



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF MARIENTAL
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

Published by authority

Price (Vat excluded) N\$ 38.40
Report no: 29/2015



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

MUNICIPALITY OF MARIENTAL

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

Published by authority

Price (Vat excluded) N\$ 38.40
Report no: 29/2015

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 Mariental for the financial year ended 30 June 2014 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, May 2015

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE MUNICIPALITY OF MARIENTAL
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2014**

1. INTRODUCTION

The accounts of the Municipality of Mariental for the year ended 30 June 2014 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, 1992 (Act 23 of 1992).

The firm BDO 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 Namibia Dollar. Deficits are indicated in brackets.

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 on 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 these financial statements and for ensuring the regularity of the financial transactions. This responsibility includes designing, implementing and maintaining internal control 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 to report his opinion to National Assembly. The said firm conducted the audit in accordance with the 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 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 the 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

Items marked with an asterisk (*) were also reported in the prior year.

4.1 Financial results (*)

The Municipality made a deficit of N\$ 187 432 (2013: N\$ 1 391 010 surplus) during the financial year. The accumulated deficit as at year-end amounted to N\$ 325 140 (2013: accumulated surplus N\$ 483 376).

4.2 Going concern (*)

As noted in paragraph 4.1, the Municipality made a deficit of N\$ 187 432 (2013: surplus N\$ 1 391 010) during the financial year. The accumulated deficit as at year-end amounted to N\$ 325 139 (2013: accumulated surplus N\$ 483 376). This indicates a decrease in surpluses of the Municipality. Furthermore, temporary advances to revenue from fund accounts increased to N\$ 8 691 685 (2013: N\$ 7 693 283).

The Municipality should continue to embark on new income generating projects and improve on current income generating projects, which control costs to be within budget. The cash flow generated from operations and the collection from long outstanding debts and other amounts receivable should also be improved on.

4.3 Unresolved matters from previous report (*)

The following issue which was raised in the report on the financial year 30 June 2005 remained unresolved:

Funds (*)

Audit concern

An amount of N\$ 2 089 849 included a pension amount of N\$ 211 801 was paid out of the following funds for settlement of a claim lodged against the Municipality by the previous Town Clerk for unfair dismissal:

	N\$
Fixed Property Fund	631 502
Betterment Fund	427 206
Housing Service Fund	1 031 141
	<u>2 089 849</u>

This is still an outstanding matter in the 2014 report and the Municipality did not receive any response from the Ministry to date.

4.4 Recoverability of debtors – Bad and doubtful debts

During the year under review, the Municipality's debt outstanding has increase by 10% and provision for bad debts has increased by 7%. The Municipality's effectiveness on debt recovery policies should be reviewed and improved on.

	2014	2013
	N\$	N\$
Consumer account debt outstanding	8 912 416	8 107 159
Provision for bad debts	402 600	375 474
Percentage increase in outstanding debts	10%	17%
Percentage increase in provision for bad debts	7%	6%
Percentage provision vs. Debt	4.5%	5%

Furthermore debtors handed over to debt collectors amounted to N\$ 549 995 (2013: N\$ 606 233). No provision was made for these debtors.

It should be of concern for the Municipality that debtors outstanding for 120 days and above consisted of 49% (2013: 46%) of total debt before handovers. The recoverability of the debtors is thus doubtful and the provision for bad debts is inadequate.

4.5 Value Added Tax

When the auditors reviewed output Value Added Tax submitted to the Receiver of Revenue, agreeing this submitted amount to the revenue as per the financial statement for the current years, a material difference was detected. It appears as if the Council has under submitted output Value Added Tax by N\$ 8 133 279. As per the Council's annual financial statements, Output Value Added Tax to the amount of N\$ 60 290 639 needed to be submitted, but the Council only declared N\$ 52 157 360 over to the Receiver of Revenue. After investigating the difference, it was found that the zero rated sales do not pull through from the accounting system to the Value Added Tax report. Zero rated sales amounting to N\$ 8 103 900 (2013: N\$ 14 383 086) was not indicated on the submissions to the Receiver of Revenue. The effect of the under declaration is thus the Value Added Tax on the vatable revenue of N\$ 591 631 which was not declared. The Value Added Tax not paid and declared amounts to N\$ 88 745.

The calculated balance receivable on Value Added Tax based on subsequent to year-end receipts, as per the Receiver of Revenue statement amounts to N\$ 2 399 764 compared to the general ledger/annual financial statement balance of N\$ 2 831 691. The difference of N\$ 427 562 was transferred to and from the Import Value Added tax and PAYE accounts. Value Added Tax receivable was thus overstated in the Annual Financial Statement by N\$ 431 927 due to the fact that the amount is no longer recoverable because it's already utilised. The Council should investigate these with the Receiver of Revenue.

Consequently the recoverability and thus valuation of VAT receivable could not be ascertained.

4.6 Inventory (*)

A physical stock count was conducted at year-end and final stock sheets agreed to the financial statements. However, the auditors did not observe the counting of inventories on 30 June 2014.

4.7 Bank reconciliation and external loans not paid (*)

The bank balance (cash-book) as per the bank reconciliation shows two cheques as outstanding, but in fact are not valid outstanding cheques as the cheques will not be given to the Ministry as payments for the external loans. These cheques are annually written back by the Municipality. The bank balance as per the financial statement is thus understated with N\$ 469 958. The Municipality is currently not paying the external loans to the Ministry of Finance. According to the Ministry of Finance statement, the arrear amount is N\$ 2 349 790. This amount represents six instalments, thus three years payments.

4.8 Appropriation account and trade payables (*)

It was noted that the Municipality made a journal entry to the value of N\$ 469 958 in respect of the external loan instalments not paid in the prior year to the appropriation account. It seems as if this adjustment was also made in previous financial years. Trade payables are thus understated by this unpaid external loan instalment and the appropriation account is overstated by this amount. As mentioned in paragraph 4.7 the arrear amount as per the Ministry of Finance amounts to N\$ 2 349 790.

4.9 Unapproved expenditure

No approval from the Minister could be submitted authorising the overspending of the budget to the amount of N\$ 2 464 034 as required by section.

4.10 ERF portion 5 farm Khoichas not accrued for

The Municipality approved, by a council resolution on 31/01/2014, to purchase a portion 5 of Farm Khoichas from the Evangelical Lutheran Church for N\$ 1 320 000. The contract was signed on 3 May 2014, but the payable amount was not provided for, thus understated accounts payable with N\$ 660 000, the deposit amount paid on 20/08/2014.

4.11 Interest received on investment account not accrued for

Accumulated interest received amounting to N\$ 714 554 from a First National Bank call account, is not included in the annual financial statements, thus investments and interest received are understated in the annual financial statement with this amount.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

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

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus 01/07/2013				483 376
General accounts				
Non-profitable services	3 861 911	13 480 324	(9 618 413)	
Self-supporting services	4 104 310	3 147 660	956 650	
Trade accounts				
Water	9 591 200	8 698 763	892 437	
Electricity	42 733 218	35 151 324	7 581 894	
	60 290 639	60 478 071	(187 432)	
Deficit for the year				(187 432)
Adjustments and appropriations (See Note 11, Annexure D)				(621 083)
Accumulated deficit 30/06/2014				(325 139)

Also refer paragraph 4.8

7. CURRENT BANK ACCOUNT

	2014	2013
	N\$	N\$
Cash-book balance at 30 June – Balance sheet	2 128 251	1 149 427
Outstanding cheques	690 543	563 977
Outstanding deposits	(108 986)	(139 454)
Unknown items	661	-
Balance as per bank statement	2 710 469	1 573 950

The favourable bank statement balance on the current bank account amounted to N\$ 2 710 469 (2013: N\$ 1 573 950). Cheques not presented for payment amounted to N\$ 690 543 (2013: N\$ 563 977). Furthermore, the outstanding deposits amounted to N\$ 108 986, resulting in a favourable cashbook balance of N\$ 2 128 251 (2013: N\$ 1 149 427).

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2014 and the interest thereon were as follows:

Institution	2014		2013	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	2 656 276	90 874	2 565 400	54 680
Insurance companies	213 738	18 075	193 164	17 391
Interest accrued – Included in other	(1 027 320)	-	(918 371)	-
	1 842 694	108 949	1 840 193	72 071
Distribution				
Capital Development Fund	34 025	1 902	32 123	1 212
Fixed Property Fund	126 656	10 013	169 109	5 692
Renewal Fund	359 972	29 426	496 971	9 911
Betterment Fund	1 096 022	55 212	932 476	25 105
Staff Housing Fund	41 227	2 305	38 922	1 469
Centenary Fund	164 264	8 885	150 065	5 466
Housing Services Fund	20 528	1 206	20 528	23 216
Total	1 842 694	108 949	1 840 193	72 071

Interest received on investments in the current year amounted to N\$ 108 949 (2013: N\$ 72 071).

Interest received on a First National Bank call account amounting to N\$ 226 812 (2013: N\$ 308 711) was not accounted for in the financial statements for the current year.

9. FUND ACCOUNTS

The position of the funds and accounts at year-end was shown in note 8 in Annexure D.

10. TRADE ACCOUNT

10.1 Operating results

The results for the financial year under review and the previous year were as follows:

	Electricity		Water	
	2014	2013	2014	2013
	N\$	N\$		
Sales	42 617 607	39 798 923	9 590 565	9 014 149
Cost of bulk purchases	(29 476 505)	(26 316 946)	(7 458 750)	(7 701 256)
Gross surplus	13 141 102	13 481 977	2 131 815	1 312 893
Other (expenses)/ income	(5 559 208)	(4 659 188)	(1 345 675)	(1 233 655)
Net surplus	7 581 894	8 822 789	786 140	79 208
Gross surplus percentages on purchases	44.0%	51.22%	28.58%	17.04%
Net surplus percentage on purchases	25.0%	33.2%	10.54%	1.0%
Gross surplus percentages on sales	30.0%	33.8%	22.23%	14.56%
Net surplus percentage on sales	17.0%	22.1%	8.2%	0.9%

The Municipality moved from a surplus on electricity of N\$ 8 822 789 in 2013 to a surplus of N\$ 7 581 894 in 2014 and on water from a surplus of N\$ 79 208 in 2013 to a surplus of N\$ 786 180 in 2014. This was as a result of tariff increases in the current year.

10.2 Distribution results were as follows:

Electricity and water distribution losses, in kilo watt per hour (Kw/h) and cubic metres (m³) were as follows:

	Electricity		Water	
	2014	2013	2014	2013
	Kw/h	Kw/h	m ³	m ³
Sales	24 677 418	23 064 687	691 110	765 808
Purchases	(27 622 900)	(27 871 170)	(839 476)	(878 972)
Loss	(2 945 482)	(4 806 483)	(148 366)	(113 164)
Percentage loss in units	(10.66%)	(17.25%)	(17.67%)	(12.87%)

11. SELF-SUPPORTING EXTERNAL SERVICES

The net result of these services, compared with the previous year, is as follows:

Services	Revenue	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2014	2014	2014	2013
	N\$	N\$	N\$	N\$
Aerodrome	4 202	106 520	(102 318)	(85 676)
Abattoir	60 000	43 899	16 101	(51 104)
Housing lease units	181 393	514 543	(333 150)	(397 174)
Sanitation	1 893 115	1 162 745	730 370	618 552
Sewerage	1 810 663	1 164 580	646 083	611 150
Town ground and pound	154 936	155 373	(437)	(41 653)
	4 104 309	3 147 660	956 650	654 095

The loss on housing units is due to administration costs being more than rental income. The Municipality should come up with a rent structure which ensures that all costs are recovered.

The loss on aerodrome is in line with expectations as the Council had budgeted for the loss on this vote.

The loss on town ground and pound is due to high capital changes.

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed by the audit for the current year under review.

13. SUSPENSE ACCOUNTS

The suspense account increased with N\$ 172 515 from (2013: N\$ 939 576) to 2014: N\$ 1 112 091. These accounts are properly maintained, controlled and reconciled on a regular basis.

14. IRREGULARITIES AND LOSSES

14.1 No irregularity occurred during the current year under review.

14.2 No losses were reported.

15. CAPITAL PROJECTS

Capital expenditure for the 2014 financial year amounted to N\$ 5 112 872 (2013: N\$ 9 359 009) and comprises the following:

Nature of projects/acquisitions	Financed by		Total expenditure 2014	Total expenditure 2013
	General capital	Internal Loans		
	N\$	N\$	N\$	N\$
Tipeep Sewerage 1 - VAT	-	-	-	967 652
Council's general expenses	-	-	-	117 080
Electricity supply	-	829 107	829 107	1 574 039
Town Ground & Pound	-	-	-	98 260
Municipal building	-	163 671	163 671	103 876
Sanitation	-	-	-	-
Streets	-	-	-	-
Tipeeg Sewerage No.1	775 461	-	775 461	6 238 538
Tipeeg Sewerage No.2	1 208 554	-	1 208 554	212 476
Water supply	-	115 766	115 766	47 088
Fire Brigade	-	39 446	39 446	-
Cemetery	-	190 434	190 434	-
Health	-	6 195	6 195	-
Town Clerk's Dept	-	18 712	18 712	-
Tipeeg Sewerage No. 3	1 765 526	-	1 765 526	-
	3 749 541	1 363 331	5 112 872	9 359 009

16. STUDY LOANS/BURSARIES

At 30 June 2014, outstanding loans amounted to N\$ 328 598 (2013: N\$ 260 967).

An amount of N\$ 47 772 was advanced during the year to students. The loans bear interest of 6% per annum and are repayable after studies have been completed. Ten (10) of thirteen (13) students do not pay back their study loans and according to management the amount of N\$ 280 644 is not recoverable.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

The following contributions, grants and financial aid were made during the year:

	2014	2013
	N\$	N\$
Mariental Triathlon	-	4 000
Empelheim Junior Secondary School	-	900
Mariental Primary School	-	600
DD Guibeb Primary School	-	600
Total	-	6 100

There were no contributions, grants or financial aid made during the year.

18. COMPENSATION PAYMENTS

No Compensation payments were made during the year.

19. VISITS TO FOREIGN COUNTRIES

Visit expenditure to Sweden amounted to N\$ 32 729 (2013: N\$ 7 440).

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

21. GIFTS AND DONATIONS BY THE LOCAL AUTHORITY

The Municipality made the following gifts/donations:

Nature of gift/ donation	Beneficiary	Value
		N\$
Donation	Hardap regional football	1 960
Donation	Hardap regional football	3 000
Donation	Hardap regional football	3 000
Donation	Hardap Youth Choir	2 000
Donation	Mariental Chamber of Commerce	4 000
	Total	13 960

An amount of N\$ 13 960 (2013: N\$ 31 600) was paid as donations during the year under review.

22. TRANSFER OF PROPERTY TO/FROM THE GOVERNMENT

ERF 351 was sold for N\$ 525 000 during the 2008/2009 year to the Ministry of Youth. However, at the time of the audit, the Ministry have not made any payments of the purchase price of the erf.

No transfers were done from the Government.

23. TRADE AND OTHER RECEIVABLES/ PAYABLES

23.1 Debtors on 30 June 2014 comprise the following:

	2014	2013
	N\$	N\$
Services rendered and assessment rates	*9 462 412	8 713 392
Interest accrued on investments	1 027 320	918 371
Subsidies receivable	107 009	786 806
Study loans	328 599	260 967
VAT receivables	2 831 691	2 290 811
Sundries	233 211	247 057
	13 990 241	13 217 404
Less: Provision for bad debts	(402 600)	(375 474)
Consumer deposits	(896 999)	(833 157)
Total	12 690 642	12 008 773

	2014	2013
	N\$	N\$
Analysis of services and general debtors:		
Average monthly levy		
Debtors	4 288 596	4 038 735
Debtors	9 462 412	8 713 392
Average credit terms in days	63	61
Consumer deposits	896 999	833 157
Percentage of deposit in relation to debtors	9.5%	9.6%

* This amount includes debtors that were handed over to debt collectors to the amount of N\$ 549 995 (2013: N\$ 606 233).

A closer investigation revealed the following:

The consumer debt collection period moved slightly from 61 to 63 days. It is recommended that the Municipality continue to implement strong measures and policies to decrease the outstanding debtors in future.

However, as explained in paragraph 4.4, the provision for bad debts is considered to be inadequate.

23.2 Trade and other payables on 30 June 2014 comprise the following:

	2014	2013
	N\$	N\$
Commitments by purchase and other obligations	5 139 797	4 324 509
Special program – Allocated funds	1 112 091	939 576
Leave provision	1 717 210	1 296 265
Sundries	42 379	37 169
Total	8 011 477	6 597 519

24. ASSESSMENT RATES

The gazetted tariffs were as follows;

	2014	2013
	N\$	N\$
Net proceeds from assessment rates	2 017 209	1 777 652
Paid to the Regional Council	100 860	88 883
Tariffs per N\$1 valuation per month		
- Land	0.049916	0.045292
- Administration: Land	0.039933	0.036234
- Outside town: Land	0.131892	0.011969
- Undeveloped: West of railway	1.249093	0.749049
- Undeveloped: East of railway	1.249093	1.135539
- Aimab: Land	1.382637	1.256943
- Improvements	0.007647	0.006952
- Administration: Improvements	0.006118	0.005562
- Outside town: Improvements	0.013189	0.011990

25. LOANS

25.1 External loans

	2014	2013
	N\$	N\$
Capital outlay	4 273 716	4 421 226
Housing funds	378 276	378 276
Total	4 651 992	4 799 502

25.2 Internal loans

	2014	2013
	N\$	N\$
Total	6 525 623	6 723 045

Internal loans are not disclosed in the abridged balance sheet. All new internal loan advances during the year were authorised and all assets financed by internal loans were capitalised. The balances agree with actuarial tables. No loan assets were disposed off before the loan was redeemed. Funds received in the form of loans were utilised in an appropriate manner.

26. SALE OF ERVEN

The following erven were sold during the year. The proceeds were allocated to the Fixed Property Fund.

	2014		2013	
	Number	Amount N\$	Number	Amount N\$
Mariental	2	31 092	21	468 033
Aimablaagte	-	-	-	-
Empelheim	-	-	6	20 229
	2	31 0912	27	488 262

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

No erven was sold on an instalment basis.

28. TARIFF ADJUSTMENTS

Tariff adjustments were applied in accordance with the relevant Official Government Notices.

29. APPROVALS

Excess or unapproved expenditure

No approval from the Minister could be submitted authorizing the overspending of the budget on the following votes.

Votes	Budget	Actual	Excess
	N\$	N\$	N\$
Assessment rates	2 300 802	2 441 697	140 895
Municipal Building	1 640 638	2 193 653	553 015
Staff Housing	-	43 235	43 235
Finance and Economic Development	-	1 013 786	1 013 786
Town Ground and Pound	152 448	155 373	2 925
Sewerage	1 116 799	1 164 580	47 781
Electricity Supply	34 488 927	35 151 324	662 397
Totals	39 699 614	42 163 648	2 464 034

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles

	Sedan vehicles		4x4 Passenger Vehicles		LDV and kombi's		Heavy vehicles (Lorries and busses)	
	No	Value	No	Value	No	Value	No	Value
Balance – 01/07/2013		N\$		N\$		N\$		N\$
Acquisitions	1	135 792	1	82 300	4	519 650	11	486 547
Sub-total	1	135 792	1	82 300		519 650		486 547
Depreciation		-		(3 030)		(2 337)		(10 602)
On hand 30/06/2014	1	135 792		79 270	4	517 313	11	475 945
Kilometres travelled		5 565		577		63 193	*	*
Fuel consumption								
Fuel consumption per km								

* Fire Brigade - Only for Aerodrome

** 4 Vehicles have hour meters, not km meters and fuel consumption must be per hour and not per km for that vehicles. Each heavy vehicle must be checked per km/lt or per km/hour.

30.2 Inventory

Inventories amount to N\$ 1 558 369 (2013: N\$ 1 615 219).

Adequate system of control over recording of inventory was maintained.

Inventory counts were performed at year-end.

Slow moving inventory was identified and adequate provision has been made for obsolete items.

Housekeeping is up to standard.

31. SPECIAL INVESTIGATIONS

All special investigations were completed and reported upon.

32. GENERAL

The accounting and internal controls applied by the Municipality are satisfactory. Proper segregation of duties is in place.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 Informal queries were addressed to the Chief Executive Officer.

34. QUALIFIED AUDIT OPINION

The accounts of the Municipality of Mariental for the financial year ended 30 June 2014, summarized 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.

The audit opinion has been qualified due to the following reasons:

- Appropriation account – Unpaid external loan instalments were credited in respect of prior years to the appropriation account instead of the trade payables;
- Debtors' recoverability: Provision for bad debts is understated;
- External loans not paid – Cheques were written out by the Municipality to the Ministry but not given. The bank is thus understated and the trade payables too. According to the Ministry of Finance statement, the arrear instalment amount is N\$ 2 349 790;
- Accounts payable: The municipality approved, by a council resolution on 31/01/2014, to purchase a portion 5 Farm Khoichas from the Evangelical Lutheran Church for N\$ 1 320 000. The contract was signed on 3 May 2014, but the payable amount was not provided for, thus understated accounts payable with N\$ 660 000;
- Inventory to the value of N\$ 1 558 369 could not be verified;
- Unapproved expenditure to the amount of N\$ 2 464 034; and;
- Investments – Accumulated interest received amounting to N\$ 714 554 not included in the annual financial statements.

Except for the matters referred in the preceding paragraphs, in my opinion, the financial statements fairly present the financial position of the Municipality at 30 June 2014 and the results of its operations and cash flow for the year then ended.

WINDHOEK, May 2015



**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

MUNICIPALITY OF MARIENTAL

BALANCE SHEET AS AT 30 JUNE

ASSETS	Notes	2014 N\$	2013 N\$
Non-current assets		41 544 217	36 315 787
Property, plant and equipment	2	39 701 523	34 475 594
Investments	3	1 842 694	1 840 193
Current assets		16 378 022	14 774 178
Trade and other receivable	4	12 690 642	12 008 772
Inventories	5	1 558 369	1 615 219
Bank	6	2 129 011	1 150 187
TOTAL ASSETS		57 922 239	51 089 965
FUNDS AND LIABILITIES			
Funds and reserves		45 258 770	39 692 945
Capital outlay	7	28 902 184	23 331 323
Funds and accounts	8	16 356 586	16 361 622
Non - current liabilities			
Long term loans	9	4 651 992	4 799 502
Current liabilities		8 011 477	6 597 519
Trade and other payable	10	8 011 477	6 597 519
TOTAL FUNDS AND LIABILITIES		57 922 239	51 089 965

MUNICIPALITY OF MARIENTAL

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2014	2013
		N\$	N\$
INCOME		59 348 281	56 076 562
EXPENDITURE		<u>(60 478 071)</u>	<u>(55 488 425)</u>
OPERATING LOSS FOR THE YEAR		(1 129 790)	588 136
Interest earned		<u>942 358</u>	<u>802 874</u>
NET SURPLUS FOR THE YEAR		(187 432)	1 391 010
Add : Appropriation and adjustments	11	<u>(621 083)</u>	<u>(2 045 739)</u>
RETAINED INCOME FOR THE YEAR		<u>(808 515)</u>	<u>(654 729)</u>
30 June 2013		<u>483 376</u>	<u>1 138 105</u>
30 June 2014		<u>(325 139)</u>	<u>483 376</u>

MUNICIPALITY OF MARIENTAL

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2014 N\$	2013 N\$
Cash flow from operating activities			
Cash receipts from customers		59 348 281	56 076 562
Cash paid to suppliers		(60 310 218)	(56 751 933)
Cash generated from operations	12	(961 936)	(675 370)
Interest received		942 358	802 874
Increase in fund accounts		803 479	1 445 915
Increase in capital outlay		5 570 861	2 199 086
Net cashflow from operating activities		6 354 762	3 772 505
Cash flow from investing activities			
Net capital expenditure		(5 225 929)	(2 558 787)
(Increase)/Decrease in investments		(2 501)	(2 500)
Decrease in loans receivable		-	-
Net cashflow from investing activities		(5 228 430)	(2 561 287)
Cash flow from financing activities			
Decrease in long-term liabilities		(147 510)	(133 381)
Net increase/(decrease) in cash and cash equivalents		978 824	1 077 837
Cash and cash equivalents at the beginning of the year		1 150 187	72 350
Cash and cash equivalents at the end of the year		2 129 011	1 150 187

MUNICIPALITY OF MARIENTAL

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

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements set out in Annexure A to D were prepared on the historical cost basis and incorporate the following principal 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 acquired with loan funds are stated at cost and no depreciation is provided thereon until the loan is fully redeemed. All other items of property, plant and equipment are stated at cost or valuation, and except fixed property, the cost or valuation of these items of property, plant and equipment is depreciated on the reducing balance basis over their expected useful lives.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

1.3 Fund accounts

The following funds were maintained:

1.3.1 Fixed Property Fund

Proceeds from the sale of land developed by the Municipality as well as interest earned on internal loans and investments accumulate in this fund. Costs incurred on the development of land are charged to this account.

1.3.2 Betterment Fund

The purpose of this Fund is to provide for future municipal assets. Part of the proceeds from the sale of land, as well as interest earned on internal loans and investments accumulate in this Fund.

1.3.3 Renewal Fund

The purpose of this Fund is to provide for future replacements of assets and for additional depreciation on assets, which have permanently declined in value. Income for this account is derived from general revenue contributions as well as interest earned on investments.

1.3.4 Capital Development Fund

The purpose of this Fund is to build up a general capital reserve to ensure a stable financial position. Income for the Fund is derived from interest earned on investments, interest on internal loans as well as from general revenue contributions.

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

1.3.5 Staff Housing Fund

The purpose of this fund is to provide for staff housing loans. Income for this fund is derived from interest earned on secured staff housing loans and investments.

1.3.6 Housing Fund

The purpose of this Fund is to provide for housing loans. Income for the fund is derived from interest earned on secured housing loans and investments as well as from surpluses made on the resale of housing scheme houses. Interest paid on external housing loans is charged to this fund.

1.3.7 Social Housing Service Fund

The purpose of this Fund is to construct houses for disabled, destitute and pensioners. Income for this Fund is derived from interest earned on secured housing loans and investments.

1.3.8 Centenary Fund

The purpose of this Fund is to provide for adequate Funds to cover expenditures for the centenary celebrations. Income is derived from interest earned on investments.

1.4 Capital redemption on loans

Capital redemption on external and internal loans is charged against income. A similar amount is credited to the loan redemption account for the duration of the loans. As and when the loan is fully redeemed, the loan amount is to be transferred to the Revenue Contribution Capital Account.

1.5 Inventory

Fuel inventory is valued at cost on the first-in-first-out basis. Consumables are valued at the average landed costs.

1.6 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts.

MUNICIPALITY OF MARIENTAL

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

	2014	2013
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Consists of :		
Income assets	7 457 478	5 754 501
Loan assets	16 131 602	17 044 597
Funds and grants	11 618 124	7 925 206
Investment - Unspent funds for capital works	4 494 318	3 751 290
	39 701 523	34 475 594
Financed by :		
External loans	4 273 716	4 421 226
Internal loans	6 525 623	6 723 045
Loans redeemed	5 332 263	5 900 326
Contribution from: Ex income	7 457 478	5 754 501
Contribution from: General capital	16 112 443	11 676 496
	39 701 523	34 475 594
3. INVESTMENTS		
Commercial banks	2 656 276	2 565 401
Insurance companies	213 738	193 164
Interest accrued on investments - Included in other receivables	(1 027 320)	(918 371)
	1 842 694	1 840 193
Allocated as follows:		
Capital Development Fund	34 025	32 123
Fixed Property Fund	126 656	169 109
Renewal Fund	359 972	496 971
Betterment Fund	1 096 022	932 476
Staff Housing Fund	41 227	38 922
Centenary Fund	164 264	150 065
Housing Services Fund	20 528	20 528
	1 842 694	1 840 193

MUNICIPALITY OF MARIENTAL

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

	2014	2013
	N\$	N\$
4. TRADE AND OTHER RECEIVABLES		
Services rendered and assessment rates	9 462 412	8 713 392
Interest accrued on investments	1 027 320	918 371
Subsidies receivable	107 009	786 806
Study loans	328 599	260 967
VAT receivable	2 831 691	2 290 811
Sundry debtors	233 211	247 057
	13 990 241	13 217 403
<i>Less :</i>		
Provision for doubtful debts	(402 600)	(375 474)
Consumer deposits	(896 999)	(833 157)
	12 960 642	12 008 772
5. INVENTORIES		
Stores	714 036	1 004 451
Fuel and oil	844 333	610 768
	1 558 369	1 615 219
6. BANK AND CASH		
Current account - Municipality operating account	2 128 251	1 149 427
Petty cash	760	760
	2 129 011	1 150 187
7. CAPITAL OUTLAY		
Loans redeemed	5 332 263	5 900 326
Revenue contributions	7 457 478	5 754 501
General capital contributions	16 112 443	11 676 496
	28 902 184	23 331 323

MUNICIPALITY OF MARIENTAL

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

	2014	2013
	N\$	N\$
8. FUNDS, ACCOUNTS AND RESERVES		
Fixed property Fund	6 393 813	6 374 396
Betterment Fund	1 296 493	1 212 411
Renewal Fund	2 473 053	2 237 650
Capital development Fund	5 788 833	5 341 966
Housing services Fund	541 817	540 611
Staff housing Fund	23 453	21 148
Centenary Fund	164 264	150 065
Sub total	16 681 725	15 878 246
Revenue account kept in compliance with section 86(1) of the local Authorities Act, 1992	(325 139)	483 376
	16 356 586	16 361 622
9 LONG-TERM LIABILITIES		
Loan from the Government:		
Capital outlay	4 273 716	4 421 226
Housing fund	378 276	378 276
	4 651 992	4 799 502
10 TRADE AND OTHER PAYABLES		
Commitments by purchase and other obligations	5 139 797	4 324 509
Special program - Allocated funds	1 112 091	939 576
Leave provision	1 717 210	1 296 265
Sundries	42 379	37 169
	8 011 477	6 597 519
11 ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Adjustments - Provision for leave pay	(420 945)	(308 301)
Subsidy over provision	-	-
Expenditure 2011/2012	(244 434)	(2 409 598)
VAT adjustments	(1 948 325)	-
Paid unknown income	(92 425)	-
Cheques cancelled	483 018	469 958
Interest adjustment - Study loans	2 034	2 246
Surplus on account	12 265	2 865
Tipeeg VAT 2013/14	562 431	5 887
Tipeeg VAT 2012/13	967 652	146 977
Unknown deposits	57 646	44 227
	(621 083)	(2 045 739)

MUNICIPALITY OF MARIENTAL

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

	2014	2013
	N\$	N\$
12 CASH UTILISED IN OPERATIONS		
Net surplus (deficit) before interest and transfers	(1 129 791)	588 136
Adjustments to appropriation account	(621 083)	(2 045 739)
Operating surplus before changes in working capital	(1 750 874)	(1 457 603)
Changes in working capital		
Increase in trade and other payables	1 413 958	3 504 601
Decrease/ (Increase) in inventories	56 850	(912 273)
(Increase) in trade and other receivables	(681 870)	(1 810 095)
	788 938	782 233
CASH GENERATED BY OPERATIONS	(961 936)	(675 370)