



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

MUNICIPALITY OF WINDHOEK

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

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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 Windhoek for the financial year ended 30 June 2012, 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, May 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF WINDHOEK FOR THE FINANCIAL YEAR
ENDED 30 JUNE 2012**

1. INTRODUCTION

The accounts of the Municipality of Windhoek for the year ended 30 June 2012 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 EDB and Associates of Windhoek has been appointed in terms of Section 26(2) of the State Finance Act, 1991, to audit the accounts of the Municipality on behalf of the Auditor-General and under his supervision.

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

2. FINANCIAL STATEMENTS

The Municipality's financial statements were not submitted to the Office of the Auditor-General by the Accounting Officer in compliance with Section 87(1) of the Local Authorities Act, 1992, which stipulated amongst other that such financial statements should be submitted within three months after the end of the financial year. **The statements for the 2012 financial year were signed on 6 December 2012.** The audited financial statements are in agreement with the general ledger and are filed in this Office. The abridged balance sheet at Annexure A, is a true reflection of the original signed by the Accounting Officer.

The financial statements also include:

- Annexure B: Income statement
- Annexure C: Cash flow statement
- Annexure D: Notes to the balance sheet and income statement
- Annexure E: Detailed income statement

3. SCOPE OF THE AUDIT

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose or expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies

used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Provision for doubtful debts

The bad debts increased to N\$ 150 000 000 in 2012 from N\$ 33 383 077 in 2011, Council adjusted provision for doubtful debts with an amount of N\$ 116 000 000, to account for an under provision of N\$ 105 000 000 in the 2011 financial year.

4.2 Provision for normal staff leave

In terms of a Council resolution, the provision for staff leave were N\$ 93 890 692 and N\$ 40 000 000 (2011). During the 2002-financial year, the policy for calculating staff leave was changed, and is since then calculated on total employemee costs (previously on gross salary, excluding allowances).

4.3 Incomplete information

Auditor-General circular D3/92 requests information in a specified format to be submitted by the local authorities. The following information was not submitted in the requested format and could not be confirmed by the auditors due to a lack of relevant auxiliary records:

- Motor vehicle schedule.
- Various significant supporting documents on expenditure could not be traced

4.4 Unrecorded liabilities

Due to the fact that creditors reconciliations were not done, liabilities to the amount of N\$ 940 757 was not recorded hence an understatement of expenses and liabilities.

4.5 Reconciliations

The bank reconciliation indicates an unexplained difference of N\$ 1 847 380.
The payroll reconciliation had a difference of N\$ 8 890 104, the difference could not be explained.

4.6 Going Concern and Commercial Insolvency

The auditors draw attention to the Statement of Financial Positions as at 30 June 2012 which indicates that as of that date, the current liabilities exceed its current assets. These conditions indicate the existence of material uncertainties which may cast doubt on the City's abilities to continue as a going concern. This condition is collaborated and cemented by the growing accumulated deficit of N\$ 1 004 billion, indicating that the losses are accumulating over a protracted period.

Consequently, the City is currently commercially insolvent but if allowed to continue unabated; these operating deficits will eventually erode the equity base which will result in the City being factually insolvent.

4.7 VAT difference

The reconciliation of the VAT control account revealed a material difference of N\$ 31 819 701. VAT receivable was understated by the said amount.

4.8 Property, Plant and Equipment

Auditors could not be availed with supporting documentation of asset additions amounting to N\$ 78 216 690.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

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

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus/(deficit) 01/07/2011				(556 986 374)
General services				
Non-profitable	356 513 659	717 641 990	(361 128 331)	
Self-supporting	215 680 063	237 424 465	(21 744 402)	
Trading accounts				
Electricity	952 042 391	887 247 052	64 795 339	
Water	365 830 545	356 972 934	8 857 611	
	1 890 066 658	2 199 286 441	(309 219 783)	
Deficit for the year				(309 219 783)
Adjustments: Transfer from/to Funds	(138 096 264)	-	-	
	(138 096 264)	-	-	(138 096 264)
Accumulated deficit 30/06/2012				(1 004 302 421)

The City of Windhoek recorded a loss of N\$ 309 219 783 for the year, N\$ 188 668 841 (2011). The current year's loss can mainly be attributed to an increase in the loss recorded at the City Police Department, which amounted to N\$ 190 934 919 during the year and N\$ 194 726 280 in 2011. Aggravating this situation was the Transport Department that recorded a loss of N\$ 190 273 989 during the year, N\$ 118 828 380 (2011) and the Economic and Community Development a loss of N\$ 190 273 989 during the year, N\$ 91 866 168 (2011).

Council will have to address the above situation as soon as possible as continued losses could seriously impact on cash flows.

7. CURRENT BANK ACCOUNT

	2012	2011
	N\$	N\$
Cash-book balance	(76 325 331)	1 689 806
Add: Outstanding cheques	2 742 584	1 878 583
Less: Unreconciled deposits	414 594	161 713
Less: Outstanding deposits	(481 063)	(723 965)
Less: Partially undeposited receipts	(2 559 098)	(1 718 543)
Less: Unreconciled ACB's	-	(511 514)
Bank balance	(76 208 315)	776 079

8. INVESTMENTS AND INTEREST EARNED

Funds were invested at the following institutions:

	2012	2011
	N\$	N\$
First National Bank	185 375 542	72 560 333
Bank Windhoek Limited	9 868 845	12 466 556
Nedbank Limited	4 631 483	4 413 498
Nampost	12 000 000	12 000 000
Standard Bank	26 490 104	25 000 000
Bank Windhoek Holdings	1 985 720	1 663 100
Sanlam shares	5 506 337	4 169 083
Totals	245 858 031	132 272 572

Investments held at year-end were allocated as follows:

Funds	2012		2011	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Arterial Fund	-	146 166	-	90 948
Capital Development Fund	-	(4 028 271)	-	1 163 119
Betterment Contribution Fund	64 245 301	11 065 557	55 232 617	989 054
Endowment Fund	25 027 801	826 640	24 096 648	488 068
Betterment Fund	-	1 894 766	-	4 438 545
Housing Fund	51 855 684	3 262 470	52 943 307	2 133 581
Parking Provision Fund	-	(158 579)	-	-
Unspent monies – Capital Outlay	104 729 247	-	-	-
Unappropriated surplus	-	1 068 610	-	1 294 770
	245 858 033	14 077 360	132 272 573	10 598 085

Interest earned on investments is allocated to different funds, reserves and surpluses on a percentage based on the opening balance.

9. FUNDS, RESERVES AND PROVISIONS

The Council had the following funds, reserves and provisions at year-end:

9.1 Capital Accumulated Funds

	Note	2012	2011
		N\$	N\$
Betterment Fund	(i)	967 188 301	713 576 405
Betterment Contribution Fund	(ii)	72 813 439	64 331 974
Endowment Fund	(i)	25 581 364	24 708 811
Parking Provision Fund	(iii)	(7 566 802)	(4 622 582)
Housing Fund	(iv)	149 651 036	117 509 883
Capital Development Fund	(v)	829 492 328	764 299 981
Arterial Fund	(vii)	4 579 572	4 409 610
		2 041 739 238	1 684 214 082

Note:

- (i) These funds are still utilised as originally provided for in Section 80(4) of the Act.
- (ii) Utilisation and replenishment of the Betterment Contribution Fund is determined in Section 42 of the Town Planning Ordinance, No. 18 of 1954.

- (iii) The Parking Facilities Fund is subject to the stipulations in Section 106 of the Road Traffic Ordinance, 1967.
- (iv) The Housing Fund may only be used in terms of Section 58 of the Local Authorities Act, 1992 (Act 23 of 1992).
- (v) The Capital Development Fund is a non-statutory Fund, created to fund expenditure in general, mostly by way of internal loans at favourable terms. It is funded from savings on budgeted over actual capital expenditure; thus income, interest earned on moneys invested and internal loans given, as well as any contributions as may be decided upon by the City Council. The Fund is fully allocated.
- (vi) As from 01 July 1992, all staff housing loans are financed by building societies and no longer by Council's Housing Fund.
- (vii) The Arterial Fund is a non-statutory fund, created to fund expenditure for the development and construction of arterial roads.

9.2 General Accumulated Funds

	Note	2012	2011
Unappropriated surplus	(i)	N\$ (1 028 482 967)	N\$ (536 388 329)
Tariff stabilisation:	(ii)		
• Administration		27 375 606	(18 799 410)
• Sanitation		23 032 029	25 995 048
• Sewerage services		(4 954 960)	13 826 422
• Stores levy		-	(11 490 366)
• Water services		(21 272 127)	(30 129 738)
		(1 004 302 420)	(556 986 374)

Note:

- (i) Detailed financial results are stated in paragraph 6.
- (ii) With the exception of electricity sales, all other services are rendered at cost or below cost. All surpluses and deficits of the sewerage and sanitation services are transferred to the Tariff Stabilisation Funds. The surplus of the Stores Levy Stabilisation Fund was transferred to administration and the sanitation tariff stabilisation surplus was transferred to the unappropriated surplus.

Due to the water crises, the Tariff Stabilisation Fund balance for water is limited to a maximum of 10% of the total income on the water account as from the 1995/1996 financial year onwards. Any further surpluses on the water account must be transferred to the Capital Development Fund in order to finance water-related capital projects.

9.3 Reserves

	Note	2012	2011
Insurance claims	(i)	N\$ 9 101 943	N\$ 7 363 394
Replacement of assets	(ii)	66 388 490	60 852 309
Maintenance:	(iii)		
• Tarred roads		29 241 838	28 969 046
• Municipal office block		46 293 444	42 714 261
• Rehabilitation landfill site		5 014 589	5 014 589
		156 040 304	144 913 599

Note:

(i) The Municipality is self-insured, except for claims exceeding the following amounts as well as public liability, which are externally insured:

- Motor fleet – N\$ 600 000

(ii) Provision is made towards the replacement of all movable assets with a cost of N\$ 2 000 to N\$ 15 000. Movable assets with a value in excess of N\$ 15 000 are in some instances financed by way of hire purchase or lease agreements.

(iii) Maintenance:

(a) Tarred roads

The maintenance provision for tarred roads is revised annually when the budget is prepared, based on the estimates of the City Engineer's department.

(b) Municipal office block

An annual contribution made towards this Fund is revised annually when the budget is prepared.

(c) Water and Waste Research

An annual contribution is made towards this Fund.

9.4 Provisions

	Note	2012	2011
		N\$	N\$
Bursaries		3 702 523	3 445 522
Bonus leave	(i)	30 103 652	10 000 000
Normal leave	(ii)	93 890 692	40 000 000
Informal settlement	(iii)	11 176 024	10 176 024
		138 872 891	63 621 545

Note:

(i) The bonus leave provision is a provision for bonuses payable to employees on completion of a five-year employment cycle.

(ii) The normal leave provision is a provision for annual leave accrued.

(iii) The purpose of the informal settlement is to create a Revolving Fund, which is utilised for all facets of informal settlements as well as for the payment of people involved in the process. Funding is obtained through the following sources:

- The Local Authority – 1% of the annual operation income
- The Regional Council
- The Government
- The communities
- Financial institutions and donor agencies

A contribution of N\$ 1 000 000 (2011: N\$ 1 742 500) was made to the Informal settlement account during the year under review.

10. TRADE ACCOUNTS

10.1 Operating results

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

	Electricity		Water	
	2012	2011	2012	2011
	N\$	N\$	N\$	N\$
Sales	952 042 391	785 026 648	365 830 545	305 986 781
Cost of bulk purchases	660 655 067	555 405 168	129 617 355	122 307 001
Gross profit	291 387 324	229 621 480	236 213 190	183 679 780
Net (expenditure)	(226 591 985)	(176 238 755)	(227 355 579)	(184 906 253)
NET SURPLUS/(DEFICIT)	64 795 339	53 382 725	8 857 611	(1 226 473)
Gross profit on cost of bulk purchases	44.1%	41.34%	182.23%	150.18%
Net profit/(loss) % on cost of bulk purchases	9.81%	9.61%	0.07%	(0.01)%

10.2 Distribution losses were as follows:

	2012	2011
Electricity supply	*	8.1%
Water supply	*	*

(*) The information could not be obtained from the Council.

11. SELF-SUPPORTING EXTERNAL SERVICES

Results on self-supporting services for the year were as follows:

	2012	2011
	N\$	N\$
Sanitation	(2 963 019)	(686 579)
Sewerage	(18 781 382)	3 571 819
	(21 744 402)	2 885 240
As a percentage of the total expenditure per item, the results were as follows:		
Sanitation	(2,08)%	(0,05)%
Sewerage	(19,69)%	0,05%

The Council should put measure in place to ensure that general services are self-supporting.

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No fruitless or unauthorised expenditure came to light during the audit.

13. SUSPENSE ACCOUNT

The Municipality had balances on suspense accounts amounting to N\$ 2 545 449 (debit), N\$ 29 588 231 (2011) (credit) and which were classified under accounts payable in the balance sheet.

14. IRREGULARITIES AND LOSSES

Irregularities and losses by persons employed by the Municipality or by persons outside the Municipality are reported under paragraph 30.

15. CAPITAL PROJECTS

15.1 Capital expenditure for the year was as follows:

	2012	2011
	N\$	N\$
Rates and general services	124 038 003	158 111 927
Electricity	38 285 372	44 241 658
Water	23 680 208	44 326 937
	186 003 583	246 680 522

15.2 Financing of capital expenditure

	2012	2011
	N\$	N\$
Loans		
- Hire-purchases	(287 331)	18 224 123
Total external loans	(287 331)	18 224 123
Internal loans	125 328 017	194 537 693
Total loans	125 040 686	212 761 816
Government - TIPEEG	110 000 000	-
Betterment Fund	9 697 501	15 149 309
Revenue	45 994 643	18 769 397
	290 732 830	246 680 522
Add: Unspent monies b/forward	-	-
	290 732 830	246 680 522
Less: Temporary advance b/forward	-	-
	290 732 830	246 680 522
Less: Unspent monies c/forward	104 729 247	-
	186 003 583	246 680 522
Add: Temporary advance c/forward	-	-
	186 003 583	246 680 522

16. BURSARIES

The movements during the year were as follows:

	2012	2011
	N\$	N\$
Balance at 01 July	3 445 522	3 479 855
Bursary payments/adjustments made	296 001	-
Liabilities repaid	(39 000)	(34 333)
Balance at 30 June	3 702 523	3 445 522

Summarised conditions of agreement(s):

- (i) Bursaries are granted for specific municipal-related courses only.
- (ii) Bursary holders have to work back one year for each year the bursary was granted.
- (iii) Bursary holders have to perform compulsory student work during long vacations.

17. GIFTS, DONATIONS, GRANTS, CONTRIBUTIONS AND FINANCIAL AID RENDERED BY THE LOCAL AUTHORITY

17.1 Gifts/donations

Nature of gift/donation	2012	2011	Beneficiary
	N\$	N\$	
Souvenirs – Mayor	31 054	9 418	Officials/visitors to the mayor
Donation – Mayor	27 054	31 168	Various
	58 108	40 586	

17.2 Free services

The Council gives interest-free study loans to employees that study for an approved qualification in their own time. During the year an amount of N\$ 351 387 was paid out in respect of these loans.

17.3 Contributions/grants

	2012	2011
	N\$	N\$
National Days Celebrations	66 830	-
Welfare (SPCA)	-	100 000
Sports, Arts and Culture	25 500	37 607
Educational (Bursaries)	630 678	209 968
	723 008	347 575

18. COMPENSATION PAYMENTS

18.1 Claims finalised against the City Council

Information could not be obtained from the Council.

18.2 Claims outstanding by the City

Information could not be obtained from the Council.

19. VISITS TO FOREIGN COUNTRIES

Staff of the following departments of the Municipality visited foreign countries for conferences, conventions, courses, seminars, workshops and research purposes:

Department	Expenditure	Expenditure
	2012	2011
	N\$	N\$
Office of the CEO	63 259	78 424
Office of the Mayor	614 000	517 464
Planning, urbanisation and environment	33 645	23 170
Infrastructure: Water	28 478	39 508
Human resources	8 383	27 564
Community service	34 910	71 308
Electricity: Administration	19 166	44 782
Finance and administration	1 500	10 158
Transportation	14 063	989
Cash management and statements	4 653	-
City Police	75 081	90 521
Land delivery	-	4 586
Public transportation	59 997	44 598
Information technology	7 818	10 107
	964 955	963 181

20. GIFTS/DONATIONS TO THE LOCAL AUTHORITY

The Local Authority received no gifts or donations.

21. TRANSFER OF PROPERTY TO/FROM THE GOVERNMENT

21.1 Transfer of property to the Government

No property was transferred to the Government during the year under review.

21.2 Transfer of property by the Government to the Municipality

The Government transferred no property to the Municipality during the year under review.

21.3 Transfer of property to/from other than the Government

No property was transferred to/from other during the year under review.

22. MISCELLANEOUS DEBTORS/CREDITORS

22.1 Debtors on 30 June comprise the following:

	2012	2011
	N\$	N\$
Services accounts	486 976 358	447 009 101
Accrued interest on investments	2 766 650	3 064 672
Bursaries	3 702 523	3 445 522
Sundry debtors	83 429 148	59 063 858
	576 874 678	512 583 152
Less: Provision for doubtful debts	(150 000 000)	(33 383 077)
	426 874 678	479 200 075

Services debtors increased by 8.94%, (2011: 21.06%), whilst related income increased by 17, 06%, (2011: 13, 02%)

At 30 June 2012 the Government of Namibia was indebted by N\$ 28 801 511 (2011: 37 707 907) to the Municipality, which represents 4.99 % (2011: 7.86%) of total debtors outstanding.

	2012	2011
	N\$	N\$
Service accounts - GRN	28 801 511	37 707 907
	28 801 511	37 707 907

22.2 Creditors on 30 June comprise the following:

	2012	2011
	N\$	N\$
Trade creditors	661 209 318	611 901 279
Contract money (retentions)	20 781 032	16 118 098
Suspense accounts	(2 545 449)	29 588 231
	679 444 901	657 607 609

23. ASSESSMENT RATES

At year-end the valuations were as follows:

	2012	2011
	N\$	N\$
Site values	22 389 406 357	8 550 395 624
Improvements and penalty values	28 920 466 200	16 881 564 295
	51 309 872 557	25 431 959 919
Assessment rates levied	260 599 380	206 452 527
Percentage increase	50,43%	10,93%
Site values	0.002160	1,929
Improvement values	0.000653	0,583

24. LOANS

24.1 Loans payable at year-end were as follows:

	2012	2011
	N\$	N\$
External loans	256 656 304	280 247 793
Hire-purchases	72 190 557	72 477 887
Internal loans	328 846 861 1 363 632 790	352 725 681 1 294 075 478
	1 692 479 651	1 646 801 159

24.2 Loans received during the year to fund capital expenditure:

	2012	2011
	N\$	N\$
Hire-purchase agreements	20 673 478	19 044 221
Internal loans	20 673 478 145 474 048	19 044 221 196 665 414
	166 147 526	215 709 635

All loans are in agreement with the actuarial tables and all instalments were paid up. Pre-independence loans from the Government of Namibia amounting to N\$ 97 630 166 were written-off in the 2010/11 financial year. All capital assets financed were capitalised, and no assets have been disposed of before the loans were paid up. All loan moneys were used for the purposes for which the loans were obtained. The necessary authorisation for all internal loans was obtained.

24.3 Loans receivable at year-end were as follows:

	2012	2011
	N\$	N\$
Loans granted against first mortgage bonds over fixed property	48 048 083	25 301 134
Erven loans	28 211 837	18 223 055
Staff vehicle loans	76 259 920 18 324 366	43 524 189 15 792 432
	94 620 286	59 316 621

The movements of staff loans included in paragraph 24.3 were as follows:

	Motor vehicle financing loans	Motor vehicle financing loans
	2012	2011
	N\$	N\$
Balance at 01 July	15 792 432	13 431 415
Movements during the year	2 531 934	2 361 017
Balance at 30 June	18 324 366	15 792 432

25. SALE OF ERVEN

	2012	2011
	N\$	N\$
Windhoek	*	208 955 000
Khomasdal	*	87 498
Katutura	*	6 930 299
	*	215 972 797
Allocated to Betterment Fund	*	215 972 797
Number of erven sold	*	435

* Not supplied by the City of Windhoek.

26. PROPERTY SOLD ON AN INSTALMENT BASIS

	2012	2011
	N\$	N\$
Balance 01 July	44 365 145	84 438 760
Advances	60 910 553	(181)
Contributions	(28 617 052)	(7 854 118)
Receipts (instalment)	12 886 385	(5 490 817)
Arrears brought forward	(49 856)	49 856
Capital	(1 714 867)	-
Redemption	(8 125 899)	(19 200 807)
Other transactions (interest penalty, insurance)	(6 788 223)	(7 523 279)
Balance 30 June	72 866 186	44 365 145

27. TARIFF ADJUSTMENTS

New tariffs were implemented timeously and correctly.

28. APPROVALS

28.1 Provision for bad debts

	2012	2011
	N\$	N\$
Balance at 01 July	33 383 077	35 000 000
Additional provision	116 616 923	(1 616 923)
Balance at 30 June	150 000 000	33 383 077

28.2 Excess on approved budget

Over-expenditure on the approved budget was approved at City Council meetings as and when necessary.

28.3 Direct application of own funds

The direct application of own funds was approved and applied accordingly as and when necessary.

29. STOCK AND EQUIPMENT

29.1 Motor vehicles

The Municipality could not supply a breakdown of a list of vehicles, its values and fuel consumption.

29.2 Motor vehicle accidents

The Municipality could not provide the auditors with statistics of vehicle accidents.

29.3 Claims arising from accidents

No claims arose from accidents against the Municipality. Motor vehicle accident claims are covered by the Municipality's third party insurance.

29.4 Inventory

	2012	2011
	N\$	N\$
Stores	48 905 081	43 174 775
Fuel and oil	1 956 540	1 494 071
Sundry stock	223 432	183 770
	51 085 053	44 852 617

30. SPECIAL INVESTIGATIONS

30.1 INVESTIGATION ON TENDER – THE PROVISION OF OPEN SPACE AND STREET CLEANING SERVICES

The Local Tender Board (LTB) of 21 September 2011 requested the Chief Internal Auditor to investigate the possible reasons for the exclusion of wards 1, 3 and 6 when the Tender was awarded as well as to conduct an investigation into the selection process for the awarding of the tender. Allegations of corruption were made in the newspapers which prompted this request.

Tender was called for the provision of open space and street cleaning services in nineteen (19) wards in the City of Windhoek. The tender evaluation process, allocation of the wards to the successful tenderers and the disqualification of tenderers was investigated to determine if there was any truth in the allegations made in the newspapers and whether the process was followed correctly.

None of the allegations made in the newspapers concerning the allocation of the wards could be substantiated and the tender evaluation process and allocation of the wards to the successful tenderers was done correctly.

30.2 FRAUD INVESTIGATION AT PROPERTY MANAGEMENT

The fraud was committed under the Build Together and the Windhoek Housing Scheme Section of the Property Management Division and was detected on Thursday, 21 October 2011, due to what looked to be a suspicious transaction generated by a certain employee within that section.

After noticing the total amount involved which was paid to a certain company, for which no proof could be found in the files of the clients was more than N\$ 100 000. The Head: City Police and Emergency Management decided that the matter be reported to the Anti-Corruption Commission which was done.

The reconciliation by Internal Audit was based on the payments issued on the three votes to ensure that every payment was billed, as well as to identify the fraudulent payments which could not be detected during the preliminary investigation. The reconciliation covered the period since the loan payments started under each scheme, the earliest being 2000 until March 2012.

Fraudulent payments detected on three housing scheme votes, for which no documentary proof of payment could be found in the files of the clients. The total amount of N\$ 8 661 804 was defrauded from the Council which could be detected from the records and documentation.

The ACC is continuing with their investigation.

31. REVENUE WRITTEN OFF

No revenue was written off during the year under review.

32. FORMAL AND INFORMAL QUERIES

32.1 Formal queries are embodied in this report.

32.2 Informal queries were addressed to the Strategic Executive Finance and included the following:

- Adjusted and unadjusted errors

- Debtor service accounts not in balance
- Bad debt provision inadequate
- Provision for leave and bonus pay inadequate

33. DISCLAIMED AUDIT OPINION

The accounts of the Municipality of Windhoek for the financial year ended 30 June 2012, summarised in Annexures A to E, were audited in terms of the provisions of Section 85 of the Local Authorities Act, 1992, read with Section 25(1)(b) of the State Finance Act, 1991.

I am unable to express an audit opinion due to the following reasons:

- Unrecorded liabilities;
- Bank reconciliation difference;
- Payroll reconciliation difference;
- Vat reconciliation difference
- Fixed assets additions, supporting documents not availed
- Going Concern and Commercial Insolvency, the effects of these give rise to an indication of material uncertainty of the City's ability to continue as a going concern. The annual financial statements do not disclose these facts.
- The Council could not provide a breakdown of a list of vehicles, its values and fuel consumption.
- The Council could not provide a breakdown of a list of even sold.
- The Council could not provide information on the distribution losses

WINDHOEK, May 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

BALANCE SHEET AT 30 JUNE

	Notes	2012 N\$	2011 N\$
ASSETS			
Non-current assets		3 314 833 923	3 055 367 404
Property, plant and equipment	2	2 974 355 605	2 863 778 210
Investments	3	245 858 033	132 272 573
Long-term debtors	4	94 620 286	59 316 621
Current assets		478 014 997	555 157 236
Inventory	5	51 085 054	44 852 617
Debtors and other receivables	6	426 874 678	479 200 075
Cash at bank	14	-	31 053 879
Cash resources		55 265	50 665
Total assets		3 792 848 920	3 610 524 640
FUNDS AND LIABILITIES			
Funds and reserves		2 211 521 950	2 494 345 797
Funds and reserves		3 585 676 176	3 051 332 171
Funds	7	3 429 635 872	2 906 418 572
Reserves	8	156 040 304	144 913 599
Accumulated deficit	9	(1 004 302 420)	(556 986 374)
Non-current liabilities		345 628 970	369 392 023
Long-term loans	10	328 846 861	352 725 681
Consumer deposits	11	16 782 109	16 666 342
Current liabilities		865 846 195	746 786 820
Creditors and other payables	12	679 444 901	657 607 609
Provisions	13	138 872 891	63 621 545
Bank overdraft	14	47 528 403	25 557 666
Total funds and liabilities		3 792 848 920	3 610 524 640

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	2012	2011
	N\$	N\$
INCOME	1 890 066 658	1 614 677 507
EXPENDITURE	<u>(2 199 286 441)</u>	<u>(1 803 346 348)</u>
NET OPERATING LOSS	<u>(309 219 783)</u>	<u>(188 668 841)</u>
Loss for the year	(309 219 783)	(188 668 841)
Transfer from/(to) Funds	<u>(138 096 264)</u>	<u>12 657 615</u>
Net deficit for the year	(447 316 046)	(176 011 226)
Accumulated funds at the beginning of year	<u>(556 986 374)</u>	<u>(380 975 148)</u>
Accumulated funds at the end of the year	<u>(1 004 302 420)</u>	<u>(556 986 374)</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Notes	2012 N\$	2011 N\$
CASH GENERATED BY OPERATIONS			
Cash generated from operations	A	(309 219 783)	(188 668 841)
Cash generated by increase in working capital	B	68 046 019	63 039 500
		<u>(241 173 764)</u>	<u>(125 629 341)</u>
CASH GENERATED BY OPERATIONS			
Net increase in Funds		523 217 300	280 643 050
Net (decrease)/increase in reserves		11 126 705	13 568 212
Net (increase)/decrease in long-term debtors		(35 303 665)	39 042 483
Net increase/(decrease) in provisions		75 251 346	16 708 166
		<u>574 291 686</u>	<u>349 961 911</u>
CASH GENERATED BY OPERATING ACTIVITIES			
		333 117 922	224 332 570
Long-term loans repaid		(23 878 820)	(16 604 363)
Net capital expenditure		(110 577 395)	(188 905 825)
Transfers (to)/from funds		(138 096 264)	12 657 615
		<u>60 565 444</u>	<u>31 479 997</u>
NET MOVEMENT IN CASH FUNDS			
Cash and cash equivalents - At the beginning of the year		<u>137 819 451</u>	<u>106 339 454</u>
Cash and cash equivalents – At the end of the year	C	<u>198 384 895</u>	<u>137 819 451</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE (continued)

NOTES TO THE CASH FLOW

	<u>2012</u>	<u>2011</u>
	N\$	N\$
A. CASH GENERATED BY OPERATIONS		
Net (deficit) for the year	(309 219 783)	(188 668 841)
Provision for depreciation	-	-
	<u>(309 219 783)</u>	<u>(188 668 841)</u>
B. CASH GENERATED BY INCREASE IN WORKING CAPITAL		
Increase in inventory	(6 232 437)	(6 685 121)
Decrease in debtors	52 325 397	236 442
Increase in creditors and other payables	21 837 292	69 979 051
(Decrease)/increase in consumer deposits	115 767	(490 872)
	<u>68 046 019</u>	<u>63 039 500</u>
C. CASH AND CASH EQUIVALENTS		
Investments	245 858 033	132 272 573
Cash resources	55 265	50 665
Cash at bank	30 527 292	31 053 879
Bank overdraft	(78 055 695)	(25 557 666)
	<u>198 384 895</u>	<u>137 819 451</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1. ACCOUNTING POLICIES**1.1 Basis of presentation**

1.1.1 These financial statements have been prepared to conform to the stipulations of the Local Authorities Act, 1992 (Act 23 of 1992) and Standard Municipal Accounting Policy.

1.1.2 The financial statements are prepared on the historical cost basis, adjusted for fixed assets as more fully detailed in Accounting Policy Note 1.4. The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.

1.1.3 The financial statements have been based on a full accrual system of income and expenditure accounting.

1.2 Provisions and reserves

The basis used in determining the more important provisions and reserves is as follows:

1.2.1 Repairs and maintenance

The annual saving or over-expenditure on maintenance for civic buildings is transferred to this reserve.

The annual saving or over-expenditure on road maintenance is transferred to the reserve for road maintenance and is reviewed annually when the estimates for the following financial year are prepared.

1.2.2 Replacement of movable assets

Provision is made towards the replacement of all movable assets with a cost price in excess of N\$ 2 000. These provisions are based on the estimated replacement values, which are revised annually.

Movable assets with a value exceeding N\$ 15 000 are financed by way of hire purchases, leases or internal loans.

1.2.3 Insurance claims

Self-insurance has been limited to minor risks whereas major risks such as public liability, comprehensive vehicle and house insurance, fire, etc. are insured externally by the Council's insurance brokers on an open tender basis.

1.3 Tariff policy

With the exception of electricity sales, all other services are rendered at cost or below cost. With reference to sewerage and sanitation services the policy of no-loss/no-profit is applicable. Surpluses or deficits on these services are transferred to Tariff Stabilisation Funds.

Surpluses on the electricity account are utilised to subsidise the deficit on the Rate and General Account.

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

1. ACCOUNTING POLICIES (continued)

The Tariff Stabilisation Fund balance for water is limited to a maximum of 10% of the total income on the water account for that specific financial year. Any further surpluses on the water account must be transferred to the Capital Development Fund in order to finance **water-related** capital projects.

1.4 Property, plant and equipment

(i) Property, plant and equipment is stated

- at historical cost; or
- at valuation (based on the market price at the date of transfer) where assets have been acquired by grant or donations.

(ii) Depreciation

The loans redeemed are considered tantamount to a provision for depreciation.

Apart from advances from various internal funds and external loans, assets may also be acquired through:

- Appropriations from revenue, in which case the total cost of the asset is a direct and immediate charge against revenue and no further provision for depreciation is required.

1.5 Inventory

The value of commodities is reflected at cost plus freight charges. A financing charge on the average stock value less average working capital held during the financial year is annually charged to the stores account based on the average rate of interest earned by Council on its investments during that financial year. Stores levies of 17,4% for stock items, 1,5% for motor vehicles and computer ware purchases and 7,7% for all other direct purchases have been charged to cover overheads.

1.6 Funds**1.6.1 Stores working capital**

Appropriations are made on an annual basis from the operating account to the working capital account. The working capital account should over time be equal to the Council's investment in inventory.

1.6.2 Betterment Fund

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

1.6.3 Betterment Contribution Fund

The purpose of this Fund is to provide for the future rezoning of erven. Income is derived from interest earned on investments and internal loans.

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

1. ACCOUNTING POLICIES (continued)**1.6.4 Endowment Fund**

The purpose of this Fund is to provide for the future sub-division of erven. Income is derived from the proceeds of sub-division of erven as well as interest earned on investments and internal loans.

1.6.5 Parking Provision Fund

The purpose of this Fund is to provide for the future maintenance and installation of parking meters as well as the development of parking areas and all related costs. Income is derived from parking meter fees and the rental of parking areas as well as interest earned from investments.

1.6.6 Housing Fund

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

1.6.7 Capital Development Fund

The purpose of this Fund is to fund expenditure in general, mostly by way of internal loans at favourable terms. It is funded from savings on budgeted over actual capital expenditure, thus income, interest earned on moneys invested and internal loans given, as well as any contributions as may be decided upon by the City Council.

1.6.8 Arterial Fund

The purpose of the Fund is to provide funding for the development and construction of arterial roads. Income is derived from the proceeds of the sale of erven and interest earned on investments.

1.7 Administration charges

A differential percentage levy approach based on the actual income and expenditure which is periodically revised, has been adopted to spread the overhead charges. Recoverable planning and survey costs are recovered on a time basis. Capital projects are debited with a percentage levy which varies from 1% - 7% of the cost of the project in order to cover the departmental supervision, engineering and the architectural expenses.

Labour costs in respect of distribution accounts are charged with a 10% levy.

1.8 Interest on investments

Interest earned on investments is allocated to the different Funds and surpluses on a percentage earned based on the opening balances.

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

	2012	2011
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Rates and general services	2 355 926 588	2 231 888 585
Electricity supply	566 953 750	528 668 378
Water supply	618 605 276	594 925 068
	<u>3 541 485 613</u>	<u>3 355 482 030</u>
Less: Charged against income, loans redeemed	567 130 009	491 703 820
	<u>2 974 355 605</u>	<u>2 863 778 210</u>
3. INVESTMENTS		
Cash investments allocated to:		
-Funds	141 128 786	132 272 573
-Unspent money on capital expenditure	104 729 247	-
	<u>245 858 033</u>	<u>132 272 573</u>
4. LONG-TERM DEBTORS		
Loans granted against first mortgage bonds over fixed property	48 084 083	25 301 134
Erven loans	28 211 837	18 223 055
Staff vehicle loans	18 324 366	15 792 432
	<u>94 620 286</u>	<u>59 316 621</u>
5. INVENTORY		
Central stores	48 905 081	43 174 775
Fuel and oil	1 956 540	1 494 071
Sundry maintenance	223 432	183 770
	<u>51 085 054</u>	<u>44 852 617</u>

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

	2012	2011
	N\$	N\$
6. DEBTORS AND OTHER RECEIVABLES		
Service accounts	486 976 358	447 009 101
Accrued interest	2 766 650	3 064 672
Bursaries	3 702 523	3 445 522
Sundry debtors	83 429 148	59 063 858
	<u>576 874 678</u>	<u>512 583 152</u>
Less: Provision for bad debts	(150 000 000)	(33 383 077)
	<u>426 874 678</u>	<u>479 200 075</u>
7. FUNDS		
Capital Development Fund	829 492 328	764 299 981
Betterment Fund	967 188 301	713 576 405
Betterment Contribution Fund	72 813 439	64 331 974
Endowment Fund	25 581 364	24 708 811
Parking Provision Fund	(7 566 802)	(4 622 582)
Housing Fund	149 651 036	117 509 883
Arterial Fund	4 579 572	4 409 610
Other capital receipts	1 387 896 633	1 222 204 490
	<u>3 429 635 872</u>	<u>2 906 418 572</u>
8. RESERVES		
Maintenance	75 535 282	71 683 307
Replacement of assets	66 388 490	60 852 309
Rehabilitation – Financial size	5 014 589	5 014 589
Insurance claims	9 101 943	7 363 394
	<u>156 040 304</u>	<u>144 913 599</u>
9. ACCUMULATED LOSSES		
Unappropriated surplus	(1 028 482 967)	(536 388 329)
Tariff stabilisation		
- Administration	27 375 606	(18 799 410)
- Sanitation services	23 032 029	25 995 048
- Sewerage services	(4 954 960)	13 826 422
- Stores levy	-	(11 490 366)
- Water services	(21 272 127)	(30 129 738)
	<u>(1 004 302 420)</u>	<u>(556 986 374)</u>

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

	2012	2011
	N\$	N\$
10. LONG-TERM LIABILITIES		
Government and commercial banks	256 656 304	280 247 793
Hire-purchase agreements	72 190 557	72 477 887
	328 846 861	352 725 681
11. CONSUMER DEPOSITS		
Water and electricity	16 692 981	16 584 572
Miscellaneous deposits	89 128	81 770
	16 782 109	16 666 342
12. CREDITORS AND OTHER PAYABLES		
Trade creditors	661 209 318	611 901 279
Retention money	20 781 032	16 118 098
Suspense accounts	(2 545 449)	29 588 231
	679 444 901	657 607 609
13. PROVISIONS		
Normal leave	93 890 692	40 000 000
Bonus leave	30 103 652	10 000 000
Informal settlement	11 176 024	10 176 024
Bursaries	3 702 523	3 445 522
	138 872 891	63 621 545
14. BANK OVERDRAFT		
Transfer bank accounts	30 527 292	(31 053 879)
Current account	(78 055 695)	25 557 666
	(47 528 403)	(5 496 213)

DETAILED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE (excluding interest)

	Income	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2012	2012	2012	2011
	N\$	N\$	N\$	N\$
Non-profitable services	356 513 659	717 641 990	(361 128 331)	(243 710 333)
Office of the Chief Executive Officer	120 244	1 307 430	(1 187 186)	(4 190 944)
City Police	49 576 107	240 511 026	(194 726 280)	(194 726 280)
Information & communication technology	474 630	474 630	-	-
Infrastructure, water & technical services	1 935 423	20 045 678	(18 110 255)	(17 530 566)
Planning, urbanization and environment	20 888 483	59 961 663	(39 073 180)	(24 251 870)
Finance (excluding interest)	238 739 397	30 452 366	208 287 031	214 260 769
Electricity street lighting	-	6 742 274	(6 742 274)	(6 576 894)
Radio network	-	1 951 182	(1 962 293)	-
Economic and community development	9 641 738	130 773 004	(121 131 265)	(91 866 168)
Transport	35 137 637	225 411 626	(190 273 989)	(118 828 380)
Self-supporting services	215 680 063	237 424 465	(21 744 402)	2 885 240
Sanitation	139 087 486	142 050 505	(2 963 019)	(686 579)
Sewerage	76 592 577	95 373 960	(18 781 382)	3 571 819
Electricity	952 042 391	887 247 052	64 795 339	53 382 725
Water	365 830 545	356 972 934	8 857 611	(1 226 473)
Loss for the year	1 890 066 658	2 199 286 441	(309 219 783)	(188 668 841)