



**REPUBLIC OF NAMIBIA**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE  
MUNICIPALITY OF SWAKOPMUND  
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 Municipality of Swakopmund 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.

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

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**WINDHOEK, February 2018**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF  
THE MUNICIPALITY OF SWAKOPMUND  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

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**1. REPORT ON THE FINANCIAL STATEMENTS**

**1.1 INTRODUCTION**

This report on the accounts of the Municipality of Swakopmund for the financial year ended 30 June 2016 is presented to the National Assembly in accordance with the provisions set out in the Local Authorities Act, 1992 (Act 23 of 1992).

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

The firm MMG Global of Windhoek has been appointed in terms of Section 26 (2) of the State Finance Act, 1991, (Act 31 of 1991) to audit the accounts of the Municipality of Swakopmund on behalf of the Auditor-General and under his supervision.

I certify that I have audited the accompanying financial statements of the Municipality of Swakopmund for the financial year ended 30 June 2016. These financial statements comprise the following:

Annexure A: Balance sheet;  
Annexure B: Income statement;  
Annexure C: Cash flow statement; and  
Annexure D: Notes to financial statements

The financial statements were submitted to the Auditor-General by the Accounting Officer in compliance with Section 87(1) of the Local Authorities Act, 1992, except that they were only submitted on 30 November 2016 instead of three months after year end as required by the Act.

The financial statements, notes to the financial statements and general information provided by the Accounting Officer are attached as Annexure A – D.

**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 86 of the Local Authorities Act, (Act 23 of 1992) and relevant legislation, and for such internal control as management determines it necessary to enable the preparation of financial statements that are free from material misstatements, 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.

## **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 audit opinion.

## **4. ACKNOWLEDGEMENT**

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

## **5. KEY AUDIT FINDINGS**

### **5.1 ACCOUNTING POLICIES**

The Municipality submitted to the audit team a management representation letter that the Municipality of Swakopmund was applying the Generally Recognised Accounting Practice (GRAP) framework for preparation and presentation of its financial statements. The Accounting Standards Board of South Africa developed the GRAP framework specifically for use by South African local authorities in terms of the Public Finance Management Act (SA) of 1999. The financial statements of the Municipality were thus audited under the principles of the GRAP.

GRAP 3.4 defines accounting policies as specific principles, bases, rules, conventions and practices used by management in preparing annual financial statements. The standard further states that entities must apply accrual accounting, which the standard defines as the basis of accounting that records transactions, other events and conditions as they occur and not when cash and its equivalents are received or paid. GRAP 3.06 stipulates that an entity shall apply a specific standard of GRAP in developing its accounting policies for relevant transactions, other events and conditions. The Municipality of Swakopmund is expected to fully comply with the GRAP standards.

The auditors observed that the Municipality of Swakopmund does not have documented specific principles, bases, rules, conventions and practices adopted for the preparation and presentation of the Municipality's annual financial statements. The International Financial Reporting Standards (IFRSs) and the International Public Sector Accounting Standards (IPSASs) are the most widely acceptable frameworks.

#### **Recommendation**

The auditors recommend that the Municipality of Swakopmund must develop and adopt sound accounting policies that comply with IFRSs or IPSASs Generally Acceptable Accounting Practices. These policies will then be applied in recognition, measurement and disclosure of revenue, expenses, assets, liabilities and equity. The GRAP framework is an adaptation of the IPSAs framework, which is itself an adaptation of the IFRS framework.

### **5.2 PRESENTATION OF FINANCIAL STATEMENTS**

In terms of GRAP 1 Presentation of Financial Statement, paragraph 11, an entity shall prepare a full set of financial statements, which comprises of:

- (a) Statement of financial position or a balance sheet;
- (b) Statement of financial performance;
- (c) Statement of cash flows;
- (c) Statement of changes in net assets; and
- (d) Notes, comprising a summary of significant accounting policies and other explanatory notes.

The auditors observed that the Municipality presented a statement of financial position and statement of financial performance. The financial statements did not include a statement of cash flows, a statement of changes in net assets and a summary of significant accounting policies and other explanatory notes. The Municipality of Swakopmund therefore, failed to comply with the requirements of its adopted financial reporting framework.

## **Recommendation**

Based on the management representation that the Municipality is using the GRAP framework, the auditors recommend that the Municipality of Swakopmund must realign its reporting practices to either GRAP or full IPSAs in order to reduce inconsistencies on the annual financial statements.

### **5.3 PROPERTY, PLANT AND EQUIPMENT (PPE)**

The auditors observed that the Municipality did not charge depreciation expense on all loan assets such as roads, sewer system, motor vehicles, and water network and computer software. The Municipality has never charged depreciation on infrastructure and other assets acquired through loan funds. The Municipality writes off such assets on full settlement of the loan. The auditors further observed that, where an asset is financed partly by loan and revenue contribution, only the revenue contribution cost of the asset is depreciated.

The auditors observed that property, plant and equipment was over stated by N\$ 42 451 466 (2016) and N\$ 28 334 282 (2015). The observation means that net income for the respective years is over stated by equivalent amounts.

In terms of GRAP 17 paragraph 28, the cost price of an item of PPE is the cash price equivalent at the recognition date. If payment is deferred (loan) beyond normal credit terms, the entity must recognise the difference between the cash price and the total payment as interest. The standard further states in paragraph 33 that after recognition as an asset the asset must be carried at its cost less accumulated depreciation and any accumulated impairment.

*Depreciation of an asset begins when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the date the asset is derecognised (GRAP 17.61).*

According to GRAP 17 paragraph 66, depreciation method shall reflect the pattern of usage. The standard provides the following as acceptable depreciation methods:

- Straight line method;
- Diminishing balance method and
- Units of production

The standard does not provide for writing off of assets on settlement of loans as a depreciation method. Such practice contravene paragraph 61 of GRAP 17 as stated above. In term of GRAP 17 paragraph 73 an item of PPE shall be derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. By not charging depreciation to surplus and writing off assets on full settlement of loans, the Municipality is not complying with its adopted reporting framework.

## **Recommendation**

The Municipality must develop, adopt and implement a sound depreciation and amortization policy on infrastructure and computer software assets based on a recognized accounting framework. The accounting policies must be in line with the adopted framework. Furthermore, it is recommended that the Municipality must restate its annual financial statements for the period under review so that correct figures are carried forward to 2016/2017.



## **5.4 STORE LEVY CHARGED**

The auditors observed the Municipality of Swakopmund charges a 7 % levy on property, plant and equipment acquired through its stores requisitions system. Auditors noted that the amount was however, capped to a limit of N\$ 2 000. Such overheads do not meet the measurement criteria in terms of GRAP 17 paragraph 24 (b).

### **Recommendation**

The Municipality must not charge stores levy on property, plant and equipment.

## **5.5 ASSET REGISTER**

The auditors observed that the fixed asset register does not provide sufficient and appropriate details to enable easy calculation of depreciation by an independent person other than the person responsible for maintaining the asset register. The auditors observed that assets that were financed from more than one budget were recorded in the asset register in portions per financing department. The asset register reflect as if there was more than one asset bought.

### **Recommendation**

The auditors recommend the following details should be captured in the asset register:

- Full asset description;
- The original cost of each asset including interest capitalized;
- Accumulated depreciation;
- Location of each asset;
- Measurement method i.e. cost or revaluation method;
- Date of purchase or first use;
- Components that may require separate measurement and recognition;
- Expected useful life;
- Residual values; and
- Depreciation method.

The auditors recommend that the Municipality should make use of an electronic fixed asset register module in the SOLAR accounting information system. The Municipality is paying more than N\$ 5 000 000 per annum in leasing the SOLAR accounting information systems and related hardware yet the Municipality is not fully utilizing the system.

## **5.6 VAT BALANCES**

The auditors observed that the Municipality disclosed an opening balance of N\$ 7 364 654. However, during the period under review the Municipality received two refunds from the Receiver of Revenue amounting to N\$ 5 350 773. The refunds were related to period 06/ 2015. It therefore means that the opening balance for the period under review was over stated by N\$ 2 013 881. The closing balance for 2014/2015 financial should have been disclosed as a debit balance of N\$ 5 350 773. The opening balance is therefore materially misstated. The closing balance for the period under review is understated by N\$ 589 670.

## **Recommendation**

The auditors recommend that all tax returns must be submitted on time as per scheduled dates published by the department of Inland Revenue. Furthermore, the Municipality must reconcile its VAT returns with the Receiver of Revenue statements.

### **5.7 UNDERSTATEMENT OF PROVISION FOR LEAVE**

Leave earnings are short-term employee benefits that are dealt with in terms of GRAP 25 paragraph 5 (a).

The audit team observed that the Municipality disclosed the provision for leave at an amount of N\$ 4 407 394. However, the year-end balance for the provision as per VIP payroll was N\$ 8 677 9411. The provision for leave was therefore understated by N\$ 4 270 547. A management representation from the Municipality stated that the General Manager: Finance was of the opinion that the disclosed amounts were more than sufficient to cater for resignations. The provision for leave is not intended to cover resignations but rather to reflect the cost of services provided by employees as at the entity's reporting date.

According to GRAP 25 paragraph 15, an entity shall measure the expected cost of accumulating compensated absences as an additional amount that the entity expects to pay because the unused entitlement has accumulated at the reporting date. The standard further states in paragraph 25.16 that the entity will be measuring the obligation at the amount expected to arise solely from the fact that the benefit has accrued. The interpretation of paragraph 16 of GRAP 25 does not therefore accommodate management judgement.

## **Recommendation**

Failure by the Municipality to disclose the correct amount using management personal judgement is a clear indication that the Municipality does not have accounting policies. The provision for staff leave should be accounted for in terms of GRAP 25. The Municipality should disclose the provision for leave using actual payroll records. The Municipality must therefore adhere to the principles of its chosen accounting framework in measuring the provision for leave.

### **5.8 PROCESSING OF JOURNALS**

The auditors observed that journal entries are prepared and posted into the system without authorization from supervisors. Furthermore, the auditors observed that management was not reviewing journals after posting in the SOLAR accounting information system. The auditors further observed that the Municipality does not have set monetary limits. The auditors also observed that the Municipality does not provide sufficient details on year-end journal. The narration on the journals concerned is "Auditors' journals".

## **Recommendation**

The auditors recommend that the General Manager Finance and the Finance Manager should authorize and approve all journals processed by Accountants and other clerical staff. The claim by the General Manager Finance that the process will involve unwarranted additional work cannot be sustained. The auditors recommend that the Municipality should set monetary limits for initiating and approval of journal entries.

Furthermore, the auditors recommend that screen shorts of all processed journals must be printed and attached to the manual journals as evidence of reviews.

## **5.9 ACCOUNTS RECEIVABLE**

The auditors observed that the Municipality disclosed a provision for bad debts amount of N\$ 1 818 204 (2016) and N\$ 1 688 204 (2015). The provision was understated by N\$ 6 516 575 (2016). The Municipality increased the provision by an amount of N\$ 130 000. The recomputed impairment for accounts receivable balance is N\$ 8 334 779. The provision is therefore understated by N\$ 6 516 575 (2016) and N\$ 5 748 697 (2015). The audit team was informed that the Municipality does not provide for provision for bad debts. The current level of the provision was therefore, decided by the Municipality long back.

The audit team was advised that the Municipality does not consider bad debts as risk area because all moneys owned to the state remain collectable up to thirty years. Thus, the Municipality does not review the provision on annual basis as required by GRAP.

### **Recommendation**

The auditors recommend that the Municipality must develop an accounting policy for the provision for doubtful debts in terms of GRAP 104. A sound accounting policy in line with GRAP 104 will ensure that in correct valuation of accounts receivable at year - end.

## **5.10 ACCOUNTS RECEIVABLE WITH CREDIT BALANCES**

The auditors observed that the Municipality disclosed accounts receivable balance of N\$ 29 175 266. However, the total of all accounts receivable as per age analysis was N\$ 33 568 675. This figure was reduced by accounts receivable with a balance of N\$ 4 526 941 resulting in a balance of N\$ 29 175 266. The Municipality therefore understated its accounts receivables by an amount of N\$ 4 526 941. The balance for accounts payables was therefore, understated by a similar amount.

### **Recommendation**

The Municipality must reclassify all debtors with credit balances at year end to current liabilities in the balance sheet.

## **5.11 CLASSIFICATION AND DISCLOSURE OF CURRENT LIABILITIES**

The auditors observed that the Municipality classified water deposits as part of accounts receivables. A total amount of N\$ 3 944 198 was disclosed as a deduction from accounts receivable.

### **Recommendation**

The Municipality must disclose consumer deposits as current liabilities in the annual financial statements not as a deduction from accounts receivable balance.

## **5.12 WATER LOSSES CLASSIFICATION**

The auditors observed that current year expenditure of N\$ 1 813 397 for water losses program was expensed directly to the appropriation account. Water losses program refer to expenditures incurred in repairs relating to water emergencies and petrol issued to vehicles involved and buying of volumetric meters, related software and tools. The volumetric meters reading by council official without the need to access consumers' premises.

### **Recommendation**

The auditors recommend that the amount be charged to profit or loss statement for the period under review.

## **5.13 MULTI-PURPOSE FURNITURE**

The auditors observed that the Municipality incurred capital additions to Multi-purpose centre for an amount of N\$ 356 789. The capital expenditure was charged as an adjustment to the appropriation account. The capital purchases of furniture were addition for the multi-purpose centre, which is under construction. In terms of GRAP 17 paragraph 06, property, plant and equipment is defined as tangible items that are held by an entity for use in the production of or supply of goods or service, for rental to others or administrative purposes and are expected to be used during more than one reporting period. It is the auditors' view that the furniture for the multi-purpose centre will be used for administrative purposes and providing services to the community. Furthermore, the furniture is expected to be in use for more than one reporting period. The treatment of the capital is also contrary to the Municipality capitalization policy that states that only assets with a value of more than N\$ 1 000. Furniture acquisition is therefore an item of PPE and thus qualifies for capitalization as furniture and fittings unless the contrary can be proven. The auditors are disagreeing with the accounting treatment of the transaction. This is a divergence of a presumed accounting policy. This further substantiates the absence of clear and sound accounting policies.

### **Recommendation**

The auditors recommend that the Municipality should capitalize all asset acquisitions of more than N\$1 000 in terms of GRAP 17 and its financial policy. All furniture and equipment additions for the multi – purpose centre for the prior period should be reclassified to property, plant and equipment. The Municipality must depreciate for furniture and fittings accordingly.

## **5.14 INCORRECT CREDITORS (ACCRUALS) LIST**

The auditors observed that the Municipality of Swakopmund does not maintain a proper creditors' list. The Municipality supplied the audit team with three different list of creditors' balances as at 30 June 2016 that were intended to support a balance of N\$ 16 389 431. The creditors' lists had several misstatements. The supplier statements did not agree to the balances as per supplied lists.

The first report had a total balance of N\$ 17 331 265. The report contained a supplier with a credit balance of N\$ 3 600 000 that did not exist. This balance has been on the SOLAR system since 22 April 2003 and is related to order number 1027426 of 2003. Furthermore, the list had a single line balance of N\$ 20 094 730 as unregistered creditors. This brought the balance to N\$ 37 293 334 as per the same report. On highlighting the discrepancy, the report was immediately withdrawn. The audit

team was informed that the errors were emanating from a system error that took place at the inception of the system a long time ago. A second list was then issued to the auditors.

The second report was supplied to support the creditors list balance of N\$ 16 389 431. However, the list had a total balance of N\$ 7 479 310. The list was materially understated by N\$ 8 910 120. The General Manager Finance disowned the list leading to the issuing of the third list.

The Municipality issued a third list on 30 March 2017 in attempt to substantiate the creditors and accruals balance of N\$ 16 389 431. The auditors observed that the list was not a system generated report but rather an excel spread sheet. The list had several creditors with debit balances amounting to N\$ 5 238 187. A request for system reports revealed that the balances did not agree to the creditors' list supplied to the auditors on 30 March 2017. The auditors could not therefore, verify the correctness of the creditors' figure as at 30 June 2016. Further investigations revealed that the majority of the differences on the list were related to July 2016 supplier invoices.

### **Recommendation**

The Municipality must reconcile all creditors on a regular basis.

## **5.15 LA SURCHARGE INCOME**

The auditors observed that the Municipality received income from Erongo RED for an amount of N\$ 14 555 638 during the period under review. The General Manager Finance informed the audit team that the LA Surcharge income from Erongo Red was calculated on a predetermined formula.

The Municipality recognise the LA Surcharge on receipt basis instead of accrual. The auditors observed that the cash basis is used on this income item because the Municipality has no basis or formula to predict the income. The Municipality therefore recognises the surcharge using bank statements as source documents for the income. An external confirmation of the income and the basis of calculating the income were sought from Erongo RED on 20 March 2017. However, Erongo RED had not responded to the request by 5 May 2017. The Municipality of Swakopmund has no basis of verifying the accuracy of the surcharge.

### **Recommendation**

The Municipality must obtain full information from Erongo RED how the surcharge was calculated, The information will enable the Municipality to assess whether all the revenue due was received and accounted for correctly. Being a shareholder, the Municipality has a legal right to information as well as how the investee undertakes its business and should the Municipality fail to receive such information, then legal action will be the last option. ]

## **5.16 TOURISM REVENUE**

The auditors observed that the Municipality disclosed an amount of N\$ 12 786 984 as tourism revenue. The auditors could not establish the accuracy of this figure due to unavailability of supporting documents for booking by clients. However, the audit team was also advised that another audit team (Ernst & Young) was investigating the tourism department for financial irregularities committed by staff members of the department. The audit team observed that management had installed a reliable information processing system called In-Keeper.

## **Recommendation**

The auditors recommend that the Municipality must improve its internal controls around the tourism revenue. It is further recommended that management must make use of the In-Keeper system reports instead of the current excel spread sheets.

### **5.17 STREET MAINTENANCE**

The Municipality reported an amount of N\$ 5 631 670 (2016) and N\$ 3 685 870 (2015) as street maintenance revenue. The auditors observed that this specific revenue line item is an internal charge. The Municipality is therefore inappropriately reporting internal charges as earned revenue. However, this revenue item has not been eliminated against corresponding expenses at annual financial statements level.

## **Recommendation**

The auditors recommend that the Municipality should eliminate all internal balances and transactions, kept for management accounts purposes, at the annual financial statements level. The Municipality should only report income and expenditure from transactions with outside parties and not with itself.

### **5.18 MASS HOUSING FUNDS BALANCE**

The auditors observed that the Municipality reported the Mass Housing Fund investment balance of N\$ 104 156 000 for the period under review. The auditors established that Mass housing funds had an actual investment balance of N\$ 63 000 000 invested with financial institutions resulting in a material difference of N\$ 41 156 000. Based on work done under capital additions, the auditors observed that an amount of N\$ 50 421 031 was utilized from the Mass Housing Fund. The same amount is recorded in the asset register as an addition to infrastructure. The net movement in the Mass Housing Fund Reserve is N\$ 40 485 630 of which N\$ 50 421 031 expenditure was agreed to current PPE additions and N\$10 000 000 receipt was to the bank statement.

## **Recommendation**

It is recommended that the Municipality adjust the investment amount reported in the annual financial statements. The auditors further recommend that the Municipality must reconcile regularly the investment ledger with actual investments per fund.

### **5.19 NON-DISCLOSURE OF CASH AND CASH EQUIVALENT**

The main purpose of performing bank reconciliation is to detect bank errors and possible frauds that may take place through fraudulent activities in the cashbook. Failure to perform monthly bank reconciliation therefore defeats the control objectives of bank reconciliation. The auditors observed that the Municipality did not perform bank reconciliation on FNB bank account (N\$ 1 849 029) and (N\$ 635 016). The two FNB bank accounts with a combined total amount of N\$ 2 484 0455 were not disclosed in the annual financial statements because they were not included in the Municipality general ledger. The Municipality only performs bank reconciliation on one FNB bank account.

## **Recommendation**

The auditors recommend that the Municipality must ensure that all bank accounts related to funds under its stewardship are recorded in the general ledger. All bank balances must be reported in the annual financial statements.

### **5.20 NON-ACCRUAL OF INTEREST INCOME**

The Municipality earned an interest amount of N\$ 5 592 336 from investments with commercial banks. The interest is related to an investment of Capital Development Fund that was invested with commercial banks before 30 June 2015. The investment was redeemed in September 2016. This resulted in the Municipality an amount of N\$ 5 592 336 as interest. The investment period therefore overlapped between two financial years.

## **Recommendation**

The Municipality must apply the concept of accrual to all income items at year and before submission of annual financial statements.

### **5.21 GOING CONCERN**

The council reported a surplus of N\$ 1 211 727 and a surplus of N\$ 6 602 393 (2015). The Municipality has been reporting surplus for some time. Due to the number of discrepancies and inadequate accounting policies, the accuracy of the loss and accumulated fund for the period under review cannot be relied upon.

## **Recommendation**

Appropriate measures should be put in place for the Municipality to generate or raise enough funds to run its operations.

### **5.22 HOUSES ON STOCK**

The auditors observed that the Municipality has been carrying in its books an inventory of houses that were or are supposed to have been sold to the National Housing Enterprise (NHE) for an amount of N\$ 3 953 322. The Municipality has disclosed the houses as part of property, plant and equipment in the balance sheet. The houses are a major component of the Housing Revolving Fund assets. The Revolving Housing Fund has a credit balance of N\$ 11 557 083. The fund has remained constant for some time now. The audit team was informed that due to legal disputes between the Municipality and NHE, the houses are now being leased to the same prospective buyers.

## **Recommendation**

The auditors recommend that the Municipality must comply in full with GRAP 12 which states that inventory shall be measured at the lower of cost and net realisable value. GRAP 12 defines net realisable value (NRV) as the net amount an entity expects to realise from the sale of an inventory in the ordinary course of its operation less the estimated cost of completion and estimated costs necessary to make a sale, distribution and or exchange. Furthermore, the standard requires that all costs incurred on inventory that will be sold in future should be capitalized treated as additions to inventory.

## **5.23 STAFF TRAINING**

The auditor's team observed a need for the Finance department to receive training in financial reporting standards. Based on the significance of the issues raised in this report it is evident that the Municipality needs to consider affording its staff members exposure to advanced training in the use of financial reporting standards, to avoid wrong application of accounting practices and non-compliance with adopted reporting framework.

### **Recommendation**

The Council should ensure that staff members in the finance department are offered a financial reporting training based on Municipal operations as a matter of urgency.

## **5.24 DIFFERENCES IN OPENING BALANCES**

The auditors observed the total amount of funds and reserves differed between the audited financial statements and the Municipality's unaudited accounts by N\$ 62 718 363. The Municipality has indicated that the Mass Housing does not form part of their accounts.

### **Recommendation**

The Municipality must account for and report on funds under its stewardship.

## **5.25 GENERAL**

### **5.25.1 CIRCULAR D3/2015**

The Municipality did not submit the D3 return for the financial year ended 30 June 2016. The client was given the opportunity to submit the D3 return but the client did not manage to do so before finalization of this audit report.

### **Recommendation**

It is recommended that the Chief Executive Officer should submit all annual report statements to the Auditor-General including Circular D3/2015 statements.

## **6. BASIS FOR ADVERSE OPINION**

- The Municipality does not have documented accounting policies;
- The Municipality did not present a full set of annual financial statements in terms GRAP 1 Presentation of Financial Statements;
- The Municipality did not charge depreciation on asset acquired through loan financing leading to assets being overstated by N\$ 42 451 466 (2016) and N\$ 28 334 282 (2015);
- The Municipality was charging a general stores recovery overhead on assets and materials for infrastructure acquired the stores department in contravention of GRAP 17 paragraph 24 (b).
- Asset register did not provide sufficient appropriate details to allow adequate assessment of carrying amounts of assets;
- VAT opening and closing balances are materially misstated by N\$ 2 013 881 and N\$ 589 670 respectively;



- The provision for leave was understated by N\$ 4 270 547 due to incorrect application of paragraph 15 of GRAP 25;
- Internal controls deficiencies over significant journal entries;
- The provision for doubtful debts (credit losses) was understated by an amount of N\$ 6 516 575 due to lack of a sound accounting policy in terms of GRAP 104;
- The Municipality disclosed consumer deposits of N\$ 3 944 198 as part of accounts receivable balances resulting in understatement of accounts payable and accounts receivable balances;
- The Municipality charged an amount of N\$ 1 818 397 for water losses program to the appropriation account instead of charging the expense to profit or loss;
- The Municipality charged a current period cost of new furniture and fitting for the multi – purpose centre valued at N\$ 356 788 to the appropriation account in contravention of GRAP 17 and the Municipality’s financial policy;
- The Municipality could not provide a reconciled schedule for accounts payable balance of N\$ 16 389 430;
- LA surcharges of N\$ 14 555 638 earned from Erongo RED could not be supported by documentary evidence for its accuracy;
- Tourism revenue of N\$ 12 786 984 could not be vouched due to lack of access to supporting documentation and suspected fraud;
- Internal charge street maintenance revenue of N\$ 5 631 670 and N\$ 3 685 870 was reported as part of the income for the period under review and prior year respectively;
- The Mass Housing Fund balance (asset) was disclosed as N\$ 104 156 000, the balance should have been reported as N\$ 63 000 000 as per bank statement invested balance;
- The Municipality did not disclose two FNB cheque accounts amounting to N\$ 2 484 045.62;
- Housing units (Houses On Stock) that have remained at a cost of N\$ 3 953 322 since date of construction in 2003;
- Fund and Reserves opening balance differs by an amount of N\$ 62 718 363;
- Interest income for funds amounting to N\$ 5 592 336 earned in 2015 was not accrued. Interest was incorrectly recognised in the period under review; and
- Due to numerous errors that have a negative impact on the reported net income, the profitability for the period under review cannot be relied on.

## 7. ADVERSE OPINION

The accounts of the Municipality of Swakopmund for the financial year ended 30 June 2016 summarized in Annexure A to D were audited in terms of the provision of Section 85 of the Local Authorities Act, 1992 read with Section 25(1) (b) of the State Finance Act, 1991.

In my opinion, because of the significance of the matters described in the Basis for Adverse Opinion paragraph, the financial statements do not give a true and fair view of the financial position of the Municipality of Swakopmund as at 30 June 2016 its financial performance and its cash flows for the year then ended in accordance with the General Reporting Accounting Practice standards.

WINDHOEK, February 2018



**JUNIAS ETUNA KANDJEKE**  
**AUDITOR-GENERAL**

**THE MUNICIPALITY OF SWAKOPMUND  
BALANCE SHEET AT 30 JUNE**

	Note	2016 N\$	2015 N\$
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	2	930 038 113	837 082 684
Investments	3	334 619 560	322 199 560
Housing Loans	4	8 792 104	9 783 188
<b>CURRENT ASSETS</b>			
Trade and Other Receivables	5	57 126 708	32 626 696
Inventories	6	6 236 196	6 313 666
Cash and Cash Equivalents	7	16 297 417	11 660 232
<b>TOTAL ASSETS</b>		<b>1 353 110 099</b>	<b>1 219 666 026</b>
<b>FUNDS AND LIABILITIES</b>			
<b>FUNDS AND RESERVES</b>			
Capital outlay	8	828 876 527	765 665 200
Funds and accounts	9.1	344 820 765	280 146 182
Equity Erongo	9.2	120 716 715	104 536 016
Accumulated Surplus		25 997 366	29 739 078
<b>NON-CURRENT LIABILITIES</b>			
Long-term loans	10	4 700 077	6 418 692
<b>CURRENT LIABILITIES</b>			
Creditors and other payables	11	26 802 874	31 148 209
Deposits	12	1 195 776	2 012 649
<b>TOTAL FUNDS AND LIABILITIES</b>		<b>1 353 110 099</b>	<b>1 219 666 026</b>

**MUNICIPALITY OF SWAKOPMUND**  
**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE**

	Note	2016	2015
		N\$	N\$
Income		268 465 577	237 374 535
Other income		536 972	1 024 226
Expenditure		(270 214 276)	(231 796 368)
<b>NET (DEFICT) /SURPLUS</b>		(1 211 727)	6 602 393
Transfer to internal funds		-	(5 289 200)
<b>NET (DEFICIT)/SURPLUS AFTER TRANSFERS</b>		(1 211 727)	1 313 193
Appropriation account	14	(2 529 987 )	(5 293 943)
<b>NET DEFICIT FOR THE YEAR</b>		3 741 714	(3 980 750)
REVENUE ACCOUNT-Beginning of the year		29 739 078	33 719 828
REVENUE ACCOUNT- End of the year		<b>25 997 366</b>	<b>29 739 078</b>

**THE MUNICIPALITY OF SWAKOPMUND**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE**

	<b>2016</b>	<b>2015</b>
	N\$	N\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	-	<b>164 176 839</b>
Cash receipts from customers	-	237 374 535
Cash paid to suppliers	-	(248 414 462)
Add back investment income	-	1 024 226
Increase/(Decrease) in Fund Accounts	-	174 192 540
	-	-
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	-	<b>(242 187 498)</b>
Net Decrease in capital expenditure	-	(97 713 793)
Net (decrease)/increase in loans	-	2 924 772
Net (increase)/decrease in investments	-	(147 398 477)
	-	-
	-	-
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	-	<b>(2 132 836)</b>
(Decrease) increase in long term liabilities	-	(2 132 836)
	-	-
Net increase/ (decrease) in cash and cash equivalents	-	(80 143 495)
Cash and cash equivalents – beginning of the year	-	91 803 727
<b>Cash and cash equivalents – end of the year</b>	-	<b>11 660 232</b>

**THE MUNICIPALITY OF SWAKOPMUND**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**30 JUNE 2016**

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**1. ACCOUNTING POLICIES**

**1.1** GRAP 3.4 defines accounting policies as specific principles, bases, rules, conventions and practices used by management in preparing annual financial statements. The standard further states that entities must apply accrual accounting, which the standard defines as the basis of accounting that records transactions, other events and conditions as they occur and not when cash and its equivalents are received or paid. GRAP 3.06 stipulates that an entity shall apply a specific standard of GRAP in developing its accounting policies for relevant transactions, other events and conditions. The Municipality of Swakopmund is expected fully comply with the GRAP standards.

The auditors observed that the Municipality of Swakopmund does not have documented specific principles, bases, rules, conventions and practices adopted for the preparation and presentation of the Municipality's annual financial statements. The International Financial Reporting Standards (IFRSs) and the International Public Sector Accounting Standards (IPSASs) are the most widely acceptable frameworks.

**ANNEXURE D**

**THE MUNICIPALITY OF SWAKOPMUND  
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2016 (continued)**

	<b>2016</b>	<b>2015</b>
	N\$	N\$
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>	<b>930 038 114</b>	<b>837 082 684</b>
Income assets	68 810 861	61 346 681
Loan assets	143 219 335	130 594 825
Funds and grants	718 007 918	645 141 178
<b>3. INVESTMENTS</b>	<b>334 619 560</b>	<b>322 199 560</b>
Commercial Banks	70 000 000	59 000 000
Mass housing	104 156 000	104 736 000
Build Together	25 000 000	23 000 000
Erongo Red	135 463 560	135 463 560
<b>4. LOANS RECEIVABLE</b>	<b>8 792 104</b>	<b>9 783 188</b>
Property Development Fund: Secured loans	598 536	790 194
Build Together Fund: Secured loans	10 385 606	9 409 031
Build Together Fund: Advances	(2 691 651)	(1 073 450)
Huidare Building Project: Secured loans	301 746	324 774
Housing loans: Secured loans	198 168	332 640
Unexplained difference	(301)	-
<b>5. TRADE AND OTHER RECEIVABLE</b>	<b>57 126 708</b>	<b>32 626 696</b>
Services rendered and assessments rates	29 175 266	24 729 012
Interest accrued on investments	148 164	272 926
Subsidies Receivable from the Government	-	709 941
Erongo Red	1 203 643	1 156 140
VAT provision	25 541 672	6 653 281
Tourism debtors	2 038 058	1 508 624
Build Together debtors	788 281	814 003
Sundries	3 994 025	2 135 650
Provision for bad debts	(1 818 204)	(1 688 204)
Consumer deposits	(3 944 197)	(3 664 675)

**THE MUNICIPALITY OF SWAKOPMNUND**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**30 JUNE (continued)**

	<b>2016</b>	<b>2015</b>
	N\$	N\$
<b>6. INVENTORIES</b>	<b>6 236 196</b>	<b>6 313 666</b>
Stores	2 220 384	2 345 066
Oil – workshop	123 147	69 993
Revolving Fund – Stock houses	3 953 322	3 953 322
Plastic Bags	-	942
Less: Redundant stock	(60 657)	(55 657)
<b>7. CASH AND CASH EQUIVALENTS</b>	<b>16 297 417</b>	<b>11 660 232</b>
Current Account - Municipality operating account	14 211 007	10 825 830
Current account - Building Together Fund	1 849 029	829 702
Direct deposit – Tourism	205 983	-
Key deposits	27 598	-
Petty Cash	3 800	4 700
<b>8. CAPITAL OUTLAY</b>	<b>828 876 527</b>	<b>765 665 200</b>
Loans redeemed	42 057 747	59 177 341
Revenue contributions	68 810 862	61 346 681
General capital contributions	718 007 918	645 141 178

**THE MUNICIPALITY OF SWAKOPMUND**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**30 JUNE 2016 (continued)**

	<b>2016</b>	<b>2015</b>
	N\$	N\$
<b>9.1 FUNDS, ACCOUNTS AND RESERVES</b>	<b>344 820 765</b>	<b>280 146 182</b>
Anti-Crime Fund	44 425	21 925
Betterment Fund	7 332 315	6 844 838
Bond Protection Fund	1 041 544	1 009 454
Build Together Fund	35 306 292	32 979 285
Bursary Fund	287 254	256 898
Capital Development Fund	15 909 535	21 039 177
Dividends: Erongo Red	14 869 135	12 108 250
Employees Sport Club	(43 837)	6 163
Green environment project	(46 650)	-
Housing Fund	4 903 159	5 067 161
Huidare Project	980 552	965 787
Indoor Sport Complex	1 099 759	1 099 759
Insurance Fund	804 226	799 742
Maintenance Reserve	5 916 260	5 887 141
Mass Housing Funds	46 250 246	86 735 877
Mayoral Development Fund	348 248	399 058
Pavement Reserve	203 630	203 630
Property Development Fund	175 163 026	70 840 705
Quarry Ventures	1 376 878	1 196 209
Reg. Council Donations	708 231	708 231
Relocation Rubbish Dump	962 922	936 922
Renewals Fund	17 063 401	16 685 678
Replacement of Chairs	119 635	119 635
Revolving Fund	11 537 580	11 557 082
Save the Jetty Fund	646 993	646 993
Sewerage Fund	(672 633)	37 685
Study Aid Fund	182 786	288 043
Swakopmund Emergency Fund	237 672	217 672
Tourism Fund	315 914	176 356
Water Supply Fund	1 967 594	1 310 826



## ANNEXURE D

**THE MUNICIPALITY OF SWAKOPMUND**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**30 JUNE 2016 (continued)**

	<b>2016</b>	<b>2015</b>
	N\$	N\$
<b>9.2 ERONGO RED</b>	<b>120 716 715</b>	<b>104 536 016</b>
<b>10. LONG TERM LIABILITIES</b>	<b>4 700 077</b>	<b>6 418 692</b>
Capital outlay	4 700 076	5 716 910
Housing Funds	-	701 783
<b>11. TRADE AND OTHER PAYABLES</b>	<b>26 802 874</b>	<b>31 148 209</b>
Trade payables	16 389 432	20 146 096
Audit fee, provision	474 244	424 244
Retention monies	1 411 457	1 562 952
Leave provision	4 407 394	4 579 760
Sundries	4 962 433	6 131 047
Recoverable	(842 086)	(1 695 890)
<b>12. DEPOSITS</b>	<b>1 195 776</b>	<b>2 012 649</b>
Tourism Reservations	440 757	452 362
Sundries (excluding consumers)	755 019	1 560 287
<b>13. TRANSFER (TO)/FROM INTERNAL FUND</b>	<b>-</b>	<b>5 289 200</b>
Bursary Fund	-	(50 000)
Employees Sport Club	-	(100 000)
Maintenance Fund	-	(539 000)
Renewal Fund	-	(683 000)
Sewerage Fund	-	(571 000)
Study Aid Fund	-	(67 000)
Dividends – Erongo Red	-	(2 279 200)
Water Supply Fund	-	(1 000 000)

## THE MUNICIPALITY OF SWAKOPMUND

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED

30 JUNE(continued)

	2016	2015
	N\$	N\$
<b>14. ADJUSTMENTS TO APPROPRIATION ACCOUNT</b>	<b>(2 529 987)</b>	<b>(5 293 943)</b>
Court case – Village Hotel	(98 206)	(9 630)
Court case-Desert Wear CC	(75651)	(273 403)
Court case – DMA Holdings	(3 000)	(15 427)
Cracked houses	(1 084 791)	(6 690)
EY	(107 854)	-
Kinghorn Associates	(4 500)	-
L E Bau	(349 209)	-
Furniture: Multi – purpose	(356 789)	-
Insurance	(648)	-
Drafting of various	(158 237)	-
Reimbursement Ms Bruwer	360 108	-
Construction of Houses	26 002	-
Builders Deposits	714 051	-
Sundry Deposits	390 470	-
Deposits: Chairs	1 430	-
Deposits: Sand Mining	17 000	-
VAT Adjustment	13 233	-
Documentary DVD	-	(185 378)
Draft of various policies	-	(173 638)
Reversal of NTB levies	-	20 363
Early retirement cost	-	(300 000)
Hosting of NAMA music awards	-	(540 030)
NIB Sinking fund cost	-	(1 608 914)
Refund NIB Transaction	-	82 416
Water losses program	(1 813 397)	(2 355 927)
Unclaimed monies	-	72 316