



REPUBLIC OF NAMIBIA

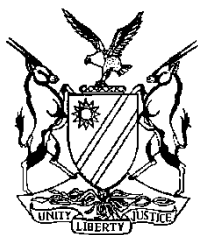


REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF MARIENTAL
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

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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 Mariental 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 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

1. INTRODUCTION

The above accounts of the Municipality of Mariental 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 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 profit of N\$ 3 097 386 (2011: N\$ 226 800) during the financial year. The accumulated surplus as at year-end amounted to N\$ 1 138 105 (2011: deficit of N\$ 2 219 242).

4.2 Going concern (*)

As noted in paragraph 4.1, the Municipality made a profit of N\$ 3 097 386 (2011: N\$ 226 800) during the financial year. The accumulated surplus as at year-end amounted to N\$ 1 138 104.81 (2011: deficit of N\$ 2 219 242). This indicates a major improvement in the financial results of the Municipality. However, temporary advances to revenue from fund accounts increased to N\$ 6 742 950 (2011: N\$ 5 698 496).

The Council 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 which 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
	<hr/> 2 089 849 <hr/>

This is still an outstanding matter in the 2012 report and the Municipality did not receive any response from the Ministry yet.

4.4 Recoverability of debtors – Bad and doubtful debts

During the year under review, the Municipality's debt outstanding has increase by 28% and provision for bad debts has increased by 13%. The Municipality's effectiveness on debt recovery policies should be reviewed and improved on.

	2012	2011
	N\$	N\$
Consumer account debt outstanding	6 902 801	5 375 271
Provision for bad debts	353 853	310 574
Percentage Increase in outstanding debts	28%	31%
Percentage Increase in provision for bad debts	13%	8%
Percentage provision vs. Debt	5%	5%

Furthermore, debtors handed over to debt collectors amounted to N\$ 742 644 (2011: N\$ 819 952). 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 37% (2011: 39%) 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 did a test on output VAT submitted to the Receiver of Revenue, agreeing this submitted amount to the revenue as per the financial statements, a material difference was detected. After investigating the difference it was found that zero rated sales do not pull through from the accounting system to the tax type reports. Zero rated sales amounting to N\$ 14 308 995 was not indicated on the submissions to the Receiver of Revenue.

At the time of the audit, all the tax type reports agreed to the submission forms made to the Receiver of Revenue, except for the zero rated sales.

As per the Receiver of Revenue's statement, an amount of N\$ 535 527 is not due to the Municipality, thus the VAT receivables is overstated with this amount.

Furthermore an amount of N\$ 699 081 was transferred by the Receiver from VAT due to the Municipality to import VAT outstanding as per their records. According to the Receiver, the import VAT returns for the period 2001/04 to 2009/01 was not paid by the Municipality. The Council should follow this matter up with the Receiver of Revenue and endeavour to claim this import VAT back as input VAT.

The Receiver transferred an amount of N\$ 216 168 from the VAT due to the Municipality to the PAYE account of the Municipality. As per the Receiver of Revenue's records, this amount was outstanding by the Council. This amount is in respect of penalties and interest charged. A PAYE cheque paid by the Council on the 18th of November 2012 in respect of October 2011 PAYE, was incorrectly allocated by the Receiver to the VAT account and not the PAYE account. The Receiver only did the correction thereof on the 11th of October 2012. This resulted on interest and penalties incorrectly charged by the Receiver. The Council should take this matter up with the Receiver and request the necessary adjustments on their system.

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 were agreed to the financial statements. However, the auditors did not observe the counting of inventories on 30 June 2012, thus the auditors could not express an opinion over the existence and completeness of all stock items.

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 Council. The bank balance as per the financial statement is thus understated with N\$ 469 958. The Council is currently not paying the external loans to the Ministry. According to the Ministry of Finance statement, the arrear instalment amount is N\$ 1 409 874. This amount represents six instalments, thus three years payments.

4.8 Expenditure/ Trade payables

A Nampower invoice in respect of bulk electricity purchases of N\$ 2 556 912 (excluding VAT), Vat amounting to N\$ 383 537 and Electricity Control Board (ECB) levy amounting to N\$ 13 171 was not accrued for in the financial statement. A credit note of N\$ 271 682 in respect of network access charge was also not accounted for. Accounts payable is therefore understated by N\$ 2 681 939.

4.9 Sale of erven

An amount of N\$ 525 000 was not recorded in the Council's financial statements for erf 351 that was sold during the 2008/2009 year to the Ministry of Youth.

4.10 Appropriation account

It was noted that the Council made out a journal 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 appropriation account overstated by this amount. As mentioned in paragraph 4.7 the amount as per the Ministry of Finance amounts to N\$ 1 409 874.

5. ACKNOWLEDGEMENT

The assistance and co-operation given by the staff of the 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 deficit 01/07/2011				(2 219 242)
General accounts				
Non-profitable services	3 082 220	11 378 130	(8 295 910)	
Self-supporting services	3 200 914	2 705 684	495 230	
Trade accounts				
Water	8 397 376	7 998 021	399 355	
Electricity	32 475 134	21 976 424	10 498 710	
	47 155 644	44 058 259	3 097 385	
Surplus for the year				3 097 385
Adjustments and appropriations (Note 11, Annexure D)				259 962
Accumulated surplus 30/06/2012				1 138 105

Also refer paragraph 4.10

7. CURRENT BANK ACCOUNT

	2012	2011
	N\$	N\$
Cash-book balance at 30 June – Balance sheet	71 590	(482 552)
Outstanding cheques	720 203	641 526
Outstanding deposits	(106 496)	(57 082)
Unknown items	21 935	97 669
Balance as per bank statement	707 232	199 561

The favourable bank statement balance on the current bank account amounting to N\$ 707 232 (2011: N\$ 199 561). Cheques not presented for payment amounting to N\$ 720 203 (2011: N\$ 641 526), resulting in a favourable cashbook balance of N\$ 71 590 (2011: Unfavourable cash-book balance of N\$ 482 552).

Two outstanding cheques in respect of the external loan instalments to the amount of N\$ 469 958 will not clear in subsequent bank statements due to not being given to the Payee. Also refer to paragraph 4.4.

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2012 and the interest thereon were as follows:

Institution	2012		2011	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	2 510 721	54 263	1 755 666	52 453
Insurance companies	173 272	18 590	152 181	19 357
Interest accrued – Included in other	(846 300)	-	(773 447)	(4 999)
	1 837 693	72 853	1 134 400	66 811
Distribution				
Capital Development Fund	30 911	1 865	29 046	14 497
Fixed Property Fund	145 126	1 312	20 430	10 186
Renewal Fund	252 706	10 989	171 118	25 688
Betterment Fund	640 133	22 310	347 400	3 479
Staff Housing Fund	37 453	2 260	35 193	1 570
Centenary Fund	139 379	8 044	125 260	5 353
Housing Services Fund	591 984	26 073	405 953	6 038
Total	1 837 693	72 853	1 134 400	66 811

There was interest received on investments in the current year amounting to N\$ 72 853 (2011: N\$ 66 811). Interest received on a First National Bank call account amounting to N\$ 318 246 was not accounted for in the financial statements.

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	
	2012	2011	2012	2011
	N\$	N\$		
Sales	32 424 913	26 771 602	8 396 493	6 647 567
Cost of bulk purchases	(18 006 221)	(17 265 918)	(6 916 225)	(5 430 513)
Gross surplus	14 418 692	9 505 684	1 480 268	1 217 054
Other (expenses)/income	(3 919 982)	(4 074 595)	(1 080 913)	(997 960)
Net surplus	10 498 710	5 431 089	399 355	219 094
Gross surplus percentages on purchases	80.1%	55.1%	21.4%	22.4%
Net surplus percentage on purchases	58.3%	31.5%	5.7%	4.0%
Gross surplus percentages on sales	44.5%	35.5%	17.6%	18.3%
Net surplus percentage on sales	32.4%	20.3%	4.8%	3.3%

The Municipality moved from a profit on electricity of N\$ 5 431 089 in 2011 to a profit of N\$ 10 498 710 in 2012 and on water from a profit of N\$ 219 094 in 2011 to a profit of N\$ 399 355 in 2012. This was as a result of tariff increases in current year. The Council could be commented on the current year profit.

10.2 Distribution results were as follows:

Electricity and water distribution losses, in kilo watt hour (Kwh) and cubic metres (m³) were as follows:

	Electricity		Water	
	2012	2011	2012	2011
	Kw/h	Kw/h	m ³	m ³
Sales	22 875 343	22 800 293	754 921	699 493
Purchases	(26 934 700)	(26 353 240)	(884 041)	(808 575)
Loss	(4 059 357)	(3 552 947)	(129 120)	(109 082)
Percentage loss in units	(15,1%)	(13,5%)	(14,6%)	(13,5%)

11. SELF-SUPPORTING EXTERNAL SERVICES

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

Services	Revenue 2012	Expenditure 2012	Surplus/ (Deficit) 2012	Surplus/ (Deficit) 2011
	N\$	N\$	N\$	N\$
Aerodrome	4 552	94 879	(90 327)	(77 169)
Abattoir	56 205	196 446	(140 241)	(198 830)
Housing lease units	180 451	381 752	(201 301)	(321 995)
Sanitation	1 486 494	1 030 150	456 344	380 586
Sewerage	1 354 046	845 925	508 121	543 986
Town ground and pound	119 166	156 532	(37 366)	(83 204)
	3 200 914	2 705 684	495 230	243 374

The above table shows that the self-supporting services indicate an improvement.

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 losses on aerodrome and abattoir are in line with expectations as the council had budgeted for the losses on these votes.

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 decreased with N\$ 23 500 from (2011: N\$ 817 315) to (2012: N\$ 793 815). These accounts are properly maintained, controlled and reconciled on a regular basis.

14. IRREGULARITIES AND LOSSES

14.1 One irregularity by an employee was reported.

14.2 No losses were reported.

15. CAPITAL PROJECTS

Capital expenditure for the 2012 financial year amounted to N\$ 3 011 800 (2011: N\$ 1 340 108) and comprises the following:

Nature of projects/acquisitions	FINANCED BY			Total expenditure 2011
	General capital	Internal loans	Total expenditure 2012	
	N\$	N\$	N\$	N\$
Cemetery		-	-	43 591
Council's general expenses	-	239 153	239 153	28 697
Electricity supply	-	1 205 966	1 205 966	798 363
Finance	-	-	-	6 200
Municipal building	-	371 867	371 867	216 720
Sanitation	-	-	-	172 964
Streets	-	94 780	94 780	47 155
Tipeeg Sewerage No.1	928 044	-	928 044	-
Water supply	-	171 990	171 990	26 418
	928 044	2 083 756	3 011 800	1 340 108

16. STUDY LOANS/BURSARIES

At 30 June 2012, outstanding loans amounted to N\$ 193 837 (2011: N\$ 193 182).

No study loan /bursaries were awarded during the year. The loans bear interest of 6% per annum and are repayable after studies have been completed. Seven (7) out of nine (9) students do not pay back their study loans. According to management the amount of N\$ 182 122 is not recoverable.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants and financial aid were made during the year.

18. COMPENSATION PAYMENTS

No Compensation payments were made during the year.

19. VISITS TO FOREIGN COUNTRIES

One official visited Sweden which cost the Municipality N\$ 14 155.

No valid documentation could be traced for an amount of N\$ 7 000 received for travelling. After numerous attempts from management these invoices are still outstanding.

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	Empelheim Junior Secondary School	900
Donation	Mariental Primary School	500
Donation	DD Guibeb Primary School	500
Donation	Danie Joubert Combined School	500
Donation	Sonop Primary School	500
Donation	Mariental Chamber of Commerce.	5 000
Donation	Mariental High School	3 000
	Total	10 900

An amount of N\$ 10 900 (2011: N\$ 24 000) 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.

23. TRADE AND OTHER RECEIVABLES/ PAYABLES

23.1 Debtors on 30 June 2012 comprise the following:

	2012	2011
	N\$	N\$
Services rendered and assessment rates	*7 645 445	6 195 223
Interest accrued on investments	846 300	773 447
Subsidies receivable	546 220	382 501
Study loans	193 837	193 182
VAT receivables	2 079 109	1 795 289
Sundries	23 331	20 062
	11 334 242	9 359 704
Less: Provision for bad debts	(353 853)	(310 574)
Consumer deposits	(781 712)	(748 351)
Total	10 198 677	8 300 779
Analysis of services and general debtors:		
Average monthly levy	3 421 984	2 879 187
Debtors	7 645 445	6 195 223
Average credit terms in days	61	65
Consumer deposits	781 712	748 351
Percentage of deposit in relation to debtors	10.2%	12.1%

* This amount includes debtors that were handed over to debt collectors to the amount of N\$ 742 644 (2011: N\$ 819 952).

A closer investigation revealed the following:

The consumer debt collection period improved during the year under review as it reduced from 65 to 61 days. The decrease in the collection period is commendable as it will positively influence the cash flow of the Municipality. 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 2012 comprise the following:

	2012	2011
	N\$	N\$
Commitments by purchase and other obligations	1 146 354	3 067 397
Special program – Allocated funds	793 815	817 314
Leave provision	987 964	816 566
Sundries	164 785	111 263
Total	3 092 918	4 812 540

24. ASSESSMENT RATES

The gazetted tariffs were as follows:

	2012	2011
	N\$	N\$
Net proceeds from assessment rates	1 621 113	1 529 283
Paid to the Regional Council	81 056	76 464
Tariffs per N\$1 valuation per month		
- Land	0.04232	0.040313
- Admin: Land	0.033862	0.032250
- Outside town: Land	0.111860	0.106541
- Undeveloped: West of railway	0.749049	0.749049
- Undeveloped: East of railway	1.061251	0.922827
- Aimab: Land	1.174713	1.118774
- Improvements	0.006498	0.006189
- Admin: Improvements	0.005198	0.004951
- Outside town: Improvements	0.011846	0.010652

25. LOANS

25.1 External loans

	2012	2011
	N\$	N\$
Capital outlay	4 554 607	4 675 237
Housing funds	378 276	378 307
Total	4 932 883	5 053 544

25.2 Internal loans

	2012	2011
	N\$	N\$
Total	6 229 964	5 601 260

Internal loans are not disclosed in the abridged balance sheet. All new internal loans 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 of before the loan was redeemed. Loan monies were used for the purpose they were obtained for.

26. SALE OF ERVEN

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

	2012		2011	
	Number	Amount	Number	Amount
		N\$		N\$
Mariental	17	1 681 338	14	221 516
Aimablaagte	4	214 957	4	15 084
	21	1 896 295	18	236 600

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

No erven were 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\$
Fire brigade	331 065	422 272	91 207
Municipality buildings	932 528	1 949 126	1 016 598
Sport fields	296 619	333 159	36 540
Water supply	6 815 674	7 998 021	1 182 347
Totals	8 375 886	10 702 578	2 326 692

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles

	Sedan vehicles		LDV and combi's		Heavy vehicles (Lorries and busses)	
	No	Value	No	Value	No	Value
Balance - 01/07/2011	1	N\$ 167 645	5	N\$ 187 481	11	N\$ 508 897
Acquisitions	-	-	1	420 960	-	-
Sub-total		167 645		608 441		508 897
Depreciation		(16 765)		(3 417)		(13 090)
On hand 30/06/2012	1	150 880	6	605 024	11	495 807
Kilometres travelled		23 169		129 731	*	46 920
Fuel consumption		1 763		11 657	*	31 208
Fuel consumption per km		13,1	**	11,1	*	1,5

* These vehicles use hour meters thus consumption per litre could not be accurately calculated.

** Included in these figures is the fire brigade with high idle time.

30.2 Inventory

Inventories amount to N\$ 702 946 (2011: N\$ 473 008).

Adequate system of control over recording of inventory was maintained.

Inventory counts were performed at year end but with the absence of the auditors.

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 2012, 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 reason:

- Value added Taxation - There is a material difference on VAT receivables between the general ledger and the Receiver of Revenue statement. The recoverability and thus valuation of this receivable is in doubt.
- Appropriation account – Unpaid external loan instalments were credited in respect of prior years to the appropriation account instead of the trade payables.
- Expenditure/Trade Payables – An amount in respect of bulk electricity purchases to the net amount of N\$ 2 681 939 was not provided for.
- Debtor's recoverability: Provision for bad debts is understated.
- Bank reconciliation and external loans not paid – Cheques were written out by the Council 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\$ 1 409 874.
- Sale of erven – An amount of N\$ 525 000 was not recovered in respect of an erf sold during the 2008/2009 year to the Ministry of Youth.

Except for the effects of any adjustments which might have been necessary as referred to above, in my opinion, these financial statements fairly present the financial position of the Municipality as at 30 June 2012 and the results of its operations and cash flow for the year then ended and in the manner required by the Local Authorities Act, 1992 and the State Finance Act, 1991.

WINDHOEK, May 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

BALANCE SHEET AS AT 30 JUNE 2012

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
		N\$	N\$
ASSETS			
Non-current assets			
Property, plant and equipment	2	33 754 500	21 384 309
Investments	3	31 916 807	20 249 909
		1 837 693	1 134 400
Current assets			
Trade and other receivable	4	10 973 972	8 774 347
Inventories	5	10 198 677	8 300 779
Bank	6	702 946	473 008
		72 350	560
TOTAL ASSETS		44 728 473	30 158 656
FUNDS AND LIABILITIES			
Funds and reserves			
Capital outlay	7	36 702 673	19 810 019
Funds and accounts	8	21 132 237	9 973 412
		15 570 436	9 836 607
Non-current liabilities			
Long term loans	9	4 932 883	5 053 544
Current liabilities			
Trade and other payable	10	3 092 917	5 295 093
Bank overdraft	6	3 092 917	4 812 540
		-	482 553
TOTAL FUNDS AND LIABILITIES		44 728 473	30 158 656

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

	<u>Note</u>	<u>2012</u>	<u>2011</u>
		N\$	N\$
INCOME		47 086 970	40 359 974
EXPENDITURE		<u>(44 058 258)</u>	<u>(40 166 706)</u>
OPERATING LOSS FOR THE YEAR		3 028 712	193 268
Interest earned		<u>68 674</u>	<u>33 532</u>
NET SURPLUS FOR THE YEAR		3 097 386	226 800
Add : Appropriation and adjustments	11	<u>259 961</u>	<u>449 166</u>
RETAINED INCOME FOR THE YEAR		3 357 347	675 966
30 June 2011		<u>(2 219 242)</u>	<u>(2 895 208)</u>
30 June 2012		<u>1 138 105</u>	<u>(2 219 242)</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012	2011
		N\$	N\$
Cash flow from operating activities			
Cash receipts from customers		47 086 970	40 359 974
Cash paid to suppliers		(47 645 756)	(38 127 907)
Cash generated from operations	12	(558 786)	2 232 067
Interest received		68 674	33 532
Increase in fund accounts		2 376 482	440 125
Increase in capital outlay		11 158 825	884 363
Net cash flow from operating activities		13 045 195	3 590 087
Cash flow from investing activities			
Net capital expenditure		(11 666 898)	(961 992)
(Increase)/Decrease in investments		(703 293)	295 000
Decrease in loans receivable			2 873
Net cash flow from investing activities		(12 370 191)	(664 119)
Cash flow from financing activities			
Decrease in long-term liabilities		(120 661)	(109 087)
Net increase/(decrease) in cash and cash equivalents		554 343	2 816 881
Cash and cash equivalents at the beginning of the year		(481 993)	(3 298 874)
Cash and cash equivalents at the end of the year		72 350	(481 993)

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 profits 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.

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

	2012	2011
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Consists of :		
Income assets	4 500 975	3 525 123
Loan assets	16 807 885	16 049 289
Funds and grants	1 535 991	675 497
Investment - Unspent funds for capital works	9 071 956	-
	31 916 807	20 249 909
Financed by :		
External loans	4 554 607	4 675 236
Internal loans	6 229 964	5 601 260
Loans redeemed	6 023 314	5 772 792
Contribution from: Ex income	4 500 975	3 525 123
Contribution from: General capital	10 607 947	675 497
	31 916 807	20 249 909
3. INVESTMENTS		
Commercial banks	2 510 721	1 755 666
Insurance companies	173 273	152 181
Interest accrued on investments - Included in other receivables	(846 300)	(773 447)
	1 837 693	1 134 400
Allocated as follows:		
Capital Development Fund	30 911	29 046
Fixed Property Fund	145 126	20 430
Renewal Fund	252 706	171 118
Betterment Fund	640 133	347 400
Staff Housing Fund	37 453	35 193
Centenary Fund	139 379	125 260
Housing Services Fund	591 984	405 953
	1 837 693	1 134 400
4. TRADE AND OTHER RECEIVABLES		
Services rendered and assessment rates	7 645 445	6 195 223
Interest accrued on investments	846 300	773 447
Subsidies receivable	546 220	382 501
Study loans	193 837	193 182
VAT receivable	2 079 109	1 795 289
Sundry debtors	23 331	20 062
	11 334 242	9 359 704
Less :		
Provision for doubtful debts	(353 853)	(310 574)
Consumer deposits	(781 712)	(748 351)
	10 198 677	8 300 779

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

	<u>2012</u>	<u>2011</u>
	N\$	N\$
5. INVENTORIES		
Stores	373 137	264 725
Fuel and oil	329 808	208 283
	<u>702 946</u>	<u>473 008</u>
6. BANK AND CASH		
Current account - Municipality operating account	71 590	(482 553)
Petty cash	760	560
	<u>72 350</u>	<u>(481 993)</u>
7. CAPITAL OUTLAY		
Loans redeemed	6 023 315	5 772 792
Revenue contributions	4 500 975	3 525 123
General capital contributions	10 607 947	675 497
	<u>21 132 237</u>	<u>9 973 412</u>
8. FUNDS, ACCOUNTS AND RESERVES		
Fixed Property Fund	5 583 945	3 783 377
Betterment Fund	1 135 126	1 039 281
Renewal Fund	2 047 377	1 863 813
Capital Development Fund	4 989 430	4 735 378
Housing Services Fund	517 395	491 322
Staff Housing Fund	19 679	17 418
Centenary Fund	139 379	125 260
Sub total	14 432 331	12 055 849
Revenue account kept in compliance with section 86(1) of the local Authorities Act, 1992	1 138 105	(2 219 242)
	<u>15 570 436</u>	<u>9 836 607</u>
9. LONG-TERM LIABILITIES		
Loan from the Government:		
Capital outlay	4 554 607	4 675 237
Housing Fund	378 276	378 307
	<u>4 932 883</u>	<u>5 053 544</u>

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

	2012	2011
	N\$	N\$
10. TRADE AND OTHER PAYABLES		
Commitments by purchase and other obligations	1 146 354	3 067 397
Special program - Allocated funds	793 815	817 314
Leave provision	987 964	816 566
Sundries	164 785	111 263
	3 092 917	4 812 540
11. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Adjustments - Provision for leave pay	(171 398)	(118 512)
Subsidy over provision	(154 304)	-
Expenditure 2010/2011	(7 011)	-
Shortages	(7 885)	-
Cheques cancelled	469 958	482 589
Dividends received	-	5 617
Interest adjustment - Study loans	1 293	5 124
Surplus cash	-	2 157
Surplus on account	5 940	1 724
Unknown deposits	123 369	70 467
	259 961	449 166
12. CASH UTILISED IN OPERATIONS		
Net profit (deficit) before interest and transfers	3 028 712	193 268
Adjustments to appropriation account	259 961	449 166
Operating surplus before changes in working capital	3 288 673	642 434
Changes in working capital		
(Decrease)/ Increase in trade and other payables	(1 719 623)	3 276 424
(Increase)/decrease in inventories	(229 938)	(30 457)
(Increase)/decrease in trade and other receivables	(1 897 898)	(1 656 334)
	(3 847 458)	1 589 633
CASH GENERATED BY OPERATIONS	(558 786)	2 232 067