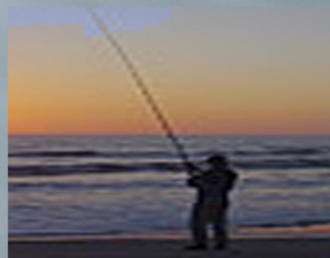
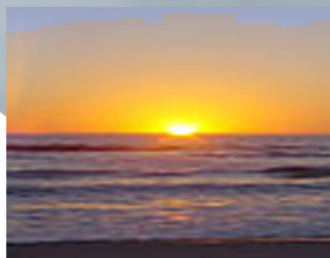




REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF HENTIES BAY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009**

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REPUBLIC OF NAMIBIA



TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY

I have the honour to submit herewith my report on the accounts of the Municipality of Henties Bay for the financial year ended 30 June 2009, 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, April 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL
ON THE ACCOUNTS OF THE MUNICIPALITY OF HENTIES BAY
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2009**

1. INTRODUCTION

The accounts of the Municipality of Henties Bay for the year ended 30 June 2009 are being reported on in accordance with the provisions set out in the State Finance Act, 1991 (Act 31 of 1991) and the Local Authorities Act, (Act 23 of 1992).

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

Figures in the report are rounded off to the nearest Namibian Dollar.

2. FINANCIAL STATEMENTS

The Municipality's financial statements were submitted to the Auditor-General by the accounting officer in compliance with section 87 (1) of the Local Authorities Act, 1992. The audited financial statements are in agreement with the General Ledger and are filed in the Office of the Auditor-General. The abridged balance sheet, annexure A, is a true reflection of the original.

The following annexures are also attached to this report:

Annexure B: Abridged income statement

Annexure C: Cash flow statement

Annexure D: Notes to the financial statements

3. SCOPE OF THE AUDIT

Management's responsibility for the financial statements

The Accounting Officer of the Municipality is responsible for the preparation and fair presentation of the financial statements and for ensuring the regularity of the financial transactions. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

It is the responsibility of the Auditor-General to form an independent opinion, based on the audit, on those statements and on the regularity of the financial transactions included in them and to report his opinion to the National Assembly. The said firm conducted the audit in accordance with International Standards on Auditing. Those standards require that the firm complies with ethical requirements and plans and performs the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. 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.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Long outstanding debtors

The financial statements reflect a balance owing by Government related to street and traffic subsidies of N\$ 1 119 844 since the 2005 financial year. It is doubtful whether this is recoverable.

4.2 VAT

VAT receivable of N\$ 7 354 564 per balance sheet is probably not recoverable in the light of an amount of N\$ 816 109 being utilized by the Receiver of Revenue as penalties on import VAT and input VAT of N\$ 1 307 709 on road development being incorrectly claimed and included.

4.3 Investments

The investment of N\$ 19 523 832 in Erongo Red could not be confirmed as financial statements of Erongo Red were not available. No authority from the Minister of Regional and Local Government, Housing and Rural Development, as required by the Act, could be submitted for investments made with insurance companies.

4.4 Provision for bad debts

A considerable provision for bad debts has been raised. This is an indication that the Municipality needs to improve its debt collection system.

4.5 Fixed assets register

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

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

The results of the various operations and of transactions on the Revenue Account for the year are as follows:

	Revenue	Expenditure	Surplus/ (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit at 01/07/2008				(3 696 837)
General services				
Non-profitable	6 567 188	11 150 015	(4 582 827)	
Self-supporting	1 860 555	1 320 014	540 541	
Trade accounts				
Electricity services	1 577 154	29 814	1 547 340	
Water supply	4 587 589	2 850 584	1 737 005	
	14 592 486	15 350 427	(757 941)	
Deficit for the year				(757 941)
Adjustments and utilizations detailed in note 8				(873 776)
Accumulated deficit at 30/06/2009				(5 328 554)

7. CURRENT BANK ACCOUNT

The cash-book reflected a favourable balance of N\$ 240 257 (2008: Unfavourable N\$ 215 129) while the bank statement reflected a favourable balance of N\$ 419 996 (2008: Favourable N\$ 439 749). Cheques not presented for payment totaling N\$ 489 806 (2008: N\$ 615 087) were outstanding at year-end.

8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June 2009 there was N\$ 7 737 990 (2008: N\$ 8 938 635) invested at financial institutions and N\$ 20 496 247 (2008: N\$ 12 216 151) at other institutions as follows:

	2009	2008
	N\$	N\$
Commercial banks	4 101 250	7 278 055
Old Mutual	2 704 620	2 471 377
Nampost	932 121	-
	7 737 991	9 749 432
Investment - Erongo Red	20 073 829	11 217 618
Waterfront Company	200 000	-
Listed shares	222 417	187 736
	28 234 237	21 154 786

Investments with insurance companies require approval of the Minister of the Ministry of Regional and Local Government, Housing and Rural Development. No such approval could be submitted.

The investments and interest earned were allocated as follows:

	2009		2008	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Betterment Fund	149 783	2 788	169 672	8 714
Capital Development Fund	3 920 838	72 982	3 646 272	187 267
Fixed Property Fund	8 308 926	154 662	10 926 733	579 356
Jetty Fund	290 152	5 401	246 134	12 641
Mayoral Relief Fund	1 059	20	736	38
Reserve Fund	104 006	1 936	329 818	16 939
Sewerage Fund	8 388 015	156 134	1 456 797	74 819
Build Together Fund	4 885 460	90 938	2 705 093	138 930
Low Cost Housing Fund	2 185 998	40 690	1 673 531	85 950
	28 234 237	525 551	21 154 786	1 104 654

9. FUND ACCOUNTS

The position of the Fund accounts at the end of the year is shown in note 5.1 of annexure D. Temporary advances of N\$ 13 932 523 (2008: N\$ 7 840 373) were made from the Fund accounts to Revenue to finance operating costs. The increase of N\$ 6 092 152 indicates the speed with which the Municipality is depleting its Funds and this is a matter of grave concern.

10. TRADE ACCOUNTS

10.1 The results of operations of water distribution were as follows:

	2009	2008
	N\$	N\$
Sales	4 533 696	3 892 105
Cost of bulk purchases	(2 346 137)	(2 281 573)
Gross profit	2 187 559	1 610 532
Expenses (net)	(450 554)	(303 398)
Net surplus	1 737 005	1 307 134
Gross profit % on bulk purchases	93.2%	70.5%
Net profit % on bulk purchases	74%	57.2%

10.2 The results of water distribution losses were as follows:

	2009	2008
	N\$	N\$
Units sold	299 597	329 335
Units purchased	(410 973)	(405 377)
Gross loss	(111 376)	(76 042)
Gross loss % on bulk purchases	(27%)	(19%)

11. SELF-SUPPORTING SERVICES

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

	2009	2008
	N\$	N\$
Tourism (deficit)	(220 867)	(209 441)
Health and cleaning services	761 408	687 035
	540 541	477 594

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorised or avoidable expenditure was revealed during the audit.

13. SUSPENSE ACCOUNTS

No money was accounted for in suspense accounts during the year under review.

14. IRREGULARITIES AND LOSSES

No irregularities and losses were revealed by the audit for the year under review.

15. CAPITAL PROJECTS

The following expenditure was incurred during the year for capital projects or acquisitions.

	2009	2008
	N\$	N\$
Infrastructure	23 683 980	8 527 972
Office equipment	219 478	12 670
Land and buildings	-	651 459
Motor vehicles	380 888	430 371
Total	24 284 346	9 622 472

Expenditure was financed as follows:

	2009	2008
	N\$	N\$
Revenue account	-	121 500
Capital account	23 903 458	9 062 431
Loan account	380 888	*438 541
Total	24 284 346	9 622 472

*According to the external loan schedule, the new loan amount is N\$ 430 371.

16. BURSARIES

No bursaries were granted during the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

During the year under review Council received contributions from the Government as follows:

	N\$
Sewerage	19 387 814
Build Together Fund	2 821 621
	<u>22 209 435</u>

18. COMPENSATION PAYMENTS

No compensation payments were made during the year under review.

19. VISITS TO FOREIGN COUNTRIES

No expenditure was incurred on visits to other countries during the year under review.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No material claims against the Local Authority were received during the year under review.

21. GIFTS / DONATIONS BY / TO THE LOCAL AUTHORITY

An amount of N\$ 7 000 (2008: N\$ 7 940) was paid as donations for the year under review.

22. TRANSFER OF PROPERTY TO / FROM GOVERNMENT

No such transfers took place during the year.

23. DEBTORS AND CREDITORS

23.1 Debtors at 30 June were:

	2009	2008
	N\$	N\$
Consumers	5 083 125	8 272 025
Provision for bad debts	(3 724 110)	(7 338 880)
	1 359 015	933 145
VAT	7 354 564	2 906 679
Subsidies receivable	1 119 844	1 119 844
Surcharges - Erongo Red	788 575	606 253
	10 621 998	5 565 921

For the year under review, a debtors billing system was used whereby assessment rates, water services and related services were combined. No split was made between relevant services rendered. However, upon receipt of cash, monies were accounted for the different services rendered.

23.2 Creditors at 30 June were:

	2009	2008
	N\$	N\$
Trade creditors	7 369	161 451
Accruals creditors	1 113 299	642 321
Consumer deposits	489 754	495 098
Provision for audit fees	82 798	42 798
Provision for staff leave	720 819	-
	2 414 039	1 341 668

24. ASSESSMENT RATES

Net proceeds from assessment rates amounted to N\$ 5 332 295 (2008: N\$ 4 804 281). The tariffs for private and business properties of N\$ 0.0495 per dollar per year on site valuations and N\$ 0.0076 per dollar per year on the valuation of improvements are in line with gazette rates.

25. SALE OF ERVEN

Cash proceeds of N\$ 15 201 134 (2008: N\$ 3 510 098) were received for erven sold and allocated to the Fixed Property Fund during the current financial year.

26. PROPERTY SOLD ON INSTALMENT BASIS

Due to the non-disclosure of property sold on an instalment basis in the financial statements as prepared by the Municipality, the auditors could not determine the value of these properties nor the revenue received.

27. TARIFF ADJUSTMENTS

All tariff adjustments were in accordance with the relevant Official Government notice.

28. STOCK AND EQUIPMENT

28.1 Motor vehicles

Due to the format of the fixed asset register kept by the Municipality it is difficult to identify the motor vehicles. It is advisable to review the system constantly, and implement changes for effective and accurate record keeping.

28.2 Inventory

According to the Municipality, stock comprising of stationery and consumables amounted to N\$ 154 654 (2008: N\$ 133 315).

29. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year.

30. GENERAL

30.1 Internal controls

The accounting and internal controls are satisfactory, except where indicated otherwise in this report. Proper segregation of duties is not feasible due to the small number of staff employed. While increased management involvement reduces risks, the risk arises that management and Council override existing controls, a potential dangerous practice which the Council should vigilantly guard against.

31. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report.

Informal queries were addressed to the Chief Executive Officer and dealt with locally.

32. DISCLAIMED AUDIT OPINION

The accounts of the Municipality of Henties Bay for the financial year ended 30 June 2009, summarised in annexure A to D, were audited by me in terms of the provisions of section 85 of the Local Authorities Act, 1992, read with section 25(1)(b) of the State Finance Act, 1991.

I am unable to express an opinion on the financial statements, results of operations and the cash flow of the Municipality for the year ended 30 June 2009 due to the following reasons:

- The VAT amount reflected in the balance sheet is substantially incorrect and probably not fully recoverable;
- The value of the investment in Erongo Red could not be verified due to the absence of relevant documentation;
- The amount of N\$ 1 119 844 owing by the Government in respect of subsidies is not recoverable.

WINDHOEK, April 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

MUNICIPALITY OF HENTIES BAY

BALANCE SHEET ON 30 JUNE

	Note	2009	2008
		N\$	N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	46 935 051	23 548 926
Property loans		6 458 104	5 793 658
Investments	3	28 234 237	21 154 787
Current assets			
Inventory		154 654	133 309
Accounts receivable	4	3 267 438	2 659 242
VAT claims		7 354 564	2 906 679
Cash and cash equivalents		241 353	1 096
Total assets		92 645 401	56 197 697
EQUITY AND LIABILITIES			
Equity			
Funds	5	94 633 625	57 404 242
Accumulated loss		(5 328 554)	(3 696 837)
Non-current liabilities			
Finance agreements	6	926 291	933 495
Current liabilities			
Trade and other payables	7	2 414 039	1 556 797
Bank overdraft		-	215 129
Total equity and liabilities		92 645 401	56 197 697

MUNICIPALITY OF HENTIES BAY

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2009 N\$	2008 N\$
Income		14 460 564	13 292 778
Expenditure		(15 350 427)	(14 696 937)
Net operating (loss)		(889 863)	(1 404 159)
Profit on sale of plant and equipment		49 913	-
Interest earned (revenue account)		82 009	1 104 654
Net profit /(loss) for the year	2	(757 941)	(299 505)
Transfer to funds		-	(1 104 654)
 (Deficit) for the year		 (757 941)	 (1 404 159)
 ACCUMULATED FUNDS			
– Beginning of the year		(3 696 837)	1 567 933
– adjustments for the year		(873 776)	(3 860 611)
 – End of the year		 (5 328 554)	 (3 696 837)

MUNICIPALITY OF HENTIES BAY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2009 N\$	2008 N\$
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>			
Cash receipts from customers		14 460 564	13 292 778
Cash paid to suppliers		(20 229 258)	(16 033 367)
Cash generated / (utilised) by operating activities	9	(5 768 694)	(2 744 589)
Investment income		82 009	1 104 654
Profit on sale of plant		49 913	-
Increase/(decrease) in Fund accounts		13 079 052	(8 314 346)
Increase/(decrease) in Capital outlay		24 150 331	10 349 712
Net cash flow from operating activities		31 592 611	395 431
<i>CASH FLOW FROM INVESTING ACTIVITIES</i>			
		(31 130 021)	(622 714)
(Increase)/decrease – Loan assets		(664 446)	1 648 487
Net capital (expenditure)		(23 386 125)	(9 145 856)
Transfer to funds		-	(1 104 654)
(Increase)/decrease in investments		(7 079 450)	7 979 309
Net cash inflow/(outflow) from investing activities		462 590	(227 283)
<i>CASH FLOW FROM FINANCING ACTIVITIES</i>			
		(7 204)	156 574
(Decrease) / Increase in long-term liabilities		(7 204)	156 574
<i>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</i>		455 386	(70 709)
<i>CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR</i>		(214 033)	(143 324)
<i>CASH AND CASH EQUIVALENTS - END OF THE YEAR</i>		241 353	(214 033)

MUNICIPALITY OF HENTIES BAY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2009

1. ACCOUNTING POLICIES

The annual financial statements are compiled in accordance with the historical convention modified by the restatement of the financial instruments to fair value, except where otherwise stated.

The principal accounting policies of the Municipality, which are set out below, have been consistent and comply with Namibian Statements of Generally Accepted Accounting Practices. The financial statements have been prepared in accordance with the requirements of the Namibian Local Authorities Act.

1.1 Fixed assets and depreciation

Fixed assets are stated at cost or at valuation where assets have been acquired by grant or donation, less depreciation written off over the expected useful lives as determined by the Council from time to time. Fixed assets acquired with loan funds are not depreciated until the loan is repaid, unless the expected lifetime of the asset is less than the repayment period of the loan in which case depreciation is calculated on the shortfall.

1.2 Inventories

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

1.3 Funds**Revenue account**

All monies received by and accrued to and expenses paid, except for allocation to other funds, are reflected in this account, and are kept in compliance with section 86(1) (b) of the Local Authorities Act of 1992.

Reserve Fund

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

Capital Development Fund

The purpose of this Fund is to finance electrical reticulation network projects. Revenue is derived from interest on investments, internal loans and contributions from revenue.

Betterment Fund

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

Fixed Property Fund

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

MUNICIPALITY OF HENTIES BAY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE (continued)

1.3 Funds (continued)**Jetty Fund**

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

Low Cost Housing Fund

The purpose of the Fund is to provide for housing loans to lower income groups of people. Revenue is derived from the sale of houses and instalments received.

Mayoral Relief Fund

The purpose of this Fund is to provide funding to enable the mayor to make donations/contributions towards various events. Income is derived from the revenue accounts and donations from the public.

Sewerage Fund

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

	2009	2008
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment, at cost	49 277 812	25 572 703
Less: Depreciation	(2 342 761)	(2 023 777)
	46 935 051	23 548 926
3. INVESTMENTS		
Erongo Red	20 073 829	11 217 618
– unlisted shares, at cost	549 997	549 997
– assets made over	19 523 832	10 667 621
Insurance policies	2 704 620	2 471 377
Shares	422 417	187 736
– listed, at market price	222 417	187 736
– unlisted, at cost	200 000	-
Fixed deposits and money on call	5 033 371	7 278 056
Total investments at year end	28 234 237	21 154 787

MUNICIPALITY OF HENTIES BAY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE (continued)

	2009	2008
	N\$	N\$
4. TRADE AND OTHER RECEIVABLES		
Consumers	5 083 129	8 272 025
Less: Provision for doubtful debts	(3 724 110)	(7 338 880)
	1 359 019	933 145
Subsidies	1 119 844	1 119 844
Surcharge Erongo Red	788 575	606 253
	3 267 438	2 659 242
5. FUNDS AND ACCOUNTS		
5.1 Internal Funds		
	47 867 862	34 788 810
Build Together Fund	6 851 007	4 448 495
Betterment Fund	210 045	279 024
Capital Development Fund	5 498 292	5 996 254
Fixed Property Fund	19 926 083	17 968 888
Jetty Fund	406 888	404 765
Low Cost Housing Fund	3 065 481	2 752 103
Mayoral Relief Fund	1 485	1 211
Reserve Fund	145 851	542 383
Sewerage Fund	11 762 730	2 395 687
5.2 Capital Funds	46 765 763	22 615 432
Loans redeemed	1 448 136	622 025
Contributions from general capital	33 872 112	10 434 053
Contributions from revenue	11 445 515	11 559 354
	94 633 625	57 404 242
6. LONG-TERM LIABILITIES		
External loans		
Suspensive sale agreements	926 291	933 495

MUNICIPALITY OF HENTIES BAY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2008

	2009	2008
	N\$	N\$
7. TRADE AND OTHER PAYABLES		
Trade creditors	7 369	161 451
Accruals	1 113 299	642 321
Consumer deposits	489 754	495 098
Provision for audit fees	82 798	42 798
Provision for leave	720 819	-
	<u>2 414 039</u>	<u>1 341 668</u>
8. ADJUSTMENTS AND UTILIZATIONS		
Surcharges	1 380 006	606 253
Income	402 969	-
Accrual creditors	(470 979)	(403 471)
Provision for bad debts	(1 536 992)	(4 131 156)
Provision for leave	(359 270)	-
Expenditure	-	(137 584)
Unknown deposits	43 886	9 201
VAT correction	-	196 146
Workmen's compensation	(40 167)	-
Transfer costs	(361 549)	-
Refunds	68 320	-
	<u>(873 776)</u>	<u>(3 860 611)</u>
9. CASH UTILIZED BY OPERATIONS		
Net operating profit/(loss) before transfers	(757 941)	(299 505)
Adjustments for		
- Adjustments and utilizations	(873 776)	(3 860 611)
- Profit on sale of plant	(49 913)	-
- Investment income	(82 009)	(1 104 654)
Operating income before changes in working capital	<u>(1 763 639)</u>	<u>(5 264 770)</u>
CHANGES IN WORKING CAPITAL		
(Increase)/decrease in trade and other receivables	(5 056 081)	2 260 674
(Increase)/decrease in inventories	(21 345)	389
(Increase)/decrease in trade and other payables	1 072 371	259 118
	<u>(4 005 055)</u>	<u>2 520 181</u>
Cash utilized by operations	<u>(5 768 694)</u>	<u>(2 744 589)</u>