



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF HENTIES BAY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

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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 2017, 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 2018

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 MUNICIPALITY OF HENTIES BAY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

1. Report on the Financial Statements

1.1 INTRODUCTION

The accounts of the Municipality of Henties Bay for the financial year ended 30 June 2017 are being reported on in accordance with the provisions set out in Section 85 of the Local Authorities Act, 1992 (Act 23 of 1992).

The firm, MAC & Associates of Windhoek has been appointed by the Auditor-General in terms of Section 26(2) of the State Finance Act, 1991, to audit the accounts of the Municipality on his behalf and under his supervision.

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

I certify that I have audited the accompanying financial statements of the Municipality of Henties Bay for the financial year ended 30 June 2017. These financial statements comprise of the following:

Annexure A: Balance sheet;
Annexure B: Income statement; and
Annexure C: Notes to the financial statements.

The financial statements were submitted by the Accounting Officer to the Auditor-General in compliance with Section 87(1) of the Local Authorities Act, 1992.

The financial statements and notes to the financial statements provided by the Accounting Officer are attached as Annexures A to C.

2. MANAGEMENT'S RESPONSIBILITY 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, (Act 23 of 1992) and relevant legislation, and for such internal control as management determines it is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

3. AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on the audit. I conducted the audit in accordance with International Standards for Supreme Audit Institutions (ISSAIs). These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error.

Powers and duties

Section 25(1)(c) of the State Finance Act, 1991, provides that the Auditor-General should satisfy himself that:

- (a) all reasonable precautions have been taken to ensure that all monies due to the State are collected, and that the laws relating to the collection of such monies have been complied with;
- (b) all reasonable precautions have been taken to safeguard the receipt, custody and issue of and accounting for, the State's assets, such as stores, equipment, securities and movable goods; and
- (c) the expenditure has taken place under proper authority and is supported by adequate vouchers or other proof.

In addition, Section 26(1)(b)(iv) of the State Finance Act, 1991, empowers the Auditor-General to investigate and report on the economy, efficiency and effectiveness of the use of the State's resources.

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 qualified audit opinion.

4. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Henties Bay Municipality during the audit is appreciated.

5. KEY AUDIT FINDINGS

5.1 ACCURACY OF THE FINANCIAL STATEMENTS

The balance sheet is not balancing by N\$ 4 295 905 due to the fact that a significant number of general ledger account balances were either incorrectly captured or omitted (financial statements are not in agreement with the general ledger). A balancing figure of the same amount is therefore reflected titled "Temporary Advance".

Recommendation

It is recommended that the Municipality financial statements should be prepared based on the amounts per the general ledger.

5.2 OVERSTATEMENT OF EXTERNAL LOANS

The external loans are overstated by N\$ 1 803 795 due to the capitalisation of finance charges that are payable over the loan period of 60 months.

Recommendation

It is recommended that the Municipality should reverse the capitalised finance charges and start recognising finance charges expense for the relevant period based on interest detailed on the amortisation schedules.

5.3 OVERSTATEMENT OF PROPERTY PLANT AND EQUIPMENT

The reported property, plant and equipment are overstated by N\$ 2 894 930 due to capitalisation of finance charges, input VAT and documentation charges.

Recommendations

It is recommended that the Municipality should ensure that the capitalised finance charges, input VAT and documentation charges should be reversed; and that input VAT that was not claimed should be claimed from the Receiver of Revenue.

5.4 DEPRECIATION CHARGE

Property, plant and equipment with a book value of N\$ 12 923 852 acquired during the year were not depreciated. Based on the sample tested, the depreciation charge is understated by N\$ 1 068 067. As a result, the property, plant and equipment and the related Fund accounts are materially overstated.

Recommendation

It is recommended that the Municipality must review the fixed assets register and ensure that all qualifying assets are depreciated accordingly.

5.5 DIFFERENCES ON BUILD TOGETHER AND LOW COST HOUSING LOANS

An unexplained difference of N\$ 7 841 581 was observed between the reported balance of the Build Together loans account and the amount on the loan account listing. Furthermore, an unexplained difference of N\$ 74 192 was also observed between the reported balance of the Low Cost Housing loans account and the amount on the loan account listing.

Recommendation

It is recommended that the Municipality must reconcile the Build Together and the Low Cost Housing control accounts to the loan accounts listings and correct the accounts where necessary.

5.6 OBSOLETE INVENTORIES

Obsolete Inventories with a book value of N\$ 252 302 was included in the reported inventory at year end. The inventory items did not have any movement during the last three financial years.

Recommendation

It is recommended that the Municipality should review all inventory items to identify obsolete items, dispose them and update the accounting records accordingly.

5.7 UNDERSTATEMENT OF THE LEAVE PAY PROVISION

The leave pay provision is understated by N\$ 198 596 due to an error in addition (computation).

Recommendation

It is recommended that the Municipality should perform an independent review on all accounting schedules compiled during the preparation of financial statements.

5.8 UNDERSTATEMENT OF VAT RECEIVABLE

The reported VAT receivable is understated by N\$ 568 150 mainly due to the capitalisation of input VAT.

Recommendation

It is recommended that a reconciliation of the VAT account should be performed at the end of each financial year and the accounting records updated accordingly.

5.9 OVERSTATEMENT OF SURCHARGES INCOME

The reported surcharges income is overstated by N\$ 197 144 due to the inclusion of a prior period amount received during the current financial year.

Recommendation

It is recommended that a reconciliation of the surcharges income account should be performed at the end of each month and the accounting records updated accordingly.

5.10 STATEMENT OF CASH FLOWS NOT PRESENTED

No cash flow statement is presented in the annual financial statements submitted to the Office of the Auditor-General.

Recommendation

It is recommended that the Municipality should include a statement of cash flows in its financial statements submitted to the Office of the Auditor-General.

5.11 LACK OF COMPLIANCE WITH CIRCULAR D3 OF 2015

The Municipality did not prepare and submit financial statements in accordance with Circular D3 of 2015 issued by the Office of the Auditor-General.

Recommendation

It is recommended that the Municipality should prepare annual financial statements in compliance with Circular D3 of 2015 issued by the Office of the Auditor-General.

6. BASIS FOR QUALIFIED AUDIT OPINION

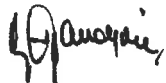
- Balance sheet is not balancing by N\$ 4 295 905;
- Unexplained difference amounting to N\$ 74 192;
- Overstatement of external loans by N\$ 1 803 795;
- Understatement of depreciation charge on property, plant and equipment by N\$ 1 068 067;
- Unexplained differences amounting to N\$ 7 841 581;
- Obsolete inventories with a book value of N\$ 252 302;
- Understatement of the leave pay provision by N\$ 198 596;
- Overstatement of property, plant and equipment by N\$ 2 894 930;
- Understatement of VAT receivable by N\$ 568 150; and
- Exclusion of the statement of cash flows from these annual financial statements.

7. QUALIFIED AUDIT OPINION

The accounts of the Municipality of Henties Bay for the financial year ended 30 June 2017, summarised in annexure A to C, were audited by me in terms of the provisions of section 85 of the Local Authorities Act, 1992.

Except for the matters referred to in the preceding paragraph, the annual financial statements, in my opinion present fairly, in all material respects the financial position of the Municipality of Henties Bay as at 30 June 2017.

WINDHOEK, February 2018


JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

**MUNICIPALITY OF HENTIES BAY
BALANCE SHEET AS AT 30 JUNE**

	Note	2017 N\$	2016 N\$
ASSETS			
Non-current assets		139 754 971	130 364 117
Property, plant and equipment	2	96 752 137	88 479 864
Property loans	8	24 219 107	19 089 228
Investments	3	18 783 727	22 795 025
Current assets		5 340 703	10 670 471
Inventory		476 593	646 421
Trade and othe receivables	4	4 864 110	10 024 050
Total assets		145 095 674	141 034 588
EQUITY AND LIABILITIES			
Equity		130 869 870	133 782 817
Funds	5	162 988 115	164 701 762
Accumulated deficit		(36 414 150)	(30 918 945)
Temporary Advances (balancing figure)		4 295 905	-
Non-current liabilities			
Long term liabilities	6	6 322 170	86 404
Current liabilities		7 903 634	7 165 367
Bank overdraft		1 035 435	2 919 983
Trade and other payables	7	6 868 199	4 245 384
Total liabilities		14 225 804	7 251 771
Total equity and liabilities		145 095 674	141 034 588

ANNEXURE B

**MUNICIPALITY OF HENTIES BAY
 INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE**

	Note	<u>2017</u>	<u>2016</u>
		N\$	N\$
Income		37 705 591	35 144 587
Expenditure		<u>(35 870 695)</u>	<u>(35 762 208)</u>
Net operating surplus/(deficit)		1 834 896	(617 621)
Accumulated deficit			
– Beginning of the year		(30 918 945)	(26 534 376)
– Adjustments for the year	9	<u>(7 330 101)</u>	<u>(3 766 948)</u>
End of the year		<u>(36 414 150)</u>	<u>(30 918 945)</u>

MUNICIPALITY OF HENTIES BAY**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

1. ACCOUNTING POLICIES

The annual financial statements are compiled in accordance with the historical cost convention modified by the restatement of the financial instruments to fair value, except where otherwise stated. The principal accounting policies of the municipality, which are set out below, have been consistently applied and are 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.

1.2 Inventories

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

1.3 Funds**1.3.1 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.

1.3.2 Reserve Fund

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

1.3.3 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

1.3.4 Betterment Fund

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

1.3.5 Fixed Property Fund

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

MUNICIPALITY OF HENTIES BAY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

(continued)

1.3.6 Jetty Fund

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

1.3.7 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.

1.3.8 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.

1.3.9 Sewerage Fund

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

	2017	2016
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	96 752 137	88 479 864
3. INVESTMENTS		
Erongo RED		
– Unlisted shares, at cost	549 997	549 997
– Value of assets handed over	17 357 359	17 357 359
Shares		
– Listed, at market price	-	617 870
Fixed deposits and money on call	876 371	4 269 799
Total investments at year-end	18 783 727	22 795 025
4. TRADE AND OTHER RECEIVABLES		
Consumers	25 051 623	20 418 493
Less: Provision for doubtful debts	(20 414 937)	(12 000 000)
	4 636 686	8 418 493
Sundry	227 424	282 343
Value Added Tax	-	1 323 214
	4 864 110	10 024 050

MUNICIPALITY OF HENTIES BAY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	2017	2016
	N\$	N\$
5. FUNDS AND ACCOUNTS		
5.1 Internal funds	76 854 053	80 604 206
Build Together Fund	24 079 901	20 847 665
Capital Development Fund	6 560 813	6 507 688
Fixed Property Fund	34 169 037	40 852 859
Jetty Fund	490 551	484 238
Low Cost Housing Fund	3 793 732	3 687 835
Mayoral Relief Fund	12 623	12 623
Social Housing Fund	284 299	281 042
Sewerage Fund	7 463 097	7 930 256
5.2 Capital funds	86 134 062	84 097 556
Loans redeemed	708 227	621 824
Contributions from general capital	51 777 631	46 853 817
Revenue account	33 648 204	36 621 915
	162 988 115	164 701 762
6. LONG-TERM LIABILITIES		
External loans		
Suspensive sale agreements	6 322 170	86 404
7. TRADE AND OTHER PAYABLES		
	6 868 199	4 245 384
Accruals	3 027 523	644 014
Consumer deposits	1 783 285	1 736 666
Provision for leave pay	954 136	1 373 227
Retention	995 464	420 164
Other	71 313	71 313
VAT payable	36 478	-

MUNICIPALITY OF HENTIES BAY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(continued)

	2017	2016
	N\$	N\$
8. PROPERTY LOANS		
	24 219 107	19 089 228
Fixed Property Fund	319 799	319 799
Low Cost Housing Fund	1 104 932	1 035 961
Build Together Fund	22 794 376	17 733 468
9. ADJUSTMENTS		
	(7 330 101)	(3 766 948)
Stale cheques	576 624	-
Other expenses	(16 294)	-
Unknown credits	266	136 023
Increase in provision for doubtful debts	(8 414 936)	(671 347)
Accruals	86 109	-
Decrease/(increase) in leave pay provision	419 089	(200 572)
Other	19 041	152 113
RFA write-off	-	(715 681)
VAT adjustments	-	(2 467 484)

