



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

MUNICIPALITY OF WINDHOEK

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

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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 2013, 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, November 2015

**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 2013**

1. INTRODUCTION

The accounts of the Municipality of Windhoek for the year ended 30 June 2013 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 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 financial statements
- 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. KEY AUDIT FINDINGS

4.1 Provision for doubtful debts

The provision for bad debts increased to N\$ 150 887 496 in 2013 from N\$ 150 000 000 in 2012, Council adjusted provision for doubtful debts with an amount of N\$ 887 496.

4.2 Provision for normal staff leave

In terms of a Council resolution, the provision for staff leave was N\$ 93 890 692 and N\$ 93 890 692 (2012) but no adjustments were made during the year. During the 2002-financial year, the policy for calculating staff leave was changed, and is since then calculated on total employee costs (previously on gross salary, excluding allowances).

4.3 Incomplete information

The following information could not be confirmed by the auditors due to a lack of relevant auxiliary records:

- Motor vehicle schedule, breakdown of a list of vehicles, values and fuel consumption;
- Various significant supporting documents on expenditure could not be traced; and
- Compensation payments.

4.4 Unrecorded liabilities

Due to the fact that creditors reconciliations were not performed, liability to the amount of N\$ 457 065 for 2013 and N\$ 940 757 for 2012 were not recorded hence an understatement of expenses and liabilities.

4.5 Reconciliations

The payroll reconciliation had an unexplained difference of N\$ 3 173 540.

4.6 Going Concern and Commercial Insolvency

The auditors draw attention to the Statement of Financial Positions as at 30 June 2013 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 ability to continue as a going concern. This condition is collaborated by the growing accumulated deficit of N\$ 1.257 billion, indicating that the losses are accumulating over a period.

Consequently, the City is currently commercially not viable and 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\$ 2 162 175.

4.6 Property, Plant and Equipment

Auditors could not be availed with supporting documentation of assets additions amounting to N\$ 22 314 620.

4.7 Suspense accounts

Council has outstanding balances accounts amounting to N\$ 47 560 426 which were not reconciled.

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 and transactions on the Revenue Account for the year are as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus/(deficit) 01/07/2012				(1 004 302 421)
General services				
Non-profitable	718 470 775	1 122 827 488	(404 356 713)	
Self-supporting	234 656 394	271 773 161	(37 116 767)	
Trading accounts				
Electricity	1 218 923 758	1 119 678 393	99 245 365	
Water	446 881 032	431 574 500	15 306 532	
	2 618 931 960	2 945 853 543	(326 921 583)	
Deficit for the year				(326 921 583)
Adjustments: Transfer from/to Funds	74 142 185	-	-	
	74 142 185	-	-	74 142 185
Accumulated deficit 30/06/2013				(1 257 081 818)

The City of Windhoek recorded a loss of N\$ 326 921 583 for the year, N\$ 309 219 783 (2012). 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\$ 262 824 917 during the year and N\$ 190 934 919 in 2012. Aggravating this situation was the Transport Department that recorded a loss of N\$ 179 185 840 during the year, N\$ 190 273 989 (2012) and the Economic and Community Development a loss of N\$ 136 578 058 during the year, N\$ 121 131 265 (2012).

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

	2013	2012
	N\$	N\$
Cash-book balance	6 938 437	(76 325 331)
Add: Outstanding cheques	2 629 638	2 742 584
Less: Unreconciled deposits	364 061	414 594
Less: Outstanding deposits	(2 188 451)	(481 063)
Less: Partially undeposited receipts	(2 377 090)	(2 559 098)
Less: Unreconciled ACB's	(27 730 432)	-
Bank balance	(22 363 837)	(76 208 315)

8. INVESTMENTS AND INTEREST EARNED

Funds were invested at the following institutions:

	2013	2012
	N\$	N\$
First National Bank	309 846 204	185 375 542
Bank Windhoek Limited	10 480 713	9 868 845
Nedbank Limited	4 677 703	4 631 483
Nampost	12 000 000	12 000 000
Standard Bank	28 183 052	26 490 104
Bank Windhoek Holdings	1 208 337	1 985 720
Sanlam shares	6 958 558	5 506 337
Totals	373 354 567	245 858 031

Investments held at year-end were allocated as follows:

Funds	2013		2012	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Arterial Fund	-	100 589	-	146 166
Capital Development Fund	-	(2 293 513)	-	(4 028 271)
Betterment Contribution Fund	74 957 257	1 411 126	64 245 301	11 065 557
Endowment Fund	25 623 096	549 727	25 027 801	826 640
Betterment Fund	9 423 501	12 015 372	-	1 894 766
Housing Fund	102 753 309	2 222 681	51 855 684	3 262 470
Parking Provision Fund	-	(166 202)	-	(158 579)
Unspent monies – Capital Outlay	160 597 404	-	104 729 247	-
Unappropriated surplus	-	2 300 342	-	1 068 610
	373 354 567	16 140 122	245 858 033	14 077 360

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	2013	2012
		N\$	N\$
Betterment Fund	(i)	1 191 463 873	967 188 301
Betterment Contribution Fund	(ii)	83 525 395	72 813 439
Endowment Fund	(i)	26 176 658	25 581 364
Parking Provision Fund	(iii)	(5 310 945)	(7 566 802)
Housing Fund	(iv)	151 585 116	149 651 036
Capital Development Fund	(v)	899 021 421	829 492 328
Arterial Fund	(vii)	4 698 819	4 579 572
		2 351 160 336	2 041 739 238

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	2013	2012
Unappropriated surplus	(i)	N\$ (1 326 758 251)	N\$ (1 028 482 967)
Tariff stabilisation:	(ii)		
• Administration		94 681 726	27 375 606
• Sanitation		2 291 998	23 032 029
• Sewerage services		(21 331 696)	(4 954 960)
• Stores levy		-	-
• Water services		(5 965 596)	(21 272 127)
		(1 257 081 818)	(1 004 302 420)

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	2013	2012
Insurance claims	(i)	N\$ 9 158 824	N\$ 9 101 943
Replacement of assets	(ii)	69 657 384	66 388 490
Maintenance:	(iii)		
• Tarred roads		33 704 772	29 241 838
• Municipal office block		46 865 939	46 293 444
• Rehabilitation landfill site		5 014 589	5 014 589
		164 401 508	156 040 304

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	2013	2012
Bursaries		N\$ 4 367 442	N\$ 3 702 523
Bonus leave	(i)	27 083 088	30 103 652
Normal leave	(ii)	93 890 692	93 890 692
Informal settlement	(iii)	11 176 024	11 176 024
		136 517 246	138 872 891

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

No contribution (2012: N\$ 1 000 000) 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	
	2013	2012	2013	2012
	N\$	N\$	N\$	N\$
Sales	1 218 923 758	952 042 391	446 881 032	365 830 545
Cost of bulk purchases	849 641 864	660 655 067	177 791 473	129 617 355
Gross profit	369 281 894	291 387 324	269 089 559	236 213 190
Net (expenditure)	(270 036 529)	(226 591 985)	(253 783 027)	(227 355 579)
NET SURPLUS/(DEFICIT)	99 245 365	64 795 339	15 306 532	8 857 611
Gross profit on cost of bulk purchases	43.46%	44.1%	151.35%	182.23%
Net profit/(loss) % on cost of bulk purchases	11.68%	9.81%	0.03%	0.07%

10.2 Distribution losses were as follows:

	2013	2012
Electricity supply	8%	*
Water supply	17.67%	18.89%

(*) 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:

	2013	2012
	N\$	N\$
Sanitation	(20 740 031)	(2 963 019)
Sewerage	(16 376 736)	(18 781 382)
	(37 116 767)	(21 744 402)
As a percentage of the total expenditure per item, the results were as follows:		
Sanitation	(13,32)%	(2,08)%
Sewerage	(14,10)%	(19,69)%

The Council should put measures 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\$ 47 560 426 (credit), N\$ 2 545 449 (debit) (2012) 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:

	2013	2012
	N\$	N\$
Rates and general services	159 030 511	124 038 003
Electricity	41 804 361	38 285 372
Water	24 831 492	23 680 208
	225 666 364	186 003 583

15.2 Financing of capital expenditure

	2013	2012
	N\$	N\$
Loans		
- Hire-purchases	2 118 486	(287 331)
Total external loans	2 118 486	(287 331)
Internal loans	93 737 071	125 328 017
Total loans	95 855 557	125 040 686
Government – TIPEEG	105 000 000	110 000 000
Betterment Fund	17 632 920	9 697 501
Public	3 241 269	-
Revenue	59 804 776	45 994 643
	281 534 522	290 732 830
Add: Unspent monies b/forward	104 729 247	-
	386 263 769	290 732 830
Less: Temporary advance b/forward	-	-
	386 263 769	290 732 830
Less: Unspent monies c/forward	160 597 404	104 729 247
	225 666 364	186 003 583
Add: Temporary advance c/forward	-	-
	225 666 364	186 003 583

16. BURSARIES

The movements during the year were as follows:

	2013	2012
	N\$	N\$
Balance at 01 July	3 702 523	3 445 522
Bursary payments/adjustments made	664 919	296 001
Liabilities repaid	*	(39 000)
Balance at 30 June	4 367 442	3 702 523

* Municipality could not provide information.

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	2013	2012	Beneficiary
	N\$	N\$	
Souvenirs – Mayor	9 236	31 054	Officials/visitors to the mayor
Donation – Mayor	52 581	27 054	Various
	61 818	58 108	

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\$ 627 617 was paid out in respect of these loans.

17.3 Contributions/grants

	2013	2012
	N\$	N\$
National Days Celebrations	88 969	66 830
Sports, Arts and Culture	8 000	25 500
Educational (Bursaries)	476 515	630 678
	573 485	723 008

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 Council

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
	2013	2012
	N\$	N\$
Office of the CEO	73 406	63 259
Office of the Mayor	607 990	614 000
Planning, urbanisation and environment	26 040	33 645
Infrastructure: Water	7 616	28 478
Human resources	16 311	8 383
Community service	131 960	34 910
Electricity: Administration	39 573	19 166
Finance and administration	39 974	1 500
Transportation	18 365	14 063
Cash management and statements	22 428	4 653
City Police	46 600	75 081
Land delivery	3 550	-
Public transportation	82 881	59 997
Information technology	2 508	7 818
	1 119 200	964 955

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 institutions during the year under review.

22. DEBTORS AND CREDITORS

22.1 Debtors on 30 June comprise the following:

	2013	2012
	N\$	N\$
Services accounts	573 930 507	486 976 358
Accrued interest on investments	2 757 642	2 766 650
Bursaries	4 367 442	3 702 523
Sundry debtors	59 369 769	83 429 148
	640 425 361	576 874 678
Less: Provision for doubtful debts	(150 887 496)	(150 000 000)
	489 537 865	426 874 678

Services debtors increased by 17.86%, (2012: 8.94%), whilst related income increased by 38.56%, (2012: 17.06%)

At 30 June 2013 the Government of Namibia was indebted by N\$ 26 606 322 (2012: 28 801 511) to the Municipality, which represents 4.15 % (2012: 4.99%) of total debtors outstanding.

	2013	2012
	N\$	N\$
Service accounts – GRN	26 606 322	28 801 511
	26 606 322	28 801 511

22.2 Creditors on 30 June comprise the following:

	2013	2012
	N\$	N\$
Trade creditors	742 765 234	661 209 318
Contract money (retentions)	21 794 345	20 781 032
Breakdown analysis	47 560 426	(2 545 449)
	812 120 004	679 444 901

23. ASSESSMENT RATES

At year-end the valuations were as follows:

	2013	2012
	N\$	N\$
Site values	22 609 080 992	22 389 406 357
Improvements and penalty values	29 187 659 200	28 920 466 200
	51 796 740 192	51 309 872 557
Assessment rates levied	236 574 050	260 599 380
Percentage increase	0,95%	50,43%
Site values	0.000798	0.002160
Improvement values	0.000412	0.000653

24. LOANS

24.1 Loans payable at year-end were as follows:

	2013	2012
	N\$	N\$
External loans	232 978 342	256 656 304
Hire-purchases	74 309 043	72 190 557
Internal loans	307 287 385 1 396 432 774	328 846 861 1 363 632 790
	1 703 720 159	1 692 479 651

24.2 Loans received during the year to fund capital expenditure:

	2013	2012
	N\$	N\$
Hire-purchase agreements	-	20 673 478
	-	20 673 478
Internal loans	117 673 315	145 474 048
	117 673 315	166 147 526

All loans are in agreement with the actuarial tables and all instalments were paid up. All capital assets financed were capitalised, and no assets have been disposed off 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:

	2013	2012
	N\$	N\$
Loans granted against first mortgage bonds over fixed property	41 530 191	48 048 083
Erven loans	13 742 830	28 211 837
	55 273 021	76 259 920
Staff vehicle loans	19 455 549	18 324 366
	74 728 569	94 620 286

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

	Motor vehicle financing loans	Motor vehicle financing loans
	2013	2012
	N\$	N\$
Balance at 01 July	18 324 366	15 792 432
Movements during the year	1 131 183	2 531 934
Balance at 30 June	19 455 549	18 324 366

25. SALE OF ERVEN

	2012	2013
	Number of Erven	N\$
Commercial and Institutional sales	32	37 214 687
Private Partnership Agreement: Otjimwise Ext 4 phase 1	116	10 088 071
Single and Block Residential	65	92 230 931
	213	139 533 689

*Not supplied by the Council

26. PROPERTY SOLD ON AN INSTALMENT BASIS

	2013	2012
	N\$	N\$
Balance 01 July	76 295 920	44 365 145
Advances	-	60 910 553
Contributions	(13 310 942)	(28 617 052)
Receipts (instalment)	2 679 177	12 886 385
Arrears brought forward	2 281	(49 856)
Capital	1 316 451	1 714 867
Redemption	(7 153 361)	(8 125 899)
Other transactions (interest penalty, insurance)	(4 556 506)	(6 788 223)
Balance 30 June	55 273 020	76 295 920

27. TARIFF ADJUSTMENTS

New tariffs were implemented timeously and correctly.

28. APPROVALS

28.1 Provision for bad debts

	2013	2012
	N\$	N\$
Balance at 01 July	150 000 000	33 383 077
Additional provision	887 496	116 616 923
Balance at 30 June	150 887 496	150 000 000

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

	2013	2012
	N\$	N\$
Stores	39 141 439	48 905 081
Fuel and oil	2 011 378	1 956 540
Sundry stock	284 383	223 432
	41 437 201	51 085 053

30. SPECIAL INVESTIGATIONS

The following special investigations were carried out:

- Fraudulent certificates of registration at Health Services, Business Registration;
- Stolen battery from municipal vehicle;
- Duplicate receipts used for building plans;
- Embezzlement of cash receipts by bus driver;
- Article for City Voice on fraud, definition, elements and red flags;
- Fraud reporting procedures;
- Alleged irregular transfers between accounts;
- Missing cable from cable drums at Traffic Light Section;
- Fraud at property management;
- Contractor paid for car loan of municipal staff member – reported to ACC;
- Qualifications audit;
- Upholstery service tender irregularities;
- Oshana tracker for ACC;
- Forged requisition documents at Roads South; and
- Forged building completion certificate.

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 Chief Executive Officer.

33. DISCLAIMED AUDIT OPINION

The accounts of the Municipality of Windhoek for the financial year ended 30 June 2013, 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;
- Payroll reconciliation difference;
- VAT reconciliation difference;
- Fixed assets additions, supporting documents not availed;
- Going Concern and Commercial viable, 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; and
- unreconciled suspense account balance of N\$ 47 560 426.

WINDHOEK, November 2015

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

BALANCE SHEET AT 30 JUNE

	Notes	2013 N\$	2012 N\$
ASSETS			
Non-current assets		3 569 441 234	3 314 833 923
Property, plant and equipment	2	3 121 358 098	2 974 355 605
Investments	3	373 354 567	245 858 033
Long-term debtors	4	74 728 569	94 620 286
Current assets		537 970 755	478 014 997
Inventory	5	41 437 201	51 085 054
Debtors and other receivables	6	489 537 865	426 874 678
Cash at bank	14	6 938 124	-
Cash resources		57 565	55 265
Total assets		4 107 411 988	3 792 848 920
FUNDS AND LIABILITIES			
Funds and reserves		2 832 055 624	2 211 521 950
Funds and reserves		4 089 137 442	3 585 676 176
Funds	7	3 924 735 934	3 429 635 872
Reserves	8	164 401 508	156 040 304
Accumulated deficit	9	(1 257 081 818)	(1 004 302 420)
Non-current liabilities		326 719 115	345 628 970
Long-term loans	10	307 034 178	328 846 861
Consumer deposits	11	19 684 937	16 782 109
Current liabilities		948 637 250	865 846 195
Creditors and other payables	12	812 120 004	679 444 901
Provisions	13	136 517 246	138 872 891
Bank overdraft	14	-	47 528 403
Total funds and liabilities		4 107 411 988	3 792 848 920

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	2013	2012
	N\$	N\$
INCOME	2 618 931 960	1 890 066 658
EXPENDITURE	<u>(2 945 853 543)</u>	<u>(2 199 286 441)</u>
NET OPERATING LOSS	<u>(326 921 583)</u>	<u>(309 219 783)</u>
Loss for the year	(326 921 583)	(309 219 783)
Transfer from/(to) Funds	<u>74 142 185</u>	<u>(138 096 264)</u>
Net deficit for the year	(252 779 398)	(447 316 046)
Accumulated funds at the beginning of year	<u>(1 004 302 420)</u>	<u>(556 986 374)</u>
Accumulated funds at the end of the year	<u>(1 257 081 818)</u>	<u>(1 004 302 420)</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Notes	2013	2012
		N\$	N\$
CASH GENERATED BY OPERATIONS			
Cash generated from operations	A	(326 921 583)	(309 219 783)
Cash generated by increase in working capital	B	82 562 597	68 046 019
		<u>(244 358 986)</u>	<u>(241 173 764)</u>
CASH GENERATED BY OPERATIONS			
OTHER CASH FLOWS			
Net increase in Funds		495 100 062	523 217 300
Net (decrease)/increase in reserves		8 361 204	11 126 705
Net (increase)/decrease in long-term debtors		19 891 717	(35 303 665)
Net increase/(decrease) in provisions		(2 355 645)	75 251 346
		<u>520 997 338</u>	<u>574 291 686</u>
CASH GENERATED BY OPERATING ACTIVITIES		276 638 352	333 117 922
Long-term loans repaid		(21 812 683)	(23 878 820)
Net capital expenditure		(147 002 493)	(110 577 395)
Transfers (to)/from funds		74 142 185	(138 096 264)
		<u>181 965 361</u>	<u>60 565 444</u>
NET MOVEMENT IN CASH FUNDS			
Cash and cash equivalents -			
At the beginning of the year		<u>198 384 895</u>	<u>137 819 451</u>
Cash and cash equivalents –			
At the end of the year	C	<u><u>380 350 256</u></u>	<u><u>198 384 895</u></u>

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

NOTES TO THE CASH FLOW

	<u>2013</u>	<u>2012</u>
	N\$	N\$
A. CASH GENERATED BY OPERATIONS		
Net (deficit) for the year	(326 921 583)	(309 219 783)
Provision for depreciation	-	-
	<u>(326 921 583)</u>	<u>(309 219 783)</u>
B. CASH GENERATED BY INCREASE IN WORKING CAPITAL		
Increase in inventory	9 647 853	(6 232 437)
Decrease in debtors	(62 663 187)	52 325 397
Increase in creditors and other payables	132 675 103	21 837 292
(Decrease)/increase in consumer deposits	2 902 828	115 767
	<u>82 562 597</u>	<u>68 046 019</u>
C. CASH AND CASH EQUIVALENTS		
Investments	373 354 567	245 858 033
Cash resources	55 565	55 265
Cash at bank	6 938 437	30 527 292
Bank overdraft	(313)	(78 055 695)
	<u>380 350 256</u>	<u>198 384 895</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)

	2013	2012
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Rates and general services	2 514 957 099	2 355 926 588
Electricity supply	608 758 111	566 953 750
Water supply	643 436 768	618 605 276
	<u>3 767 151 977</u>	<u>3 541 485 613</u>
Less: Charged against income, loans redeemed	645 793 879	567 130 009
	<u>3 121 358 098</u>	<u>2 974 355 605</u>
3. INVESTMENTS		
Cash investments allocated to:		
-Funds	212 757 163	141 128 786
-Unspent money on capital expenditure	160 597 404	104 729 247
	<u>373 354 567</u>	<u>245 858 033</u>
4. LONG-TERM DEBTORS		
Loans granted against first mortgage bonds over fixed property	41 530 191	48 084 083
Erven loans	13 742 830	28 211 837
Staff vehicle loans	19 455 549	18 324 366
	<u>74 728 569</u>	<u>94 620 286</u>
5. INVENTORY		
Central stores	39 141 439	48 905 081
Fuel and oil	2 011 379	1 956 540
Sundry maintenance	284 383	223 432
	<u>41 437 201</u>	<u>51 085 054</u>

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

	2013	2012
	N\$	N\$
6. DEBTORS AND OTHER RECEIVABLES		
Service accounts	573 930 507	486 976 358
Accrued interest	2 757 642	2 766 650
Bursaries	4 367 442	3 702 523
Sundry debtors	59 369 769	83 429 148
	<u>640 425 361</u>	<u>576 874 678</u>
Less: Provision for bad debts	(150 887 496)	(150 000 000)
	<u>489 537 865</u>	<u>426 874 678</u>
7. FUNDS		
Capital Development Fund	899 021 421	829 492 328
Betterment Fund	1 191 463 873	967 188 301
Betterment Contribution Fund	83 525 395	72 813 439
Endowment Fund	26 176 658	25 581 364
Parking Provision Fund	(5 310 945)	(7 566 802)
Housing Fund	151 585 116	149 651 036
Arterial Fund	4 698 819	4 579 572
Other capital receipts	1 573 575 998	1 387 896 633
	<u>3 924 735 934</u>	<u>3 429 635 872</u>
8. RESERVES		
Maintenance	80 570 710	75 535 282
Replacement of assets	69 657 385	66 388 490
Rehabilitation – Financial size	5 128 350	5 014 589
Insurance claims	9 045 062	9 101 943
	<u>164 401 508</u>	<u>156 040 304</u>
9. ACCUMULATED LOSSES		
Unappropriated	(1 326 758 251)	(1 028 482 967)
Tariff stabilisation		
- Administration	94 681 726	27 375 606
- Sanitation services	2 291 998	23 032 029
- Sewerage services	(21 331 696)	(4 954 960)
- Stores levy	-	-
- Water services	(5 965 596)	(21 272 127)
	<u>(1 257 081 818)</u>	<u>(1 004 302 420)</u>

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

	2013	2012
	N\$	N\$
10. LONG-TERM LIABILITIES		
Government and commercial banks	232 725 134	256 656 304
Hire-purchase agreements	74 309 043	72 190 557
	307 034 178	328 846 861
11. CONSUMER DEPOSITS		
Water and electricity	19 001 508	16 692 981
Miscellaneous deposits	683 429	89 128
	19 684 937	16 782 109
12. CREDITORS AND OTHER PAYABLES		
Trade creditors	742 765 234	661 209 318
Retention money	21 794 345	20 781 032
Suspense accounts	47 560 426	(2 545 449)
	812 120 004	679 444 901
13. PROVISIONS		
Normal leave	93 890 692	93 890 692
Bonus leave	27 083 088	30 103 652
Informal settlement	11 176 024	11 176 024
Bursaries	4 367 442	3 702 523
	136 517 246	138 872 891
14. BANK ACCOUNTS		
Transfer bank accounts	(313)	30 527 292
Current account	6 938 437	(78 055 695)
	6 938 124	(47 528 403)

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

	Income	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2013	2013	2013	2012
	N\$	N\$	N\$	N\$
Non-profitable services	356 513 659	717 641 990	(361 128 331)	(361 128 331)
Office of the Chief Executive Officer	51 806 583	51 806 583	-	(1 187 186)
City Police	17 552 130	280 377 046	(262 824 917)	(194 726 280)
Information & communication technology	63 453 242	63 453 242	-	-
Infrastructure, water & technical services	24 658 340	50 595 269	(25 936 929)	(18 110 255)
Planning, urbanization and environment	24 607 061	68 511 502	(43 904 441)	(39 073 180)
Finance (excluding interest)	381 049 224	126 262 721	254 786 503	208 287 031
Human Resources	29 548 325	29 548 325	-	-
Electricity street lighting	-	8 902 006	(8 902 006)	(6 742 274)
Radio network	255 426	2 066 451	(1 811 025)	(1 962 293)
Economic and community development	8 781 661	145 359 719	(136 578 058)	(121 131 265)
Transport	90 002 438	269 188 279	(179 185 840)	(190 273 989)
Distribution Cost Centers	26 756 344	26 756 344	-	-
Self-supporting services	234 656 394	271 773 161	(37 116 767)	(21 744 402)
Sanitation	134 880 156	155 620 187	(20 740 031)	(2 963 019)
Sewerage	99 776 239	116 152 974	(16 376 736)	(18 781 382)
Electricity	1 218 923 758	1 119 678 393	99 245 365	64 795 339
Water	446 881 032	431 574 500	15 306 532	8 857 611
Loss for the year	2 618 931 960	2 945 853 543	(326 921 583)	(309 219 783)