



**REPUBLIC OF NAMIBIA**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE  
TOWN COUNCIL OF LÜDERITZ  
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 Lüderitz Town Council 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.

**WINDHOEK, August 2018**

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

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE  
TOWN COUNCIL OF LÜDERITZ  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

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**1. Report on the Financial Statements**

**1.1 INTRODUCTION**

This report on the accounts of the Town Council of Lüderitz for the financial year ended 30 June 2016 is presented to the National Assembly in accordance with provisions set out in the Local Authorities Act, 1992 (Act 23 of 1992).

Figures in the report are rounded to the nearest Namibia dollar and deficits are indicated in (brackets).

The firm MMG Global Chartered Accountants and Auditors of Windhoek has been appointed in terms of Section 26 (2) of the State Finance Act, 1991 (Act 31 1991) to audit the accounts of the Town Council on behalf of the Auditor-General and under his supervision.

I certify that I have audited the accompanying financial statements of the Town Council of Lüderitz for the financial year ended 30 June 2016. These financial statements comprise 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 to the Auditor-General by the Accounting Officer in compliance with Section 87(1) of the Local Authorities Act 1992, except that they were only submitted on 15 December 2017 instead of three months after year end as required by the Act.

The financial statements, notes to the financial statements and general information provided by the Accounting Officer are attached as Annexure A - 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, 1992 (Act 23 of 1992) and relevant legislation and for such internal control as management determines it necessary to enable the preparation of financial statements that are free from material 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 Town Council of Lüderitz during the audit is appreciated.

## **5. KEY AUDIT FINDINGS**

### **5.1 DEPRECIATION**

The auditors observed that the Council did not charge depreciation and amortization expenses on infrastructural and intangible assets amounting to N\$ 6 572 217 (2016), N\$ 6 406 609 (2015) and N\$ 6 314 263 (2014) in the financial statements.

### **Recommendation**

It is recommended that the Council must develop, adopt, document and implement a sound depreciation and amortization policy on infrastructure and computer software assets based on a recognized accounting framework.

### **5.2 FIXED ASSETS**

The auditors observed that a number of assets are not recorded in the fixed assets register. It was also observed that Lüderitz Town Council was not in possession of the softcopy of the asset register. An external service provider keeps and maintains the asset register. The auditors further observed that obsolete or fully depreciated and decommissioned assets were still in the fixed asset register and insured accordingly. The auditors observed that the Town Council paid for an insurance cover of an amount of N\$ 1 879 per month for motor vehicles that were no longer in usable condition.

### **Recommendation**

It is recommended that the Council should update the Asset register and maintain the soft copy into the Accounting System. It is further recommended to dispose the obsolete items, keep assets with economic value to the entity and insure them with a reputable insurance company.

### **5.3 UNDERSTATEMENT OF BAD DEBTS PROVISION**

The auditors observed that the collection and recoverability rate of amounts owed to the Town Council by debtors was very low. The auditors' reasonableness test calculation of provision for bad debts based on the recovery rate using three months receipt after year end resulted in an estimated provision for bad debts of N\$ 37 123 378. This amount is significantly higher than the bad debts provision in the financial statements of N\$ 20 751 949. This has resulted in the provision for bad debts being understated by N\$ 16 371 429.

### **Recommendation**

It is recommended that the provision for bad debts estimates should be revised in accordance with possible recoverability of debts.

### **5.4 INCORRECT ACCOUNTING FOR CURRENT LIABILITIES**

The audit reveals that the Council disclosed Electricity Control Board (ECB) Levy of N\$ 452 614 and National Energy Fund (NEF) of N\$ 302 397 as part of gross income. ECB and NEF levies are current liabilities which should be disclosed separately under current liabilities in the financial statements. The Council is only acting as a collection agent; therefore this should not form part of council revenue.

### **Recommendation**

It is recommended that Council must reclassify the ECB and NEF levies in the Accounting system from income section to current liabilities.

## **5.5 PRIOR YEAR ERRORS**

During capturing of corresponding figures (i.e. 2015) on revenue and income as obtained from 2015 management accounts and agreeing the amounts to the financial statements the auditors established that the reported total revenue and income differed by an amount of N\$ 3 970 094. Upon investigation the auditors established that during the preparation of the 2015 financial statements, adjustment journals were passed directly to the financial statements leaving FINSTEL records in original state.

Further investigation through inspection of prior year journals it was established that one of the journals was an adjustment to Electricity Prepaid Sales for N\$ 4 823 582. The narration of the journal was that NAMFIN debtors were now part of the debtors' book in FINSTEL. However, there was a comment that said "Not sure where to put this balance". This comment cast doubt on the treatment of the balance concerned.

### **Recommendations**

All year-end adjusting journals must be processed in the council's financial records.

## **5.6 YEAR-END JOURNALS**

The auditors observed that the Council processed twenty-two journals for opening balances consisting of multiple items per journal covering twelve A4 pages of the Annual Financial Statement booklet. The Town Council also made fifty-three year end adjusting journals consisting of multiple items per journal. However all year-end journals were not processed in the FINSTEL system. Upon inquiry on why the journals were not processed in the FINSTEL system the audit team was informed that the council has never processed such journals. The consultant prepares the journals and hand them over to the Council for processing on the FINSTEL system. The council does not act on the journals. These remain outside the FINSTEL system.

### **Recommendation**

It is recommended that Council should take an active role in the preparation of financial statements and relevant journals processed during the preparation of the financial statements.

## **5.7 APPROVAL CORRECTING JOURNALS**

The auditors observed that the finance department made correcting journals amounting to N\$ 126 948 370 on revenue and creditors. The journals concerned were initiated and finalized by the Accountant: Revenue and Accountant: Expenditure and budgeting independently. The Chief Accountant only approved insignificant amounts. The Strategic Executive: Finance was not involved in the approval authorization or review of the said journals.

### **Recommendations**

It is recommended that the Chief Accountant and the Strategic Executive must authorize, approve and review all significant journal entries of all clerical staff and the accountants.



## **5.8 BANK RECONCILIATIONS**

The auditors observed that the Council does not perform monthly bank reconciliations. However through the consultant, the Council only performs a single reconciliation at year-end.

### **Recommendations**

It is recommended that Council ensure that regular reconciliations are performed to avoid misstatements of the financial statements.

## **5.9 LONG – TERM LIABILITIES**

The Council does not maintain its long-term liabilities in the FINSTEL system. Furthermore at the time of conclusion of this report the auditors had not received a copy of the standard external confirmation of loans to /from Government from the Ministry of Finance.

The Council owes the Government an amount of N\$ 23 345 663 as per annual financial statements. The current amount due to the Government is reported as N\$ 18 477 636 as at 30 June 2016. There is no loan agreement and the repayment terms applicable to this loan could not be established.

### **Recommendation**

It is recommended that the Line Ministry and the Ministry of Finance should engage on the matter. If the loans have been written off correcting entries must be processed to reflect that this liability no longer exists.

## **5.10 INTEREST FROM FUND DEBTORS**

The audit observed that an amount of N\$ 1 959 446 was credited to different funds. However there was no evidence of how the interest was earned and distributed to the related funds. The Council could not to supply the necessary documents to substantiate the interest.

### **Recommendation**

It is recommended that Council must ensure that all interest earned is supported by appropriate documentation and allocated correctly.

## **5.11 MAYORAL AND CRAYFISH TRUST FUNDS**

The auditors observed that the mayoral N\$ 27 033 (2016) and the Crayfish Festival Trust N\$ 685 672 (2015) funds were not disclosed in the annual financial statements.

### **Recommendations**

It is recommended that the Council ensures that all funds and bank accounts in the name of the Town Council and its affiliates are disclosed in the annual financial statements.

## **5.12 AMENDMENTS TO COMPUTER MASTER FILES**

The auditors observed that the Accountant: Revenue had systems authority to amend computer master files without the approval of the Chief Accountant and the Strategic Executive: Finance. No evidence of system and post amendments reviews was observed.

### **Recommendations**

It is recommended that the Council ensure that all changes to systems master records must be reviewed and approved by the Chief Accountant and the Strategic Executive: Finance respectively.

## **5.13 SETTING OFF OF DEBTOR AND CREDITOR**

The auditors observed that the sale of bulk electricity using the TESLA system was transferred to the FINSTEL system as both a creditor and debtor.

### **Recommendation**

It is recommended that Council should disclose the amount as revenue and the related cash as an asset.

## **5.14 SELF-PAYMENT TRANSACTION**

The Town Council sold electricity and water to itself for N\$ 2 844 547 and N\$ 994 433 respectively. The council therefore becomes a debtor and creditor to itself.

## **Recommendation**

Inter-departmental transactions need not necessarily be settled through bank transfers and cheques. The council must clear internal accounts through the use of general journals.

### **5.15 DIFFERENCES IN TOTAL EXPENDITURE**

The auditors observed that reported total expenditure as per annual financial statements was N\$ 104 204 387 while the adjusted trial balance total was N\$ 102 656 024 resulting in a net difference of N\$ 1 548 363.

## **Recommendation**

It is recommended that the Town Council must ensure that its financial records support the annual financial statements.

### **5.16 GOING CONCERN**

The Council reported net profit for the year of N\$ 15 894 169. In the past the Town Council has been making losses for some time. Due to the number of discrepancies and inadequate accounting policies the accuracy of the net profit for the period under review cannot be relied upon.

## **Recommendation**

Appropriate measures should be put in place for the Council to generate or raise enough funds to run its operations.

### **5.17 ACCOUNTING POLICY**

The accounting policy and reporting framework were not provided to the auditors. The policy was also not attached to the annual financial statements.

### **5.18 GENERAL**

The qualifications of staff in appropriate positions in the finance department should however be reviewed to ensure that qualified personnel are employed in respective positions.


## 6. BASIS OF DISCLAIMED AUDIT OPINION

- No charge for depreciation for the year under review;
- The fixed assets register not updated;
- Provision for bad doubtful debts is understated by N\$ 16 371 429;
- Incorrect accounting for current liabilities;
- Adjustment journals were passed directly to the financial statements and not system;
- Unexplained journals passed by the council;
- Strategic Executive: Finance is not involved in the approval authorization journals;
- The Council does not perform monthly bank reconciliations;
- Long-term liabilities are not maintained in the FINSTEL system;
- Council failed to supply the necessary documents to substantiate the interest;
- The mayoral funds were not disclosed in the annual financial statements;
- Amendments to computer master files by junior staff;
- Sale of electricity was transferred to the FINSTEL system as both a creditor and debtor;
- Council sold electricity and water to itself for N\$ 2 844 547 and N\$ 994 433;
- Inter-departmental transactions settled through bank transfers and cheques;
- Total expenditure misstated by N\$ 1 548 363; and
- The net profit for the period under review cannot be relied upon.

## 7. DISCLAIMER AUDIT OPINION

The accounts of Luderitz Town Council for the financial year ended 30 June 2016 summarized in Annexure A to D were audited in terms of the provision of Section 85 of the Local Authorities Act, 1992 read with Section 25(1) (b) of the State Finance Act, 1991.

Because of the significance of the matters described in the Basis of Disclaimed 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 annual financial statements of the Town Council of Luderitz as at 30 June 2016.



WINDHOEK, August 2018

**JUNIAS ETUNA KANDJEKE**  
**AUDITOR-GENERAL**

**TOWN COUNCIL OF LÜDERITZ  
BALANCE SHEET AT 30 JUNE**

**ANNEXURE A**

	Note	<b>2016</b>	<b>2015</b>
		N\$	N\$
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>207 228 872</b>	<b>197 164 518</b>
Property plant and equipment	2	171 263 698	169 235 204
Investments	3	35 965 174	27 929 314
<b>Current assets</b>		<b>111 795 665</b>	<b>68 002 304</b>
Trade and Other Receivables	4	110 924 317	67 217 356
Inventories	5	722 290	784 948
Cash and Cash Equivalents	6	149 058	-
<b>Total assets</b>		<b>319 024 537</b>	<b>265 166 822</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Funds and reserves</b>		<b>247 419 945</b>	<b>223 196 600</b>
Capital outlay	7	152 907 990	148 182 282
Funds and accounts	8	94 511 955	75 014 318
<b>Non-current liabilities</b>		<b>4 448 364</b>	<b>5 309 312</b>
Long-term loans	9	4 448 364	5 309 312
<b>Current liabilities</b>		<b>67 156 228</b>	<b>36 660 910</b>
Creditors and other payables	10	66 662 694	34 211 512
Bank overdraft	6	493 534	2 449 398
<b>Total funds and liabilities</b>		<b>319 024 537</b>	<b>265 166 822</b>

**TOWN COUNCIL OF LÜDERITZ**  
**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE**

	<u>2016</u>	<u>2015</u>
	N\$	N\$
Income	105 188 579	106 828 119
Expenditure	(96 019 058)	(106 869)
<b>Net Operating Profit (Deficit)</b>	<b>9 169 521</b>	<b>(40 980)</b>
Other income	7 260 566	27 997
Net surplus / deficit after interest	<b>16 430 087</b>	<b>(12 983)</b>
Finance charges	(535 918)	-
Net deficit after finance charges	<b>15 894 169</b>	<b>(12 983)</b>
Adjustments to appropriation account	11 (532 582)	1 238 472
<b>Net deficit for the year</b>	<b>15 361 587</b>	<b>1 225 489</b>
REVENUE ACCOUNT- Beginning of the year	(39 313 476)	(40 538 965)
<b>REVENUE ACCOUNT-End of the year</b>	<b>(23 951 889)</b>	<b>(39 313 476)</b>

**TOWN COUNCIL OF LÜDERITZ**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE**

ANNEXURE C

	Note	2016	2015
		N\$	N\$
<b>Net cash flow from operating activities</b>		<b>13 030 225</b>	<b>10 261 416</b>
Cash receipts from customers		112 412 297	106 828 119
Cash paid to suppliers		(108 280 683)	(111 508 700)
Investment Income		36 848	27 997
Increase/(Decrease) in Fund Accounts		4 136 055	7 821 556
Increase in Capital outlay		4 725 708	7 092 444
<b>Cash flow from investments</b>		<b>10 064 354</b>	<b>(921 370)</b>
Net capital expenditure		(2 028 494)	(845 652)
Net (increase)/decrease in investments		(8 035 860)	(10 337 134)
<b>Cash flow from Financial activities</b>		<b>(860 949)</b>	<b>2 288</b>
(Decrease) increase in long term liabilities		(860 949)	2 288
<b>Net decrease in cash and cash equivalents</b>		<b>2 104 922</b>	<b>(919 082)</b>
Cash and cash equivalents beginning of the year		(2 449 398)	(1 530 316)
Cash and cash equivalents- end of the year	6	<b>(344 476)</b>	<b>(2 449 398)</b>

**TOWN COUNCIL OF LÜDERITZ**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE**

	<b>2016</b>	<b>2015</b>
	N\$	N\$
<b>1 ACCOUNTING POLICY</b>		
The Town Council of Lüderitz did not attach accounting policy to the Financial Statements for the year under review.		
<b>2 PROPERTY, PLANT AND EQUIPMENT</b>	<b>171 263 698</b>	<b>169 235 204</b>
Property plant and equipment	170 850 127	168 773 451
Intangible assets	413 571	461 753
<b>3 INVESTMENTS</b>	<b>35 965 174</b>	<b>27 929 314</b>
Commercial Banks	35 965 174	27 929 314
<b>4 TRADE AND OTHER RECEIVABLE</b>	<b>110 924 317</b>	<b>67 217 356</b>
Services rates and taxes	111 382 396	63 364 398
Other receivables	297 466	-
Build Together Advances	21 693 466	22 819 301
Consumer deposits	(1 697 062)	(1 214 394)
Provision for bad debts	(20 751 949)	(17 751 949)
<b>5 INVENTORY</b>	<b>722 290</b>	<b>784 948</b>
Materials	722 290	784 948
<b>6 CASH AND BANK BALANCES</b>	<b>(344 476)</b>	<b>(2 449 398)</b>
Bank	149 058	-
Bank Overdraft	(493 534)	(2 449 398)
<b>7 CAPITAL OUTLAY</b>	<b>152 907 990</b>	<b>148 182 282</b>
Loans redeemed	13 193 349	13 193 350
Revenue Contributions	94 976 042	94 976 042
General Capital Contributions	44 738 599	40 012 890
<b>8 FUNDS AND ACCOUNTS</b>	<b>94 511 955</b>	<b>75 014 318</b>
Internal loans overstated in Funds accounts	35	35
Capital Development Fund	18 088 471	17 666 886
Housing Fund	12 700 695	49 625 179
Fixed Property Fund	34 689 172	33 603 278
New Development Fund	39 423 308	-
Renewal Fund	13 562 167	13 432 415
Revenue account	(23 951 893)	(39 313 475)



**ANNEXURE D**

**TOWN COUNCIL OF LÜDERITZ**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE**  
**(continued)**

	<b>2016</b>	<b>2015</b>
	N\$	N\$
<b>9 LONG TERM LOANS</b>	<b>4 448 364</b>	<b>5 309 312</b>
The Government of Namibia	4 448 364	5 253 569
Commercial Banks	-	55 743
<b>10 TRADE AND OTHER PAYABLES</b>	<b>66 662 694</b>	<b>34 211 512</b>
Trade payables	1 667 993	7 688 739
Loan instalments in arrear	18 477 636	17 117 286
Income received in advance	43 186 877	1 251 148
VAT account	284 067	320 980
Short term portion of long term loans	419 664	-
Receiver of Revenue	(329 981)	5 136 974
Provisions	2 956 438	2 696 386
<b>11 ADJUSTMENTS AND UTILISATION</b>	<b>(532 582)</b>	<b>1 238 472</b>
Prior year adjustment	(532 582)	1 238 472
<b>12 CASH UTILISED BY OPERATIONS</b>	<b>4 168 466</b>	<b>(4 680 581)</b>
Net Operating (deficit) before transfers	16 430 087	(40 980)
Adjustment: Appropriation Account	(532 582)	1 238 472
Less: Finance costs	(535 918)	-
(Decrease) Increase in trade and other receivables	(43 706 961)	6 857 078
Increase/(Decrease) in inventory	62 658	(22 077)
Increase/(Decrease) in creditors and other payables	32 451 182	(12 713 074)

