



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF SWAKOPMUND
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 Swakopmund 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, June 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 SWAKOPMUND
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

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 2017 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 this report are rounded to the nearest Namibia dollar. Deficits are indicated in (brackets).

The firm MMG Global Chartered Accountants and Auditors of Windhoek has been appointed in terms of section 26 (2) of the State Finance Act, 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 2017. These financial statements comprise the following:

Annexure A: Balance sheet;
Annexure B: Income statement; and
Annexure C: 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, (Act No. 23 of 1992).

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

5. KEY AUDIT FINDINGS

(*) Recurring findings

5.1 *Accounting Policies

The auditors observed that the Municipality of Swakopmund continues to operate and report on its finances without reference to a recognized accounting framework.

Recommendation

It is recommended that the Municipality of Swakopmund develops and adopts sound accounting policies that comply with an internationally recognised accounting framework.

Auditors comment

The Municipality did not comply to the Circular D3/2015. The directive from the Office of the Auditor-General referred to is a letter that addresses depreciation only.

The Municipality is advised to consult with the line Ministry regarding the development and adoption of a sound accounting policy that complies with an international recognized accounting framework.

5.2 *Presentation of financial statements

The auditors observed that the financial statements presented by the Municipality 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 as required by GRAP, IFRS or IPSASs.

Recommendation

The Municipality must prepare a complete set of financial statements in compliance with an internationally recognized accounting framework.

5.3 *Property, plant and equipment

The auditors observed the following with respect to the financial statements:

- No depreciation was charged on assets acquired through loan arrangements resulting in understatement of depreciation by N\$ 58 502 522 (2017), N\$ 42 451 466 (2016) and N\$ 28 334 282 (2015);
- Land and buildings were not classified as either investment property, inventory or property, plant and equipment; and
- The Municipality does not account for all land under its control.

Recommendation

The Municipality must develop, adopt and implement a sound capitalisation, depreciation and amortization policy in line with an adopted internationally recognised accounting framework.

5.4 *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; and
- Assets financed from more than one budget vote were recorded in the asset register in proportions per financing department. The asset register thus reflects as if the Municipality bought more than one asset.

Recommendation

The auditors recommend that the sufficient details should be captured in the asset register. Furthermore auditors recommend that the Municipality make use of an electronic fixed asset register module in the Solar accounting software programme.

5.5 Understatement of provision for severance pay

The auditors observed that the Municipality disclosed the provision for severance pay at an amount of N\$ 2 305 811. However, the year-end balance for the provision as per payroll report was N\$ 16 551 065 resulting in understatement of N\$ 14 245 254.

Recommendation

The valuation of provisions for employee costs or benefits should be done using the actual data as at the reporting date of the Municipality and in line with the Labour Act.

5.6 Under provision for bad debts

The auditors observed that the Municipality disclosed a provision for bad debts (credit losses) amount of N\$ 1 948 204 (2017) and N\$ 1 818 204 (2016). The Municipality adjusts the provision by an amount of N\$ 130 000 on annual basis. The adjustment is not justified by any policy or calculation. The auditors recomputed impairment (credit losses) for accounts receivable balance was N\$ 5 515 847.

Recommendations

The auditors recommend that the Municipality must develop an accounting policy for the provision for doubtful debts (credit losses) aligned to internationally recognised accounting standards, which will ensure correct valuation of accounts receivable at year - end.

5.7 *Appropriation account

The auditors observed that current year operational expenditure amounting to N\$ 6 046 138 which was not budgeted was incorrectly charged against the appropriation account. The accumulated surplus (deficit) account is used for correction of errors from prior periods that affect income and expenses.

Recommendation

The auditors recommend that all transactions for unbudgeted expenditure should be processed through the income statement.

5.8 *LA surcharge income

The auditors observed that the Municipality received income from Erongo RED for an amount of N\$ 15 771 531 during the period under review. The Municipality recognises the LA Surcharge on receipt as it has no basis or formula to predict the income and apply the accrual concept. In addition, Erongo RED did not respond to a request by management to provide details of how the income is determined thus the accuracy of the surcharge could not be verified.

Recommendation

The Municipality as one of the major shareholders must obtain full information from Erongo RED on how the surcharge is determined. The information will enable the Municipality to assess whether all the revenue due to them 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.

Management comment

The Municipality attempted to seek clarification from Messrs Erongo RED, to no avail.

5.9 *Mass housing funds balance

The auditors observed that:

- An incorrect opening balance of N\$ 104 156 000 was reported when it should have been reported as N\$ 63 000 000;
- Capital expenditure of N\$ N\$ 55 420 416 on Mass Housing was incurred from the operational bank account of the Municipality. There was no charge recorded against the Mass Housing Fund bank account or contra entry to reflect the use of revenue funds for Mass Housing projects; and
- The fund had a closing debit balance of N\$ 78 906 170.

Recommendations

The auditors recommend that the Municipality corrects the amount reported in the annual financial statements. Furthermore, the auditors recommend writing - off of the debit against the appropriation account to recognise possible unrecoverable losses on Mass Housing project if there is no possibility of receiving more funds for this Fund.

5.10 *Houses on stock

The auditors observed that the Municipality has been carrying in its books an inventory of houses valued at N\$ 3 953 322. However, part of the inventory of these houses valued at N\$ 2 933 926 were sold during the period under review leaving a balance of N\$ 1 019 396 as at 30 June 2017.

Recommendation

The Municipality must ensure that sales of houses and land are correctly recorded and reconciled on a regular basis.

5.11 Inventory

The auditors observed that the Municipality carries a number of unrecorded inventories amounting to N\$ 5 700 940.

Recommendation

All items of inventory should be included in the reported inventory.

5.12 *Loan redemption

The auditors observed that, the Municipality charged internal and external loan repayments amounting to N\$ 9 745 020 to operational expenditure. The effect of the transactions processed to account for loan repayments is the creation of an artificial expense (redemption expense) and the reinstatement of the loan account using a different name (loans redeemed).

Recommendation

The auditors recommend that the loan repayments be processed directly to the loan vote.

5.13 Airfield revenue and controls

The auditors observed the following:

- Poor record keeping practice;
- The Municipality staff did not know the number of hangers at the airfield; and
- Non-compliance with standardized arrival and departure procedures by pilots.

Recommendation

The Municipality should ensure that internal control procedures are adhered to by all staff members and pilots based at the airport.

5.14 Cleaning of wards

The auditors observed that there were no external supporting documents (invoices) on expenditure paid to external parties on cleaning of wards amounting to N\$ 2 013 457.

Recommendation

The auditors recommend that management and those charged with governance be proactive in setting up strong internal controls to ensure that all Municipality obligations to external parties (suppliers) are supported by valid documents.

5.15 Tourism Debtors

The auditors observed that the Municipality reported a debtors' balance of N\$ 3 171 531 (2017) and N\$ 2 038 058 (2016) dating back to 2005. An alternative audit procedure through the Office of the Auditor-General has revealed that some government departments have honoured their obligations contrary to the view held by management that major debtors were government departments. Furthermore, the majority of debtors were in fact foreign nationals and tour operators and to a lesser extent Namibians on private visits. Management has also confirmed that certain individual employees in the unit were under investigations for fraud.

Recommendation

The Municipality should strengthen its internal controls around tourism revenue and reconciliation of debtors' accounts to ensure that an effective debtor management system is in place.

5.16 Going Concern (review of surplus for the year)

The Municipality reported an operating loss of N\$ 2 821 130 (2017) and N\$ 1 211 727 (2016). Due to several discrepancies and inadequate accounting policies, the accuracy of the deficit and accumulated fund for the period under review cannot be relied upon. However, due to the power of the Municipality to continue to levy rates and taxes from residents the going concern is not threatened.

Recommendation

The Municipality should ensure that appropriate measures are put in place for the Municipality to generate or raise sufficient revenue to run its operations. Furthermore, the Municipality needs to strive for fair presentation of the financial statements.

6. BASIS FOR ADVERSE OPINION

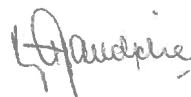
- No documented accounting policies;
- The Municipality presented an incomplete set of non-standard financial statements;
- Asset register does not provide sufficient appropriate details;
- Depreciation not charged on assets acquired through loan;
- Land and buildings are not properly classified;
- The value of land under the control of the Municipality is not accounted for;
- Inventory is understated by N\$ 5 700 940;
- Provision for severance pay understated by N\$ 14 245 254;
- Understatement of provision for bad debts (credit losses) by an amount of N\$ 3 567 643;
- Incorrect expensing of current year unbudgeted expenditure to appropriation account;
- No supporting documents for income of N\$ 15 771 531 received from Erongo RED;
- Overstatement of revenues and expenditure by internal charges;
- Opening balance on mass housing fund overstatement by N\$ 41 156 000;
- N\$ 55 420 417 was charged against Mass Housing with no contra entry to reflect a liability;
- Mass Housing bank balance understated by N\$ 4 444 762;
- Overstatement of NHE houses by N\$ 2 933 926;
- Incorrect recognition of internal and external loan repayments;
- Lack of controls at the airfield;
- No supporting documents for ward cleaning expenses amounting to N\$ 2 013 435;
- Non-existence debtors of N\$ 3 171 531; and
- Reported accumulated deficit on N\$ 2 821 130 cannot be relied upon due to numerous discrepancies and inadequacies of accounting policies;

7. ADVERSE AUDIT OPINION

The accounts of the Municipality of Swakopmund for the financial year ended 30 June 2017 summarized in Annexure A to C were audited in terms of the provision of Section 85 of the Local Authorities Act, 1992.

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 2017 its financial performance and its cash flows for the year then ended in accordance with the General Reporting Accounting Practice standards.

WINDHOEK, June 2018


JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

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

	Note	2017 N\$	2016 N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	1 015 989 329	930 038 113
Investments	3	183 463 560	334 619 560
Housing Loans	4	13 712 957	8 792 104
Current assets			
Trade and Other Receivables	5	89 475 474	57 126 708
Inventories	6	7 384 397	6 236 196
Cash and Cash Equivalents	7	46 480 785	16 297 417
TOTAL ASSETS		1 356 506 502	1 353 110 099
FUNDS AND LIABILITIES			
Funds and reserves			
Capital outlay	8	906 860 639	828 876 527
Funds and accounts	9	284 315 429	344 820 765
Equity Erongo		122 436 090	120 716 715
Accumulated Profit (Deficits)		13 005 196	25 997 366
Non-current liabilities			
Long-term loans		4 372 022	4 700 077
Current liabilities			
Creditors and other payables	10	24 420 557	26 802 874
Deposits	11	1 096 569	1 195 776
TOTAL FUNDS AND LIABILITIES		1 356 506 502	1 353 110 099

THE MUNICIPALITY OF SWAKOPMUND
INCOME STATEMENT FOR THE YEAR ENDE 30 JUNE

		2017	2016
	Note	N\$	N\$
Income		303 614 546	268 465 577
Other income		-	536 972
Expenditure		<u>(306 435 675)</u>	<u>(270 214 276)</u>
Net (deficit) surplus		(2 821 129)	(1 211 727)
Appropriation account	12	<u>(10 171 041)</u>	<u>(2 529 987)</u>
Net deficit for the year		(12 992 170)	(3 741 714)
Revenue account			
At the beginning of the year		<u>25 997 366</u>	<u>29 739 078</u>
At the end of the year		<u>13 005 196</u>	<u>25 997 366</u>

THE MUNICIPALITY OF SWAKOPMUND
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEARENDED
30 JUNE

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.

	2017	2016
	N\$	N\$
2. Property, plant and equipment	1 015 989 329	930 038 114
Income assets	72 650 062	68 810 861
Loan assets (financed by loans)	155 479 348	143 219 335
Funds and grants	787 859 919	718 007 918
3. Investments	183 463 560	334 619 560
Commercial banks	-	70 000 000
Mass housing	48 000 000	104 156 000
Build together	-	25 000 000
Erongo red	135 463 560	135 463 560
4. Loans receivable	13 712 957	8 792 104
Property Development Fund: Secured loans	570 123	598 536
Mass Housing: Secured loan	3 106 445	
Build Together Fund: Secured loans	9 732 578	10 385 606
Build together fund: advances	(2 732 067)	(2 691 651)
Mass housing: advances	(3 260 474)	
Huidare Building Project Secured loans	-	301 746
Housing loans: Secured loans	6 296 351	198 168
Unexplained difference	-	(301)

THE MUNICIPALITY OF SWAKOPMUND
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEARENDED
30 JUNE

	2017	2016
	N\$	N\$
5. TRADE AND OTHER RECEIVABLE	89 475 474	57 126 708
Services rendered and assessments rates	34 975 252	29 175 266
Interest accrued on investments	-	148 164
Mass Housing	384 481	-
Erongo Red	1 339 813	1 203 643
VAT provision	53 639 856	25 541 672-
VAT Suspense	69 406	-
Tourism debtors	3 171 531	2 038 058
Build Together debtors	867 964	788 281
Sundries	1 405 943	3 994 025
Provision for bad debts	(1 948 204)	(1 818 204)
Consumer deposits	(4 430 569)	(3 944 197)
6. INVENTORIES	7 384 397	6 236 196
Stores	3 330 227	2 220 384
Oil – workshop	166 505	123 147
Revolving Fund – Stock houses	3 953 322	3 953 322
Less: Redundant stock	(65 657)	(60 657)
7. CASH AND CASH EQUIVALENTS	46 480 785	16 297 417
Current account - Municipality operating account	15 068 778	14 211 007
Current account - Building Together Fund	30 274 926	1 849 029
Current account – Mass Housing	892 942	-
Direct deposit – Tourism	210 606	205 983
Key deposits	29 733	27 598
Petty Cash	3 800	3 800
8. CAPITAL OUTLAY	906 860 639	828 876 527
Loans redeemed	46 350 658	42 057 747
Revenue contributions	72 650 062	68 810 862
General capital contributions	787 859 919	718 007 918

THE MUNICIPALITY OF SWAKOPMUND
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEARENDED
30 JUNE

	2017	2016
	N\$	N\$
9. FUNDS, ACCOUNTS AND RESERVES	284 315 429	344 820 765
Anti-Crime Fund	100 923	44 425
Betterment Fund	7 589 115	7 332 315
Bond Protection Fund	1 064 519	1 041 544
Build Together Fund	38 143 401	35 306 292
Bursary Fund	487 254	287 254
Capital Development Fund	14 535 796	15 909 535
Dividends: Erongo Red	14 869 135	14 869 135
Employees Sport Club	(92 837)	(43 837)
Green environment project	-	(46 650)
Housing Fund	4 822 227	4 903 158
Huidare Project	994 156	980 552
Indoor Sport Complex	1 099 759	1 099 759
Insurance Fund	784 735	804 226
Maintenance Reserve	6 233 734	5 916 260
Mass Housing Funds	(78 906 170)	46 250 246
Mass Housing Funds	49 123 394	-
Mayoral Development Fund	647 467	348 248
Pavement Reserve	203 630	203 630
Property Development Fund	186 879 265	175 163 026
Quarry Ventures	1 662 446	1 376 878
Reg. Council Donations	2 092 119	708 231
Relocation Rubbish Dump	988 922	962 922
Renewals Fund	17 885 218	17 063 401
Replacement of Chairs	119 635	119 635
Revolving Fund	11 616 560	11 537 580
Save the Jetty Fund	646 993	646 993
Sewerage Fund	87 415	(672 633)
Study Aid Fund	23 244	182 786
Swakopmund Emergency Fund	297 672	237 672
Tourism Fund	870 788	315 914
Water Supply Fund	(555 088)	1 967 594

THE MUNICIPALITY OF SWAKOPMUND
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEARENDED
30 JUNE

	2017	2016
	N\$	N\$
10. Trade and other payables	24 420 557	26 802 874
Trade payables	9 094 927	16 389 432
Audit fee, provision	524 243	474 244
Retention monies	1 067 170	1 411 457
Leave provision	10 354 886	4 407 394
Sundries	4 647 610	4 962 433
Recoverable	(1 268 279)	(842 086)
11. Deposits	1 096 569	1 195 776
Tourism reservations	392 371	440 757
Sundries (excluding consumers)	704 198	755 019
12. Adjustments to appropriation account	(10 171 041)	(2 529 987)
Court case-Village	(465 159)	(98 206)
Court case-Desert Wear CC	(432 254)	(75 651)
Court case-DMA Holdings	(9 183)	(3 000)
Cracked houses	(611 412)	(1 084 791)
Ey Auditors	(199 500)	(107 854)
Kinghorn associates	(304 877)	(4 500)
Water losses programme	(871 299)	(1 813 379)
Furniture: Multi-purpose	(573 818)	(356 789)
Auto Reading system	(592 435)	-
Installation of Wi-Fi	(7 918)	-
Donation: namibian cup	(50 000)	-
Contribution: Early retirement	(1 800 000)	-
Annual contribution nnci-swatex	(100 000)	-
Witness Disciplinary case	(28 286)	-
Additional provision: Leave reserve	(4 397 549)	-
Reimbursement: ms bruwer	182 624	360 108
Unappropriated deposit	93 108	-
Key deposits	16 916	-
Unknown difference	(20 000)	-
L e bau	-	(349 209)
Insurance	-	(648)
Drafting of various	-	(158 237)
Construction of houses	-	26 002
Builders deposit	-	714 051
Sundry deposits	-	390 470
Deposits: chairs	-	1 430
Deposits: sand mining	-	17 000
Vat adjustment	-	13 233