



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF WALVIS BAY
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 Walvis Bay 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.

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

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

WINDHOEK, February 2020

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

1. ADVERSE AUDIT OPINION

I have audited the financial statements of the Municipality of Walvis Bay for the financial year ended 30 June 2018. These financial statements comprise the statement of financial position, the statement of all comprehensive income and the statement of cash flows for the year then ended, and a summary of significant accounting policies.

In my opinion, because of the significance of matters discussed in the Basis for Adverse audit Opinion paragraph, the financial statements do not present fairly the financial position of the Municipality of Walvis Bay for the financial year ended 30 June 2018 and its financial performance for the year then ended.

2. BASIS FOR ADVERSE AUDIT OPINION

I conducted my audit in accordance with International Standards for Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section the audit 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, 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 sufficient and appropriate to provide a basis for my opinion. The adverse audit opinion is expressed due to the following:

- The Municipality does not have an acceptable reporting framework in place;
- Property, Plant and Equipment was not disclosed in classes of assets; and
- Council Resolution 12.12 of 31 May 2011 – (no consolidation statements are to be prepared for entities in which Council has a significant shareholding – ref paragraph 2 & note 3) contradicts International Accounting Standards.

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 determined that there are no key audit matters identified in respective of the financial statement for the Municipality of Walvis Bay.

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 the 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 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 have nothing to report in this regard.

5. 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 legislation, and for such internal control as management deems it 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 for overseeing the entity's financial reporting process.

6. 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.

- 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 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 the report to the related disclosures in the financial statements, or if such disclosures are inadequate, to modify the opinion. My conclusions are based on the audit evidence obtained up to the date of the 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 the report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

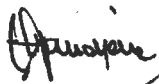
7. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The financial statements for the financial year ended 30 June 2018 were submitted by the Accounting Officer to the Auditor-General in compliance with Section 85 of the Local Authorities Act, 1992 (Act No. 23 of 1992), read with Sections 25, 26 and 27 of the State Finance Act, 1991 (Act No. 31 of 1991), except that they were only submitted on 18 October 2018 instead of three months (3 months) after the year end as required by the Act.

8. ACKNOWLEDGEMENT

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

WINDHOEK, February 2020


JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

MUNICIPALITY OF WALVIS BAY
STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE

| | | 2018 | 2017 |
|------------------------------------|------|----------------------|----------------------|
| | Note | N\$ | N\$ |
| ASSETS | | | |
| Non-current assets | | | |
| Property, Plant and Equipment | 2 | 1 385 115 788 | 1 321 575 343 |
| Investments | 3 | 107 388 542 | 113 369 015 |
| Loans receivable | 4 | 1 824 918 | 2 315 955 |
| | | 466 408 711 | 392 851 985 |
| Current assets | | | |
| Inventory | | 3 849 106 | 1 737 365 |
| Trade and other receivables | 5 | 436 301 556 | 374 783 080 |
| Cash and bank balances | | 26 258 049 | 16 331 540 |
| TOTAL ASSETS | | 1 960 737 959 | 1 830 112 298 |
| FUNDS AND LIABILITIES | | | |
| Funds and Reserves | | | |
| Capital outlay | 6 | 1 049 405 135 | 987 748 597 |
| Funds and accounts | 7 | 828 665 669 | 740 932 270 |
| LONG-TERM LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 9 | 72 232 101 | 88 346 513 |
| TOTAL FUNDS AND LIABILITIES | | 1 960 737 959 | 1 830 112 298 |

ANNEXURE B

MUNICIPALITY OF WALVIS BAY
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE

| | Note | 2018 N\$ | 2017 N\$ |
|--|------|---------------------|--------------------|
| Income | | 443 092 289 | 403 316 662 |
| Expenditure | | 437 669 003 | 402 640 839 |
| NET OPERATING SURPLUS/(DEFICIT) BEFORE INTEREST | | 5 423 286 | 675 823 |
| Net surplus/(deficit) for the year | | 5 423 286 | 675 823 |
| Adjustments | | | |
| Appropriation account | 10 | (102 587 103) | 590 332 |
| Transfer to Funds | | 2 403 791 | 7 430 361 |
| | | (94 760 026) | 8 696 516 |
| Accumulated funds - beginning of year | | 201 748 515 | 193 051 999 |
| Accumulated funds - end of year | | 106 988 489 | 201 748 515 |

MUNICIPALITY OF WALVIS BAY
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE

| | Note | 2018 N\$ | 2017 N\$ |
|--|------|----------------------|---------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Cash receipts from customers | | 443 092 289 | 403 316 662 |
| Cash paid to suppliers | | (617 596 944) | (496 648 821) |
| Cash generated/(utilised) by operations | 11 | (174 504 655) | (93 332 159) |
| Movement in Fund accounts | | | |
| - Fund accounts | | 182 493 425 | 140 645 118 |
| - Capital outlay | | 61 656 538 | 19 877 407 |
| Net cash flow from operating activities | | 69 645 308 | 67 190 366 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Net capital expenditure | | (63 540 445) | (112 401 019) |
| Change in investments | | 5 980 473 | 75 926 182 |
| Change in loans (Assets) | | 491 037 | 323 415 |
| | | (57 068 935) | (36 151 422) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Change in long-term liabilities | | (2 649 864) | (10 048 162) |
| NET MOVEMENT IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents - beginning of year | | 9 926 509 | (20 990 782) |
| CASH AND CASH EQUIVALENTS - END OF YEAR | | 16 331 540 | (4 659 242) |
| | | 26 258 049 | 16 331 540 |

1. ACCOUNTING POLICIES

BASIS OF PRESENTATION

- 1.1** These financial statements have been prepared so as to conform to the standard laid down by the Auditor-General.
- 1.2** The financial statements are prepared on the historical cost basis, adjusted for capital expenditure as more fully detailed in note two. The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.
- 1.3** The financial statements are prepared on the accrual basis:
- Income is accrued when collectable and measurable. Certain direct income is accrued when received.
 - Expenditure is accrued in the year it is incurred.

2 CONSOLIDATION

The statement of financial position includes the Rate and General services. Housing service, Trading service and the different funds, reserves and provisions. All inter departmental charges are set-off against each other, with the exception of assessment rates, refuse removal, electricity and water, which are treated as income and expenditure in the respective departments.

In accordance with Council Resolution 12.12 of 31 May 2011, no consolidation statements are to be prepared for entities in which Council has a significant shareholding.

3 PROPERTY, PLANT AND EQUIPMENT

3.1 Property, plant and equipment are stated:

- at historical cost, or
- at valuation (based on the market price at date of acquisition), where assets have been acquired by grant or donation, while they are in existence and fit for use, except in the case of bulk assets which are written off at the end of their estimated life as determined by the General Manager Finance.

3.2 Depreciation

The statement of financial position shown against the heading “Loans Redeemed and Other Capital Receipts” in the notes to the balance sheet is tantamount to a provision for depreciation; however, certain structural differences do exist. By way of this “Provision”, assets are written down over their estimated useful life. Apart from advances from the various Council funds, assets may be acquired through:

MUNICIPALITY OF WALVIS BAY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(Continued)

ACCOUNTING POLICIES (Continued)

- appropriations from income, where the full cost of the assets forms an immediate and direct charge against the operating income, and therefore it is unnecessary to make any further provision for depreciation.
- Grant or donation, where the amount representing the value of such grant or donation is immediately credited to the “Loans Redeemed and Other Capital Receipts” account.

3.3 All net proceeds from the sale of erven are credited to the Revolving Fund. Proceeds from the sale of houses are credited to the Housing Fund. Net proceeds from the sale of all other assets are credited either to the Replacement Fund or the Walvis Bay Housing Fund.

3.4 Capital assets are financed from different sources, including external loans, operating income, endowments and internal advances. These loans and advances are repaid within the estimated lives of the assets acquired from such loans or advances. Interest is charged to the service concerned at the ruling interest rate applicable at the time that the advance is made.

4. INVENTORY

Inventory is valued at the lower of cost, determined on the weighted average basis, and net realisable value.

5. FUNDS AND RESERVES

5.1 Revolving Fund

This fund is used for the purchase of land for housing development projects and the funding of subsequent development. The proceeds of the sale of developed erven, are credited to this fund.

5.2 Insurance Fund

External insurance cover covers all major risks. Premiums are funded by this fund and recovered from the various user departments. Lesser risks are carried by the fund including comprehensive cover on trailers and vehicles older than five years

5.3 Walvis Bay Housing Fund

This fund is operated in accordance with Council’s housing policy. Development is undertaken on behalf of qualifying participants on conditions that financing be arranged from a financial institution, the loan of which is subsequently guaranteed by Council for a limited period of time.

MUNICIPALITY OF WALVIS BAY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(Continued)

ACCOUNTING POLICIES (Continued)

5.4 Parking Areas Fund.

Revenue from this Fund is generated from contributions by developers for the provision of sufficient parking in business areas.

5.5 Tariff Stabilisation Reserves

These reserves are funded by annual surpluses on sanitation and water services. The reserves are utilised towards stabilisation of tariffs in order to negate frequent adjustment of tariffs on the short-term.

5.6 Maintenance Reserves

Annual contributions of a fixed percentage on the replacement value of buildings are made to this reserve. The net operating expenditure on the maintenance vote are annually set off against this reserve.

5.7 Hostel Loan Redemption Reserve

This reserve was initially established to accommodate loan redemption, the loan of which has subsequently been written off.

5.8 Replacement of Assets Reserve

Contributions towards the replacement of assets are made to such an extent that adequate funds should be available on the date of replacement of the specific assets.

5.9 Mayoral Relief Fund

A Trust administered on behalf of the Mayor and Councillors for application towards charitable and other identified deserving causes.

5.10 Major Repair Reserve

Annual contributions of a fixed percentage based on the budgeted contribution of the individual votes of heavy vehicles for maintenance is made to this reserve. The reserve is established to finance any unforeseen major repair expenditure.

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

ACCOUNTING POLICIES (Continued)

6. PROVISIONS

Provisions are established to meet liabilities or contingencies which are known at the date of the statement of financial position, but for which the amounts cannot be determined with substantial accuracy. Provision for bad debts is calculated at 10% of debtor balances, which are outstanding for more than 120 days

7. RETIREMENT BENEFITS

Council and its members contribute to two pension funds namely:

- a) Walvis Bay Retirement Fund, which is a provident fund with fixed contributions and benefits.
- b) Retirement Fund for Local Authorities, which is a pension fund with fixed retirement benefits.

All permanent staff members participate in either of the funds, and contributions are calculated on the basic salaries. Current contributions are charged against operating income on the basis of current service costs.

Unfavorable experience adjustments may be written off over the lesser of the remaining period of service of employees or five years, whilst favorable adjustments are retained in the pension fund. Full actuarial valuations of the pension fund are performed at least every three years.

8. SURPLUS AND DEFICIT

Any surplus arising from the operation of the Electricity service are transferred to Rate and General Services.

9. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The cost of internal support services is transferred to the different services at a differential levy based on budgeted revenue and expenditure. Office and garage rental are allocated according to floor space utilised.

10. LEASED ASSETS

All leases are finance leases. The finance leases are capitalised and disclosed under "Property, plant and equipment".

**MUNICIPALITY OF WALVIS BAY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(Continued)**

ACCOUNTING POLICIES (Continued)

11. INVESTMENTS AND INTEREST

Investments are shown at the lower of cost or market value. If a permanent decline in value occurred, the Investment is written down. Investments are made in accordance with the provision of the financial rules of the Council.

Interests on Investments are allocated to Funds, Reserves and the Appropriation account on the average balance method.

12. INCOME RECOGNITION

12.1 Electricity and Water Billing

Water and electricity meters are read and billed monthly. Meters that cannot be read for a month are billed on average consumption. Income is recognised at the date meters are read and levies are made. Queries on readings are dealt with immediately. Electricity Services are being done by Erongo Red.

12.2 Assessment Rates

Council applies a standard site rating system, where no exception is made on the type of property used. In terms of this system assessment rates are levied on the land and improvements value of properties, and rebates are granted, in terms of the provisions of the Local Authorities Act. Rebates are granted to property belonging to the State, and ecclesiastical institutions, as per the Local Authorities Act section 73(4). Income is recognised as the monthly levies are debited against the debtors' accounts.

12.3 Other Services

Income from services, rental and accommodation recovered by way of debtors, is recognised when such levies are debited against the accounts. Subsidies are recognised at the end of the financial year. All other income is recognised as soon as it is received. Established from contributions by developers for providing of sufficient parking areas in business areas.

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

| | 2018 | 2017 |
|---|----------------------|----------------------|
| | N\$ | N\$ |
| 2. PROPERTY, PLANT AND EQUIPMENT | 1 385 115 788 | 1 321 575 343 |
| Property, plant and equipment | 986 399 395 | 932 274 714 |
| Town development projects | 398 716 393 | 389 300 629 |
| 3. INVESTMENTS | 107 388 542 | 113 369 015 |
| Commercial banks | - | 6 395 678 |
| Nampost | 5 229 872 | - |
| Insurance companies | - | 4 814 667 |
| Shares in subsidiary company - EPZMC (Pty) Ltd | 25 542 779 | 25 542 779 |
| Shares in Erongo Regional Distributor Company (Pty) Ltd | 76 615 891 | 76 615 891 |
| 4. LOANS RECEIVABLE | 1 824 918 | 2 315 955 |
| Personnel loans | 6 119 | 9 930 |
| NBF loans | 1 248 | 1 309 |
| CDF loans | 103 956 | 127 431 |
| CLB loans | 204 248 | 204 130 |
| LCR Loans | 807 733 | 969 156 |
| Leasehold loans | 43 501 | 60 328 |
| Staff Economic Housing loans | 658 113 | 943 671 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(Continued)

| | 2018 | 2017 |
|---|----------------------|--------------------|
| | N\$ | N\$ |
| 5. TRADE AND OTHER RECEIVABLES | 436 301 556 | 374 783 080 |
| Build Together loans | 152 704 850 | 27 606 122 |
| Interest accrued, not received | 146 643 | 138 807 |
| Services | 275 614 001 | 276 207 444 |
| Subsidies | 4 006 204 | 4 006 204 |
| Sundries | 85 257 913 | 64 845 240 |
| VAT | 38 013 138 | 32 482 055 |
| Provision for bad debts | (119 441 193) | (30 502 792) |
| 6. CAPITAL OUTLAY | 1 049 405 135 | 987 748 597 |
| Loans redeemed | 122 593 994 | 115 131 205 |
| General capital contributions | 926 811 141 | 872 617 392 |
| 7. FUNDS AND RESERVES | 828 665 669 | 740 932 270 |
| Capital Development Fund | 1 036 661 | 1 036 661 |
| Build Together Fund | 133 275 700 | 54 585 391 |
| Environmental Fund | 757 673 | 757 673 |
| Housing Fund | 112 916 899 | 109 651 084 |
| Insurance Fund | 12 780 082 | 11 888 127 |
| Parking Areas Fund | 117 796 | 115 971 |
| Revolving Fund | 415 344 947 | 317 411 233 |
| Fixed Assets Replacement Reserve | 37 042 574 | 36 469 229 |
| Future Repairs and Maintenance Reserve | 5 469 674 | 4 509 800 |
| Major Repair Reserve | 2 683 832 | 2 683 832 |
| Mayoral Relief Fund | 251 342 | 74 754 |
| Revenue account kept in compliance with Section 86(1) of the Local Authority Act, 1992. | 106 988 489 | 201 748 515 |
| 8. LONG-TERM LIABILITIES | 10 435 054 | 13 084 918 |
| Government of Namibia, Nedbank and NIB | 17 308 818 | 24 142 359 |
| Short-term portion | (6 873 764) | (11 057 441) |

MUNICIPALITY OF WALVIS BAY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
(Continued)

| | 2018 | 2017 |
|---|----------------------|---------------------|
| | N\$ | N\$ |
| 9. TRADE AND OTHER PAYABLES | 72 232 101 | 88 346 513 |
| Trade payables | 13 673 589 | 1 641 454 |
| Provisions and accruals | 17 306 654 | 17 507 799 |
| Consumer deposits | 12 072 546 | 10 817 360 |
| Sundry payables | 12 540 899 | 15 582 941 |
| Unallocated bank transactions | 9 764 649 | 13 739 518 |
| Short-term portion of long-term borrowings | 6 873 764 | 11 057 441 |
| 10. ADJUSTMENTS TO APPROPRIATION ACCOUNT | (102 587 103) | 590 332 |
| Prior year expenditure | (104 058 365) | (46 176) |
| Prior year income | 1 141 347 | 96 181 |
| Revaluation of shares in insurance company | - | 262 936 |
| VAT adjustments | 329 915 | 277 391 |
| 11. CASH GENERATED/(UTILISED) BY OPERATIONS | | |
| Net operating surplus/(deficit) before transfers | 5 423 286 | 675 823 |
| Adjustments for : | | |
| - Adjustments to appropriation account | (102 587 103) | 590 332 |
| - Transfers to Funds | 2 403 791 | 7 430 361 |
| OPERATING INCOME BEFORE CHANGES IN WORKING CAPITAL | (94 760 026) | 8 696 516 |
| CHANGES IN WORKING CAPITAL | | |
| Inventory | (2 111 741) | 120 783 |
| Trade and other receivables | (61 518 476) | (108 406 306) |
| Trade and other payables | (16 114 412) | 6 256 848 |
| | (79 744 629) | (102 028 675) |
| CASH GENERATED/(UTILISED) BY OPERATIONS | (174 504 655) | (93 332 159) |