



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF HENTIES BAY
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 Henties Bay 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, October 2017

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

1. Report on the Financial Statements

1.1 INTRODUCTION

The accounts of the Municipality of Henties Bay for the financial year ended 30 June 2016 are being reported on in accordance with the provisions set out in Section 85 of the Local Authorities Act, 1992 (Act 23 of 1992).

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

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

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

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

The financial statements were submitted by the Accounting Officer to the Auditor-General in compliance with Section 87(1) of the Local Authorities Act, 1992, except that they were only submitted on 31 October 2016 instead of three months (3 months) after the year end as required by the Acts.

The financial statements and notes to the financial statements provided by the Accounting Officer are attached as Annexures A to 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 87(1) of the Local Authorities Act, (Act 23 of 1992) and relevant 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.

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 insufficient and inappropriate to provide a basis for the audit opinion

4. ACKNOWLEDGEMENT

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

5. KEY AUDIT FINDINGS

5.1 LIABILITIES

The liabilities per financial statements as at year end are understated by N\$ 5 881 591 through omission of supplier invoices dated before 30 June 2016 but paid after the reporting date.

Recommendation

It is recommended that all relevant accruals, provisions and creditors should be included in the financial statements.

5.2 DEPRECIATION CHARGE

Some of the assets recorded in the fixed assets register were not depreciated during the year under review. Based on the sample the auditors tested, the depreciation charge is understated by N\$ 2 215 310. As a result, the property, plant and equipment and the related Fund accounts are materially overstated.

Recommendation

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

5.3 PROVISION FOR DOUBTFUL DEBTS

The review of the debtors age analysis and payments received after the reporting date reveals an understatement of the provision for bad debts by N\$ 4 655 931.

Recommendation

It is recommended that the Municipality should provide for all debtors over 120 days net of related payments received after year end.

5.4 CASH AND BANK

At 30 June 2016, there is an unexplained adjustment of N\$ 428 445 on the bank reconciliation, as a result, the accuracy of the bank reconciliation could not be ascertained. In addition, cheques issued during the year under review amounting to N\$ 848 090 were cancelled after the reporting date but were not adjusted for in the correct accounting period. As a result the reported payments and overdrawn cashbook balance are overstated by N\$ 848 090.

Recommendations

It is recommended that the bank reconciliation should be done on a monthly basis and all reconciling items should be analysed, followed-up and cleared. Furthermore, it is recommended that for the year end purposes, the cancelled cheques should be corrected in the year in which the payment arise.

5.5 INVENTORIES

The auditors did not attend inventory count at year end and were unable to verify the physical quantities of inventories at year end owing to the nature of the accounting records maintained by the Municipality. No stock cards were maintained by the Municipality for diesel and petrol inventories therefore it was not possible to perform roll-back procedures at the time of the audit. In addition, no explanation was provided for some differences in quantities per inventory listing and stock cards.

Recommendation

It is recommended that the Municipality should update inventory cards after each inventory count and that Stock cards should be maintained for diesel and petrol.

5.6 WATER PURCHASES

The reported water purchases in the financial statements is overstated by N\$ 543 163 due to the inclusion of prior years' invoices as well as the VAT portion on the June 2016 invoice.

Recommendation

It is recommended that the Municipality should ensure that invoices relating to the prior years are charged to the appropriation account to comply with the matching principle.

5.7 CIRCULAR D3/2015

The Chief Executive Officer of the Henties Bay Municipality for the year under review did not submit statements to the Auditor-General as per Circular D3/2015 of the Auditor-General.

Recommendations

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

6. BASIS FOR ADVERSE AUDIT OPINION

- Understatement of liabilities by N\$ 5 881 591;
- Depreciation not charged amounting to N\$ 2 215 310;
- Understatement of the provision for doubtful debts by N\$ 4 655 931;
- Difference on the bank reconciliation amounting to N\$ 428 445;
- Overstatement of the overdrawn cashbook balance by N\$ 848 090;
- Inadequate supporting documents for the physical quantities of inventories; and
- Overstatement of water purchases by N\$ 543 163.

7. ADVERSE AUDIT OPINION

The accounts of the Municipality of Henties Bay for the financial year ended 30 June 2016, summarised in annexure A to D, were audited by me in terms of the provisions of section 85 of the Local Authorities Act, 1992.

In my opinion, because of the significance of the matters discussed and listed in the Basis for Adverse Audit Opinion paragraph, these annual financial statements do not present fairly, the financial position of the Municipality of Henties Bay as at 30 June 2016.

WINDHOEK, October 2017



**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

	Note	2016 N\$	2015 N\$
ASSETS			
Non-current assets		130 364 117	102 472 023
Property, plant and equipment	2	88 479 864	68 262 472
Property loans	9	19 089 228	13 700 871
Investments	3	22 795 025	20 508 680
Current assets		10 670 471	9 083 413
Inventory		646 421	428 768
Trade and othe receivables		10 024 050	8 652 606
Cash and cash equivalent		-	2 039
Total assets		141 034 588	111 555 436
EQUITY AND LIABILITIES			
Equity		133 782 817	103 065 188
Funds	5	164 701 762	129 599 564
Accumulated deficit		(30 918 945)	(26 534 376)
Non-current liabilities			
Finance agreements	6	86 404	265 004
Current liabilities		7 165 367	8 225 244
Bank overdraft		2 919 983	4 973 307
Trade and other payables	7	4 245 384	3 251 937
Total liabilities		7 251 771	8 490 248
Total equity and liabilities		141 034 588	111 555 436

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

	2016	2015
	N\$	N\$
Income	35 144 587	31 163 145
Expenditure	(35 762 208)	(29 363 180)
Net operating (deficit)/ surplus	(617 621)	1 799 965
Accumulated deficit		
– Beginning of the year	(26 534 376)	(26 990 675)
– Adjustments for the year	(3 766 948)	(1 343 666)
End of the year	(30 918 945)	(26 534 376)

MUNICIPALITY OF HENTIES BAY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2016 N\$	2015 N\$
Cash generated/(utilised) by operating activities	8	(5 072 789)	2 751 271
Interest received		92 570	190 042
Net cash flows from operating activities		(4 980 219)	2 941 313
Cash flows from investing activities			
Movement in property, plant and equipment		(20 217 392)	(9 052 708)
Increase in property loans		(5 388 357)	(2 216 864)
Movement in work in progress		-	1 047 533
Increase/(decrease) in investments		(2 286 345)	275 611
Net cash flows from investing activities		(27 892 094)	(9 946 428)
Cash flows from financing activities			
Capital and funds accounts		35 102 197	3 023 850
Net decrease in suspensive sale agreements		(178 600)	(147 366)
		34 923 597	2 876 484
Net decrease in cash and cash equivalents		2 051 284	(4 128 631)
Net cash and cash equivalents			
– at beginning of the year		(4 971 267)	(842 636)
– at the end of the year		(2 919 983)	(4 971 267)

MUNICIPALITY OF HENTIES BAY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1. ACCOUNTING POLICIES

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

The principal accounting policies of the Municipality, which are set out below, have been consistently applied and are in accordance with the requirements of the Namibian Local Authorities Act.

1.1 Fixed assets and depreciation

Fixed assets are stated at cost or at valuation where assets have been acquired by grant or donation, less depreciation written off over the expected useful lives as determined by the Council from time to time. 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 realisable 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

1.3.1 Revenue account

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

1.3.2 Reserve Fund

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

1.3.3 Capital Development Fund

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

1.3.4 Betterment Fund

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

1.3.5 Fixed Property Fund

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

ANNEXURE D

MUNICIPALITY OF HENTIES BAY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (continued)

1.3.6 Jetty Fund

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

1.3.7 Low Cost Housing Fund

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

1.3.8 Mayoral Relief Fund

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

1.3.9 Sewerage Fund

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

	2016	2015
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	88 479 864	68 262 472
3. INVESTMENTS		
Erongo RED		
– Unlisted shares, at cost	549 997	549 997
– Assets made over	17 357 359	17 357 359
Shares		
– Listed, at market price	617 870	617 870
Fixed deposits and money on call	4 269 799	1 983 454
Total investments at year-end	22 795 025	20 508 680
4. TRADE AND OTHER RECEIVABLES		
Consumers	20 418 493	15 819 376
Less: Provision for doubtful debts	(12 000 000)	(11 328 653)
	8 418 493	4 490 723
Sundry	282 343	929 860
Value Added Tax	1 323 214	3 208 136
Surcharges - Erongo RED	-	23 887
	10 024 050	8 652 606

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

	2016	2015
	N\$	N\$
5. FUNDS AND ACCOUNTS		
5.1 Internal funds		
	80 604 206	61 602 097
Build Together Fund	20 847 665	15 528 454
Betterment Fund	-	-
Capital Development Fund	6 507 688	6 478 590
Fixed Property Fund	40 852 859	27 009 591
Jetty Fund	484 238	484 238
Low Cost Housing Fund	3 687 835	3 594 979
Mayoral Relief Fund	12 623	12 623
Reserve Fund	-	-
Social Housing Fund	281 042	279 300
Sewerage Fund	7 930 256	7 930 256
TIPEEG Fund	-	284 066
	84 097 556	67 997 467
5.2 Capital funds		
Loans redeemed	621 824	443 223
Contributions from general capital	46 853 817	36 010 855
Contributions from revenue	36 621 915	31 543 389
	164 701 762	129 599 564
6. LONG-TERM LIABILITIES		
External loans		
Suspensive sale agreements	86 404	265 004
7. TRADE AND OTHER PAYABLES		
Accruals	644 014	618 743
Consumer deposits	1 736 666	1 230 758
Provision for audit fees	-	82 793
Provision for leave	1 373 227	1 172 655
Retention	420 164	75 675
Other	71 313	71 313
	4 245 384	3 251 937

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

	2016	2015
	N\$	N\$
8. CASH (UTILISED)/GENERATED BY OPERATING ACTIVITIES		
Net (deficit)/surplus for the year, per income statement	(617 621)	1 799 965
Adjustments for non-cash and other items		
– Interest received	(92 570)	(190 042)
	(710 191)	1 609 923
Adjustments on appropriation account		
– Receipts	288 137	2 841 900
– Payments	(4 055 085)	(4 185 566)
Operating profit before working capital changes	(4 477 139)	266 257
Working capital changes		
– Accounts payable	993 447	867 700
– Accounts receivable	(1 371 444)	1 617 050
– Inventory	(217 653)	264
	(5 072 789)	2 751 271
9. PROPERTY LOANS		
Fixed Property Fund	319 799	404 818
Low Cost Housing Fund	1 035 961	1 106 927
Build Together Fund	17 733 468	12 189 126
	19 089 228	13 700 871
10. ADJUSTMENTS		
Unexplained movement	-	2 578 749
Income	-	125 155
Bursary refund	-	86 977
Unknown credits	136 023	51 019
Increase in provision for doubtful debts	(671 347)	(3 885 951)
Accruals	-	(117 107)
Increase in leave pay provision	(200 572)	(180 037)
Other	152 113	(2 471)
RFA write-off	(715 681)	-
VAT adjustments	(2 467 484)	-
	(3 766 948)	(1 343 666)

