



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF HENTIES BAY
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 Municipality of Henties Bay 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, July 2015

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR - GENERAL
ON THE ACCOUNTS OF THE MUNICIPALITY OF HENTIES BAY
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2014**

1. INTRODUCTION

The accounts of the Municipality of Henties Bay 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 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 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 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 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. AUDIT OBSERVATIONS AND COMMENTS

4.1 VAT

Although 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 department to clear the matter as the outstanding amount reflects negatively on the cash flow of the Council.

4.2 Erongo RED

The income derived from this source in the form of surcharges represents approximately a 13,2 % 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 per Financial statements

The fixed assets as disclosed in the financial statements are shown at the net carrying value. 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

The investment was written down during previous financial years, the Municipality is still awaiting Government's approval to continue with the project after a proper investigation is done on the proposal. As this is now overdue the 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.

4.6 Fixed assets register

A fixed assets register was available but the descriptions of some assets, especially the motor vehicles, do not match the actual appearance of the vehicles, making it difficult to identify the assets in the register.

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 01/07/2013				(19 319 014)
General services				
Non-profitable	12 676 071	(22 373 497)	(9 697 426)	
Self-supporting	3 343 570	(1 511 791)	1 831 779	
Trade accounts				
Electricity services	2 365 724	(741 122)	1 624 602	
Water supply	7 705 146	(4 132 273)	3 572 873	
	26 090 511	(28 758 683)	(2 668 172)	
Deficit for the year				(2 668 172)
Adjustments and utilisations (See Note 11, Annexure D)				(5 003 489)
Accumulated deficit at 30-06-2014				(26 990 675)

7. CURRENT BANK ACCOUNT

The cash-book reflected a negative balance of N\$ 841 127 (2013: favourable N\$ 832 351) while the bank statement reflected a favourable balance of N\$ 844 295. Cheques not presented for payment amounted to N\$ 1 490 935.

8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June 2014 there was N\$ 20 784 291 (2013: N\$ 40 118 670) invested at financial institutions and other institutions as follows:

	2014	2013
	N\$	N\$
Commercial banks	2 183 053	12 103 126
Nampost	257 339	7 578 873
	2 440 392	19 681 999
Investment - Erongo RED	17 907 356	20 073 828
Listed shares	436 543	362 843
	20 784 291	40 118 670

The investments and interest earned were allocated as follows:

	2014		2013	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Fixed Property Fund	706 455	23 204	7 954 289	435 257
Jetty Fund	119 098	16 190	402 908	18 099
Reserve Fund	-	-	-	316
Sewerage Fund	465 032	117 702	3 991 658	201 096
Build Together Fund	1 330 344	566 470	4 550 629	293 330
Social Housing Fund	56 032	38 452	2 563 214	1 714
Low Cost Housing Fund	169 413	87 214	582 143	25 678
TIPEEG	30 561	74 020	-	-
	2 876 935	923 252	20 044 841	975 490

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	7 705 146	6 380 011
Cost of bulk purchases	3 445 660	3 463 991
Gross profit	4 259 486	2 916 020
Expenses (net)	(686 613)	(601 475)
Net surplus	3 572 873	2 314 545
Mark-up % on bulk purchases	124%	84%
Net profit % on bulk purchases	104%	67%

10.2 The results of water distribution losses were as follows:

	2014	2013
	N\$	N\$
Units sold	367 626	331 962
Units purchased	(518 513)	(476 163)
Gross loss	(150 887)	(144 201)
Gross loss % on bulk purchases	29%	28%

11. SELF-SUPPORTING SERVICES

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

	2014	2013
	N\$	N\$
Tourism (deficit)	(567 181)	(358 491)
Health and cleaning services	1 831 779	921 440
	1 264 598	562 949

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.

	2014	2013
	N\$	N\$
Infrastructure	4 578 214	2 663 955
Plant & equipment	63 679	2 117 801
Office equipment	78 390	605 193
Motor vehicles	3 290 754	-
Total	8 011 037	5 386 949

Expenditure was financed as follows:

	2014	2013
	N\$	N\$
Capital account	7 783 296	-
Loans	-	-
Income	227 740	5 386 949
Total	8 011 036	4 282 291

16. BURSARIES

Bursaries to the value of N\$ 247 599 were awarded during the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

An amount of N\$ 344 000 was received from the Road Fund Administration 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:

	2014	2013
	N\$	N\$
Consumers	14 714 809	9 823 133
Provision for bad debts	(9 978 290)	(7 399 540)
	4 736 519	2 423 593
Sundry debtors	236 460	-
Surcharges - Erongo Red	197 143	591 431
	5 170 122	3 015 024

23.2 Creditors at 30 June were:

	2014	2013
	N\$	N\$
Trade creditors	71 313	2 190
Accruals	95 062	206 581
Sundry creditors	788	7 883
Consumer deposits	1 065 989	982 352
Retention	75 675	-
Provision for audit fees	82 793	82 793
Provision for staff leave	992 618	992 618
	2 384 238	2 274 417

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 9 773 503 (2013: N\$ 8 556 633). Tariffs for private and business properties of between N\$.0252 and N\$.0336 per dollar per year on site valuations and N\$.0158 per dollar per year on valuation of improvements are in line with gazette rates.

25. SALE OF ERVEN

Cash proceeds of N\$ 3 811 396 (2013:N\$ 12 924 077) were received for erven sold and allocated to the Fixed Property Fund during the current financial year.

26. PROPERTY SOLD ON INSTALLMENT BASIS

Due to the non-disclosure of property sold on 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\$ 429 032 (2013: N\$ 624 188).

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. QUALIFIED AUDIT OPINION

The accounts of the Municipality of Henties Bay for the financial year ended 30 June 2014, 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.

A qualified audit opinion is being expressed due to following:

VAT

Reviewer of revenue withhold refunds against penealties charged in the past.

Erongo RED

The Share holding in Erongo Red could be established from the records available

Fixed Assets

Assets disclosed are shown at the nett carrying value and included accumulated depreciation

Fixed Asset Register

The description of vehicles do not match the actual appearance

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.

WINDHOEK, July 2015

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

MUNICIPALITY OF HENTIES BAY

BALANCE SHEET AS AT 30 JUNE

	Note	2014 N\$	2013 N\$
ASSETS			
Non-current assets		92 525 595	109 747 456
Property, plant and equipment	2	59 209 764	56 828 304
Property loans	9	11 484 007	11 514 927
Work in progress		1 047 533	1 285 555
Investments	3	20 784 291	40 118 670
Current assets		10 700 727	9 886 928
Inventory		429 032	624 188
Accounts receivable	4	5 170 123	3 015 024
VAT claims		5 099 532	5 413 324
Cash and cash equivalents		2 040	834 392
Total assets		103 226 322	119 634 384
EQUITY AND LIABILITIES			
Equity		99 585 039	116 812 653
Funds	5	126 575 714	136 131 667
Accumulated loss		(26 990 675)	(19 319 014)
Non-current liabilities			
Finance agreements	6	412 369	547 314
Current liabilities			
Bank overdraft		844 677	-
Trade and other payables	7	2 384 237	2 274 416
Total equity and liabilities		103 226 322	119 634 384

MUNICIPALITY OF HENTIES BAY

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	2014	2013
	N\$	N\$
Income	26 090 511	23 001 322
Expenditure	(28 758 683)	(26 257 014)
Net operating profit /(loss)	(2 668 172)	(3 255 692)
Accumulated loss		
– Beginning of the year	(19 319 014)	(14 106 482)
– Adjustments for the year	(5 003 489)	(1 956 840)
End of the year	(26 990 675)	(19 319 014)

MUNICIPALITY OF HENTIES BAY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2014 N\$	2013 N\$
Operating activities			
Interest received	8	(4 553 905)	1 577 277
		975 490	975 490
		<u>(3 578 415)</u>	<u>2 552 767</u>
Capital and funds accounts		<u>(9 555 953)</u>	10 741 811
Net cash inflow from operating activities		<u>(13 134 368)</u>	13 294 578
Investing activities			
Property, plant and equipment purchased		(7 773 014)	(4 573 298)
Decrease/(Increase) in property loans		30 920	(2 164 482)
Increase in investments		19 334 380	(6 170 754)
		<u>11 592 286</u>	<u>(12 908 534)</u>
Financing activities			
Net decrease in finance agreements		<u>(134 945)</u>	(122 839)
Net increase in cash and cash equivalents		(1 677 027)	263 205
Net cash and cash equivalents			
– at beginning of the year		834 391	571 186
– at the end of the year		<u>(842 636)</u>	<u>834 391</u>

MUNICIPALITY OF HENTIES BAY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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 installments received.

MUNICIPALITY OF HENTIES BAY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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.

	2014	2013
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment, at cost	83 547 683	75 536 647
Less: Depreciation	(24 337 919)	(18 708 343)
	59 209 764	56 828 304
3. INVESTMENTS		
Erongo Red		
– Unlisted shares, at cost	549 997	549 997
– Assets made over	17 357 359	19 523 831
Shares		
– Listed, at market price	436 543	362 843
Fixed deposits and money on call	2 440 392	19 681 999
Total investments at year-end	20 784 291	40 118 670
4. TRADE AND OTHER RECEIVABLES		
Consumers	14 714 809	9 823 133
Less: Provision for doubtful debts	(9 978 290)	(7 399 540)
	4 736 519	2 423 593
Sundry	236 460	-
Surcharge Erongo Red	197 144	591 431
	5 170 123	3 015 024

MUNICIPALITY OF HENTIES BAY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

5. FUNDS AND ACCOUNTS

5.1 Internal funds

	67 778 321	79 850 677
Build Together Fund	14 726 928	16 004 405
Betterment Fund	-	46 372
Capital Development Fund	6 443 017	4 699 003
Fixed Property Fund	33 235 395	42 760 504
Jetty Fund	479 201	463 011
Low Cost Housing Fund	3 495 496	3 371 139
Mayoral Relief Fund	12 570	11 570
Reserve Fund	-	43 880
Social Housing Fund	662 185	2 563 214
Sewerage Fund	7 998 887	9 887 578
TIPEEG Fund	724 642	-

5.2 Capital funds

	2014	2013
	N\$	N\$
	58 797 393	56 280 990
Loans redeemed	295 858	160 913
Contributions from general capital	32 807 388	32 807 388
Contributions from revenue	25 694 147	23 312 688
	126 575 714	136 131 667

6. LONG-TERM LIABILITIES

External loans

Suspensive sale agreements	412 369	547 314
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7. TRADE AND OTHER PAYABLES

Trade creditors	71 313	2 190
Accruals	95 062	206 581
Sundry creditors	788	7 883
Consumer deposits	1 065 989	982 352
Provision for audit fees	82 793	82 793
Provision for leave	992 618	992 618
Retention	75 675	-
	2 384 237	2 274 416

8. CASH GENERATED BY OPERATING ACTIVITIES

Net surplus /(deficit) for the year, per income statement	(2 668 172)	(3 255 692)
Adjustments for non-cash and other items		
– Depreciation	5 629 576	5 397 349
– Capital redemption on finance agreements	-	-
– Interest received	(975 490)	(975 490)
– Contributions to Mayoral Relief Fund	-	-
	<u>1 985 914</u>	<u>1 166 166</u>
Adjustments on appropriation account		
– Receipts	136 019	232 398
– Payments	(5 139 508)	(2 189 237)
Cash operating profit before working capital changes	<u>(3 017 575)</u>	<u>(790 673)</u>
Working capital changes		
– Accounts payable	109 821	1 289 698
– Accounts receivable	(2 155 099)	(441 916)
– Inventory	195 156	(46 096)
– VAT claims	313 792	1 566 265
	<u>(4 553 905)</u>	<u>1 577 277</u>

9. PROPERTY LOANS

Fixed Property Fund	419 653	413 607
Low Cost Housing Fund	1 189 177	1 314 208
Build Together Fund	9 875 177	9 787 112
	<u>11 484 007</u>	<u>11 514 927</u>