



**REPUBLIC OF NAMIBIA**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE  
MUNICIPALITY OF SWAKOPMUND  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

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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 2018, 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, September 2019**

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 MUNICIPALITY  
OF SWAKOPMUND  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

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**1. DISCLAIMER AUDIT OPINION**

I have audited the financial statements of the Municipality of Swakopmund for the financial year ended 30 June 2018 provided by the Accounting Officer as attached in Annexure A-C. These financial statements comprise the statement of financial position, statement of profit or loss, statement of cash flow and statement of changes in net assets for the year then ended.

In my opinion because of the significance of the matters described in the basis for disclaimer of audit opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of Swakopmund Municipality as at 30 June 2018.

**2. BASIS OF DISCLAIMER AUDIT OPINION**

I conducted my audit in accordance with International Standards for Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the entity in accordance with the Code of Ethics for Supreme Audit Institutions together with the ethical requirements that are relevant to my audit of the financial statements in Namibia and I have fulfilled my other ethical responsibilities in accordance with these requirements and the Code of Ethics.

I believe that the audit evidence I have obtained is insufficient and inappropriate to provide a basis for my opinion. A Disclaimer Audit Opinion is being expressed due to the following:

- No recognised Financial Reporting Framework in place;
- Failure to provide notes to the financial statements;
- Land that should have been classified as property, plant and equipment with an estimated value of N\$ 323 744 736 is not listed in the fixed asset register;
- The Municipality failed to charge depreciation on assets acquired through loan arrangements worth N\$ 11 179 807;
- Depreciation on income and general capital assets could not be tested due to the poor state of the asset register;
- The depreciation for the period under review amounting to N\$ 8 187 950 as calculated by the Municipality was charged to Capital Outlay account and does not form part of the expenses for the period;
- The Municipality failed to classify land and buildings as either investment property, inventory or property plant and equipment;
- Unrecorded serviced land available for sale valued at N\$ 159 859 123;
- The Municipality fixed asset register does not provide sufficient and appropriate details;
- No accounting policy for recognition and disclosure of its shareholding in Erongo RED;
- The Municipality has a 28 % shareholding in Erongo RED, and failed to account for it as an associate;
- Journals are not verified for accuracy by a second reviewer and no supporting documents are attached to the journals;
- Provision for severance pay is understated by N\$ 18 964 486, furthermore the Local Authority failed to adjust prior year understatement of provision for severance pay

amounting to N\$ 14 245 254 and related movement is not disclosed in the annual financial statements;

- Provision for bad debts (credit losses) is understated by N\$ 3 903 015;
- Provision for bad debts related to tourism amounting to N\$ 1 133 473 was charged to the appropriation account;
- Accounts receivable is understated by N\$ 7 330 919, resulting from the difference between the disclosed account receivables and age analysis;
- Credit balances at accounts receivable amounting to N\$ 6 284 919 were not reclassified to current liabilities;
- Operational expenditure amounting to N\$ 2 537 736 was incorrectly charged against the appropriation account, as if the expenditure was a correction of prior period errors;
- The Municipality is inappropriately reporting internal charges in the financial statement as earned revenue and incurred expenses (departmental income of N\$11 390 377, Internal interest expense of N\$ 5 946 274.23 and General provisions of N\$ 7 396 250);
- Reconciled bank balance disclosed in the annual financial statement does not agree to the cash book balance by an amount of N\$ 561 150;
- The Municipality failed to disclose civil engineering material; and Bungalow inventory (maintenance stock) as inventory at year end, value of the inventory could not be established since no record is maintained for unused inventory in the civil engineering and bungalow department;
- The Municipality charged internal and external loan repayments amounting to N\$ 11 634 158 to operational expenditure;
- The Municipality failed to implement its approved water tariffs gazetted for the period under review resulting in over charging of its consumers by using incorrect tariffs. unlawfully collecting an estimated amount of N\$ 1 456 308 from the residents of Swakopmund;
- The Municipality recorded sales of land amounting to N\$ 183 483 703 directly to the property development fund;
- Loans redeemed amounting to N\$ 144 117 768 were not disclosed in the statement of cash flows for the period under review and prior periods on the basis that they are recorded against the property development fund;
- Airfield revenue- poor record keeping practice hindered performance of planned audit procedures;
- Airfield department- Pilots do not comply with standardized arrival and departure procedures;
- The Municipality has understated its investment accounts with commercial banks and income by an amount of N\$ 14 663 196.

### **3. KEY AUDIT MATTERS**

Key audit matters are those matters that in my professional judgment were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole and in forming my opinion thereon and I do not provide a separate opinion on these matters. I have nothing to report in this regard.

#### **4. OTHER INFORMATION**

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information; I am required to report that fact.

- I draw attention to encourage staff to obtain professional qualification and be trained in the use of financial reporting standards, to enhance the quality of the Municipality financial statements. My opinion is not qualified in respect of this matter.

#### **RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with acceptable standards and legislation and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

In preparing the financial statements management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible of overseeing the entity's financial reporting process.

#### **5. AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if individually or in the aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards for Supreme Audit Institutions (ISSAIs) I exercise professional scepticism throughout the audit I also;

- Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion forgery intentional omissions misrepresentations or the override of internal controls.

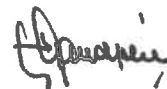
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists I am required to draw attention in my auditor's report to the related disclosures in the financial statements or if such disclosures are inadequate to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation structure and content of the financial statements including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- I communicate with those charged with governance regarding among other matters the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that I identify during my audit.
- I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable related safeguards.
- From the matters communicated with those charged with governance I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my report unless law or regulation precludes public disclosure about the matter or when in extremely rare circumstances I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **7. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

The accounts were submitted by the Accounting Officer to the Auditor-General on the 02 October 2018 in compliance with Section 87(1) of the Local Authorities Act, 1992 (Act No. 23 of 1992).

### **ACKNOWLEDGEMENT**

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



**WINDHOEK, September 2019**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**



**THE MUNICIPALITY OF SWAKOPMUND**  
**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE**

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
	N\$	N\$
<b>NON-CURRENT ASSETS</b>	<b>1 404 301 008</b>	<b>1 213 165 847</b>
Property plant and equipment	1 059 446 215	1 015 989 330
Loans receivable	10 395 088	13 712 957
Investments	334 459 705	183 463 560
<b>CURRENT ASSETS</b>	<b>112 656 509</b>	<b>143 334 101</b>
Trade and other receivables	62 569 996	89 468 919
Inventories	11 252 781	7 384 397
Bank and cash	38 833 732	46 480 785
<b>TOTAL ASSETS</b>	<b>1 516 957 517</b>	<b>1 356 499 948</b>
<b>FUNDS AND LIABILITIES</b>		
<b>FUNDS AND RESERVES</b>	<b>1 474 073 046</b>	<b>1 326 617 354</b>
Capital outlay	946 460 159	906 860 639
Funds and accounts	391 317 795	284 315 429
Equity Erongo Red	122 677 069	122 436 090
Accumulated Deficits	13 618 023	13 005 196
<b>NON-CURRENT LIABILITIES</b>	<b>4 036 449</b>	<b>4 372 022</b>
Long-term loans	4 036 449	4 372 022
<b>CURRENT LIABILITIES</b>	<b>38 848 022</b>	<b>25 510 572</b>
Trade and other payables	32 323 319	24 420 558
Deposits	6 524 703	1 090 014
<b>TOTAL FUNDS AND LIABILITIES</b>	<b>1 516 957 517</b>	<b>1 356 499 948</b>

**THE MUNICIPALITY OF SWAKOPMUND**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR**  
**YEAR ENDED 30 JUNE**

	<b>2018</b>	<b>2017</b>
	N\$	N\$
INCOME	331 456 593	303 614 546
EXPENDITURE	(328 054 637)	(306 435 675)
NET OPERATING SURPLUS / (DEFICIT)	3 401 956	(2 821 129)
INTEREST ON INVESTMENTS	-	-
NET SURPLUS/(DEFICIT) AFTER INTEREST	3 401 956	(2 821 129)
TRANSFER TO INTERNAL FUNDS	-	-
NET SURPLUS / (DEFICIT) AFTER TRANSFERS	3 401 956	(2 821 129)
APPROPRIATION ACCOUNT	(2 789 129)	(10 171 041)
NET SURPLUS/(DEFICIT) AFTER APPROPRIATIONS	612 827	(12 992 170)

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

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**1 ACCOUNTING POLICIES**

**1.1 Introduction**

The annual financial statements set out in Annexures A to D were prepared on the historical cost basis and incorporate the following principle accounting policies which are consistent in all material aspects with those applied in the previous year.

**1.2 Property Plant and Equipment**

Property plant and equipment are stated at cost or valuation where assets have been acquired by grant or by donation. Assets are depreciated over their estimated useful life.

**1.3 Provisions and Reserves**

Provisions have been established where considered necessary and are reflected in the financial statements of which the more important ones are listed below:

**1.3.1 Vacation Leave Reserve**

This Reserve Fund is appropriated for payment of leave credits as needed and the policy is that the balances available on the Fund should meet the total leave credits as at 30 June each year. The leave reserve is disclosed as a creditor.

**1.3.2 Maintenance Reserve**

This Reserve Fund includes contributions from various sections as reflected in the financial statements which are appropriated for major maintenance expenditure. The Maintenance Reserve was also created for vehicles and machinery. The annual savings or over (expenditure on maintenance for vehicles and machinery on votes 10 to 52 are transferred to this Reserve Fund.

**1.3.3 Tourism Fund**

A special levy on bookings for rest houses is deposited in this Reserve Fund which is appropriated for tourism related projects or advertisements to promote Swakopmund as a tourist park.

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

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**1.3.4 Mayoral Anti-crime Fund**

The objective of the Fund is to keep Swakopmund free of crime for its inhabitants and visitors/tourists through support financially or otherwise to institutions which subscribe to Council's objectives of eradicating crime in the Municipal area of Swakopmund.

The relevant committee shall have the authority to approve applications for funds up to an amount of N\$1 000. Any amount in excess of N\$1 000 to a maximum of N\$2 500 must be approved by Council.

**1.3.5 Water Supply Fund**

The purpose of this Fund is to finance future water supply projects without unnecessarily increasing the water tariffs.

Contributions to the Fund will be provided for in the annual budget while expenditure will be included in the annual capital budget.

**1.3.6 Pavement Reserve Fund**

With the selling of erven in Extension 9 a certain amount of the revenue was deposited into this Fund which is earmarked for the surfacing of pavements once tarred roads in this area have been completed.

**1.3.7 Bursary Fund**

The purpose of this Fund is to enable selected candidates from Namibia to qualify for a bursary with the aim to be appointed within the Municipality of Swakopmund. Revenue will be generated from contributions from the operational budget and interest on investments while study (related costs etc. will be financed from this Fund.

**1.3.8 Study Aid Fund**

The purpose of this Fund is to render financial support to employees who wish to improve their educational qualification.

Interest -free loans are granted from the Fund to employees to be paid back on a monthly basis and once the relevant course is successfully completed the employee will be refunded from the Fund for all costs involved.

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

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**1.3.9 Relocation of Rubbish Dump Fund**

Due to the expansion of the Town the existing rubbish dump will probably have to be shifted to another area. Contributions are made on an annual basis from the operational budget to this Fund to assist with the costs once the “relocation” is necessary.

**1.3.10 Save the Jetty Fund**

The Council has revived the “Save the Jetty” Fund after renovations to the jetty one of the country’s most important historic sites became necessary. Contributions to the Fund from the public are made on a regular basis which will be utilised to assist with the total renovation of the Jetty once it is deemed necessary or affordable.

**1.3.11 Redundant Stock Reserve**

This Reserve was established to accommodate the losses due to obsolete or redundant stock items in the municipal store.

**1.3.12 Sewerage Reserve**

The purpose of the Fund is to generate funds for the upgrading of the existing sewerage works. Income is generated from an annual contribution from the operational budget as well as interest earned on money invested.

**1.3.13 Chairs Replacement Reserve**

The Council has 300 chairs which are available for rental to the public. The purpose of the Fund is to assist with replacement when necessary.

**1.3.14 Indoor Sport Complex Reserve**

This Reserve was created to cover the costs for the construction of the Indoor Sport Complex.

**1.4 Internal loans**

The interest rate for internal loans for the Property Development Fund Capital Development Fund and Renewal Fund is determined by the Council as deemed necessary.

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

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**1.5 Capital outlay**

Fixed assets are stated at cost or valuation where assets have been acquired by grant or by 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.

**1.6 Stores – Inventory**

The value of inventory items is reflected at cost plus transport charges. Store levies of 17% for inventory items and 7% for all other direct purchases with a maximum of N\$ 2 000 per capital item have been charged to cover overheads.

**1.7 Investments**

Investments are made after quotations have been invited. Investments per individual financial institution are limited to one third of the total amount invested.

Interest earned from investments is allocated to the different Funds and surpluses. The basis used for this allocation is the average of the opening balances and movements during the financial year of relevant Funds and surpluses.

**1.8 Administration charges**

A differential percentage levy approach based on the actual income and expenditure of the previous financial year as well as the involvement of the different departments has been adopted to spread the overhead charges.

On capital projects the levies or supervision fees are calculated as follows:

- General or normal capital projects: 6%
- Exceptionally big projects: 3 – 4%

**1.9 Funds**

**1.9.1 Capital Development Fund**

This fund is sustained through interest earned on internal loans as well as from interest on invested funds.

Due to the fact that the income generated from sale of erven is now deposited into the Property Development Fund the Capital Development Fund is dependent on interest earned on internal loans granted and money invested.

## THE MUNICIPALITY OF SWAKOPMUND

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

(continued)

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**1.9.2 Property Development Fund**

Revenue generated from the sale of erven is deposited into this Fund. The purpose of this Fund is to finance capital on property development by means of internal loans or appropriation.

**1.9.3 Renewal Fund**

The purpose of this Fund is mainly to replace assets i. e. vehicles machines and equipment by means of internal loans and appropriation. This Fund can also be used for financing of other capital projects by means of internal loans.

**1.9.4 Housing Fund**

The main purpose of this Fund is to provide housing loans especially low -cost housing. Income is derived from interest earned on investments interest earned on secured loans and profits made on resale of housing scheme houses. Interest paid on external loans for low cost housing is financed from this Fund.

**1.9.5 Insurance Fund**

All monies received in respect of insurance claims and not utilised by the relevant departments for replacements are transferred to the Insurance Fund for future use as approved by the Council.

**1.9.6 Revolving Fund**

This Fund was established in co-operation with Messrs. KFW from Germany in order to upgrade the Single Quarters and Compound into separate housing units to be sold to the existing tenants. Bank Windhoek will finance loans for the beneficiaries on condition that Council will be the guarantor.

**1.9.7 Betterment Fund**

When applications for the rezoning of erven are received where upgrading of services will be required a "Betterment" fee is levied which is deposited into the Betterment Fund and will be utilised to finance the upgrading of such services.

**1.9.8 Bond Protection Fund**

The purpose of this Fund is to cover excess payments in respect of insurance claims as well as insurance premiums for low cost houses covered by the Annual Insurance Portfolio. Monthly contributions as determined by the Council payable by home owners of these low (cost houses are deposited into this Fund.

