
8. CASH GENERATED BY OPERATING ACTIVITIES		
Net surplus /(deficit) for the year, per income statement	(3 255 692)	(715 304)
Adjustments for non-cash and other items:		
– Depreciation	5 397 349	5 275 384
– Capital redemption on finance agreements	-	1 432 583
– Interest received	(975 490)	(850 085)
	<u>1 166 166</u>	<u>5 142 578</u>
Adjustments on appropriation account		
– Receipts	232 398	18 507
– Payments	(2 189 237)	(3 593 302)
Cash operating profit before working capital changes	<u>(790 673)</u>	<u>1 567 784</u>
Working capital changes		
– Accounts payable	1 289 698	11 911
– Accounts receivable	(441 916)	733 639
– Inventory	(46 096)	(408 819)
– VAT claims	1 566 265	1 256 881
	<u>1 577 277</u>	<u>3 161 395</u>
9. PROPERTY LOANS		
Fixed Property Fund	413 607	373 935
Low Cost Housing Fund	1 314 208	1 368 255
Build Together Fund	9 787 112	7 608 255
	<u>11 514 927</u>	<u>9 350 445</u>