



**REPUBLIC OF NAMIBIA**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE**

# **MUNICIPALITY OF OTJIWARONGO**

**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 Otjiwarongo 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, December 2014**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL  
ON THE ACCOUNTS OF THE MUNICIPALITY OF OTJIWARONGO  
FOR THE FINANCIAL YEAR ENDED  
30 JUNE 2013**

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**1. INTRODUCTION**

The accounts of the Municipality of Otjiwarongo 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, (Act 23 of 1992).

The firm EDB & 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 submitted to the Auditor-General by the Accounting Officer in Compliance with Section 87(1) of the Local Authorities Act, 1992. The letter of representation concerning the financial year is dated 10 February 2014. 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, Annexure A, is a true reflection of the originals.

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 based 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 comply with ethical requirements, plan and perform the audit to obtain reasonable assurance about 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 on assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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 of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as overall presentation of the financial statements.

#### 4. AUDIT OBSERVATIONS AND COMMENTS

##### 4.1 Bad and doubtful debts

The average collection period of trade receivables, before taking the provision for bad debts into account is 231 days (2012: 240 days). The average collection period of trade receivables, after taking the provision for bad debts into account, is 78 days (2012: 200 days). Based on an average collection period of 60 days, the auditors are of the opinion that the debtors provision is understated by at least N\$ 3 474 124 (2012: N\$ 16 636 716).

|                 | <b>2013</b>      | <b>2012</b>       |
|-----------------|------------------|-------------------|
|                 | N\$              | N\$               |
| Under provision | 3 474 124        | 16 636 716        |
|                 | <b>3 474 124</b> | <b>16 636 716</b> |

Also, outstanding debt at 120 days and more for the respective financial years were as follows:

| <b>Description</b>                          | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
|   | %           | %           |
| 120 days and more as % of Trade Receivables | 77%         | 79%         |
|   | <b>77%</b>  | <b>79%</b>  |

The magnitude of these under-provisions, highlight serious concerns on the debt collection controls and measures over these assets of the Municipality. As a result of the above the current valuation of accounts receivables are materially misstated in the annual financial statements.

Due to the significance of this matter, the Auditor-General cannot express an opinion on bad and doubtful debts.

##### 4.2 Inventories

The auditors did not observe the counting of inventories on 30 June 2013. There were no alternative practical audit procedures that the auditors could perform to confirm the existence and value of inventories on hand at year-end.

##### 4.3 Fixed assets

A sample selected by auditors for assets verification which amounted to N\$ 130 383 were only provisional amounts posted to the fixed assets register. No physical assets existed that could be verified.

Assets which are written off or disposed off were still included in the fixed assets.

#### 4.4 Consumer deposits

|  | 2013       | 2012       |
|--|------------|------------|
|  | N\$        | N\$        |
| Debt outstanding                                 | 32 121 518 | 28 394 170 |
| <b>Consumer deposits</b>                         | 1 423 511  | 1 320 942  |
| Percentage of deposits against outstanding debts | 4.43%      | 4.65%      |

When comparing the consumer deposits to the Municipality's total consumer debts outstanding, it is evident to note that the Municipality's lack of control exist over the collection of deposits payable. An overall view, indicate that irrecoverable debts, would not be covered by these deposits.

#### 4.5 NATIS

The road authority invoices for April, May and June 2013 which amounted to N\$ 432 763 outstanding was incorrectly posted to sundry creditors account in the balance sheet instead of to the debtors account for the year under review.

#### 5. ACKNOWLEDGEMENT

The assistance and co-operation given by the management and staff of the Municipality during the audit are appreciated. The efforts made by management to implement the previous years recommendations are also appreciated.

#### 6. FINANCIAL RESULTS

|  | Revenue    | Expenditure | Surplus/<br>(deficit) | Balance          |
|--|------------|-------------|-----------------------|------------------|
|  | N\$        | N\$         | N\$                   | N\$              |
| Accumulated surplus<br>as at 01/07/2012                |            |             |                       | 23 917 807       |
| <b>General Services</b>                                |            |             |                       |                  |
| Non-profitable   | 22 882 803 | 41 960 804  | (19 078 001)          |                  |
| Self-supporting(note11)                                | 12 711 930 | 8 331 399   | 4 380 531             |                  |
| <b>Trade Accounts</b>                                  |            |             |                       |                  |
| Electricity supply                                     | 6 995 129  | 43 313      | 6 951 816             |                  |
| Water supply   | 24 904 560 | 17 467 383  | 7 437 177             |                  |
|  | 67 494 422 | 67 802 899  | (308 477)             | (308 477)        |
| Surplus for the year                                   |            |             |                       | 23 609 330       |
| Adjustments and utilizations (See Note 11, Annexure D) |            |             |                       | (16 736 924)     |
| Accumulated surplus 30/06/2013                         |            |             |                       | <b>6 872 406</b> |

7. **CURRENT BANK ACCOUNT**

|  | 2013               | 2012             |
|--|--------------------|------------------|
|  | N\$                | N\$              |
| <b>Cash-book balance at 30 June</b>      |                    |                  |
| - Favourable cashbook balance on 30 June | 2 631 097          | 562 645          |
| - Outstanding cheques                    | (6 049 468)        | 1 077 923        |
| Petty cash                               | 5 400              | 5 400            |
| <b>Balance as per bank statements</b>    | <b>(3 412 971)</b> | <b>1 645 968</b> |

8. **INVESTMENTS AND INTEREST PROCEEDS**

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

| <b>Institution</b>       | 2013              | 2012              |
|--------------------------|-------------------|-------------------|
|                          | <b>Investment</b> | <b>Investment</b> |
|                          | N\$               | N\$               |
| <b>Invested at:</b>      |                   |                   |
| Insurance companies      | 3 069 907         | 2 971 936         |
| Commercial banks         | 16 248 172        | 15 442 717        |
| Censored (Pty) Ltd       | 43 066 969        | 43 066 969        |
|                          | <b>62 385 048</b> | <b>61 481 622</b> |
| <b>Distribution:</b>     |                   |                   |
| Fixed Property Fund      | 2 897 712         | 3 682 930         |
| Capital Reserve Fund     | 2 017 243         | 1 737 449         |
| Betterment Fund          | 2 016 807         | 1 841 539         |
| Capital Development Fund | 2 427 433         | 8 759 040         |
| Built Together Fund      | 1 629 364         | 2 393 695         |
| Censored investment      | 43 066 969        | 43 066 969        |
| Erven Trust Fund         | 4 829 520         | -                 |
| TIPEEG Project Fund      | 3 500 000         | -                 |
|                          | <b>62 385 048</b> | <b>61 481 622</b> |

9. **FUND ACCOUNTS**

The position of the Fund accounts at the end of the year is shown in Note 2 of Annexure D.

10. **TRADE ACCOUNTS**

10.1 The results of operations of electricity were as follows:

|                               | 2013             | 2012             |
|-------------------------------|------------------|------------------|
|                               | N\$              | N\$              |
| Royalty                       | 6 995 129        | 6 960 048        |
| Cost of sales                 | -                | -                |
| <b>Gross profit / (loss)</b>  | 6 995 129        | 6 960 048        |
| Expenses (net)                | (43 313)         | (43 313)         |
| <b>Net surplus</b>            | <b>6 951 816</b> | <b>6 916 735</b> |
| Gross loss % on cost of sales | -                | -                |
| Net loss % on cost of sales   | -                | -                |

10.2 The distribution losses for electricity could not be determined due to inadequate record keeping.

10.3 The results of operations of water were as follows:

|                                 | <b>2013</b>       | <b>2012</b>      |
|---------------------------------|-------------------|------------------|
|                                 | N\$               | N\$              |
| Sales                           | 24 313 879        | 20 040 723       |
| Cost of Sales                   | (13 600 364)      | (11 223 475)     |
| <b>Gross profit</b>             | <b>10 713 515</b> | <b>8 817 248</b> |
| Expenses (net)                  | (3 276 339)       | (3 392 084)      |
| <b>Net surplus</b>              | <b>7 437 176</b>  | <b>5 425 164</b> |
| Gross profit % on cost of sales | 79.8%             | 79%              |
| Net profit % on cost of sales   | 54.7%             | 48%              |

10.4 The distribution losses for water could not be determined due to inadequate record keeping.

|  | <b>2013</b>      | <b>2012</b>      |
|--|------------------|------------------|
|  | m <sup>3</sup>   | m <sup>3</sup>   |
| Total cubic meters sold for the year   | 1 073 554        | 1 142 231        |
| Total cubic meters bought for the year | 1 467 424        | 1 347 300        |
| Loss (cubic meters)                    | <b>(393 870)</b> | <b>(205 069)</b> |
| Percentage loss on sales               | 0.0%             | 0.0%             |
| Percentage loss on purchases           | (27.8%)          | (15.2%)          |

## 11. SELF-SUPPORTING SERVICES

The net results of self-supporting services were as follows:

|            | <b>Income<br/>2013</b> | <b>Expenses<br/>2013</b> | <b>Surplus/(Loss)<br/>2013</b> | <b>Surplus/(Loss)<br/>2012</b> |
|------------|------------------------|--------------------------|--------------------------------|--------------------------------|
|            | N\$                    | N\$                      | N\$                            | N\$                            |
| Sanitation | 8 415 366              | 5 838 801                | 2 576 565                      | 2 530 885                      |
| Sewerage   | 4 296 564              | 2 492 598                | 1 803 966                      | 1 535 876                      |
|            | <b>12 711 930</b>      | <b>8 331 399</b>         | <b>4 380 531</b>               | <b>4 066 762</b>               |

## 12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorized and avoidable expenditure was revealed during the audit.

## 13. SUSPENSE ACCOUNTS

No money was accounted for in suspense accounts during the year under review.

**14. IRREGULARITIES AND LOSSES**

No irregularities and losses were revealed by the audit for the year under review.

**15. CAPITAL PROJECTS**

The following expenditure was incurred during the year for capital projects or acquisitions:

|                        | <b>Financed by</b>     | <b>2013</b>  | <b>2012</b>      |
|------------------------|------------------------|--------------|------------------|
|                        | <b>Revenue account</b> | <b>Total</b> | <b>Total</b>     |
|                        | N\$                    | N\$          | N\$              |
| Public Planing         | -                      | -            | 1 035 564        |
| Roads and Street Works | -                      | -            | 2 268 220        |
| Finance, Admin and IT  | 1 082                  | 1 082        | 176 783          |
| Water                  | -                      | -            | 186 614          |
| Sanitation             | -                      | -            | 169 840          |
| Council                | -                      | -            | 355 751          |
| <b>Totals</b>          | <b>1 082</b>           | <b>1 082</b> | <b>4 192 772</b> |

A difference of N\$ 10 628 978 was observed between the income statement split and the capital statement.

**16. BURSARIES**

No bursaries were granted during the year under review.

**17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID**

Only N\$ 3 500 000 for the TIPEEG Project Fund was made during the year under review.

**18. COMPENSATION PAYMENTS**

No compensation payments were made during the year under review.

**19. VISITS TO FOREIGN COUNTRIES**

The Municipality confirmed that there were foreign visits to Botswana which amounted to N\$ 23 877 during the year under review.

**20. CLAIMS AGAINST THE LOCAL AUTHORITY**

No claims against the Local Authority payments were made during the year under review.

**21. GIFTS / DONATIONS BY / TO THE LOCAL AUTHORITY**

Donations of N\$ 38 215 for 2013 and for 2012: N\$ 22 899 were made during the year under review.

**22. TRANSFER OF PROPERTY TO / FROM GOVERNMENT**

No properties were transferred to and from the Ministry of Local Government and Housing for the year under review.



**23. DEBTORS AND CREDITORS**

**23.1 Debtors at 30 June were:**

|   | <b>2013</b>       | <b>2012</b>       |
|---|-------------------|-------------------|
|   | N\$               | N\$               |
| Trade receivables   | 32 121 518        | 28 394 169        |
| Value added tax   | 3 246 007         | 1 051 355         |
| Sundry debtors  | 546 127           | 491 028           |
| Less: Provision for bad debts                                 | (21 289 003)      | (4 652 286)       |
|   | <b>14 624 649</b> | <b>25 284 266</b> |
| <b>Analyses of services and general debtors:</b>              |                   |                   |
| Average monthly levy  | 4 223 570         | 3 601 925         |
| Rates and service debtors                                     | 32 121 518        | 28 394 169        |
| Average credit terms in days - Before provision for bad debts | 231               | 240               |
| Average credit terms in days - After provision for bad debts  | 78                | 200               |
| Consumer deposits   | 1 423 511         | 1 320 942         |

**23.2 Creditors at 30 June were:**

|                            | <b>2013</b>      | <b>2012</b>      |
|----------------------------|------------------|------------------|
|                            | N\$              | N\$              |
| Trade payables             | 1 394 272        | 1 374 449        |
| Provisions for staff leave | 2 938 920        | 3 260 313        |
| Loan instalments in arrear | 868 549          | 1 442 354        |
|                            | <b>5 201 741</b> | <b>6 077 116</b> |

**24. ASSESSMENT RATES**

|  | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
|  | N\$         | N\$         |
| Net proceeds from assessment rates were  | 16 515 777  | 14 160 292  |
| Tariffs per N\$ 1 valuation per annum - Residential<br>Valuation per annum             |             |             |
| - Land   | 0.0650      | 0.0570      |
| - Improvements   | 0.0083      | 0.0073      |
| Tariffs per N\$ 1 valuation per annum - Business/Industrial etc<br>Valuation per annum |             |             |
| - Land   | 0.0661      | 0.0570      |
| - Improvements   | 0.0085      | 0.0073      |

**25. LOANS**

**25.1 External loans**

The balances due to third parties were as follows:

|  | <b>2013</b>      | <b>2012</b>      |
|--|------------------|------------------|
|  | N\$              | N\$              |
| <b>CAPITAL FUNDS SECTION AND FUNDS</b> |                  |                  |
| Capital section                        | 2 364 677        | 2 456 620        |
|  | <b>2 364 677</b> | <b>2 456 620</b> |

The balance as detailed above correspond to the balance per actuarial tables.

## 25.2 Internal loans

Internal loans were advanced or received are reflected at N\$ 17 594 694 for 2013 and (2012: N\$ 19 211 695) in the annual financial statements.

## 25.3 Loans written off

No loans were written off during the year.

## 25.4 Loans due to the municipality

On 30 June, the amounts outstanding in respect of loans made from the following Funds were as follows:

|                               | 2013              | 2012              |
|-------------------------------|-------------------|-------------------|
|                               | N\$               | N\$               |
| Ervin Trust Fund              | 4 300 376         | 4 710 761         |
| Single Quarter Housing Scheme | 3 113 884         | 3 422 986         |
| Build Together                | 5 782 817         | 6 375 175         |
| Personnel Housing Scheme      | 1 017 930         | 953 423           |
| Other                         | 846 013           | 825 213           |
| <b>Total</b>                  | <b>15 061 019</b> | <b>16 287 558</b> |

## 26. SALE OF ERVEN

During the current financial year erven to the value of N\$ 321 213 (2012: N\$ 347 262) were sold. The proceeds were allocated to the Fixed Property Fund.

## 27. LOCAL AUTHORITY PROPERTY SOLD ON INSTALMENT BASIS

No property was sold on an instalment basis during the year.

## 28. TARIFF ADJUSTMENTS

All tariff adjustments were in accordance with the relevant Official Government Gazette, although some customer rates were not appropriately adjusted.

## 29. APPROVALS

### 29.1 Excess on approved budget

All necessary approvals were obtained.

## 30. INVENTORY AND EQUIPMENT

### 30.1 Motor vehicle and values thereof:

|                          | Sedan vehicles |                | LDV's and combies |                | Heavy duty vehicles (Lorries and busses) |                  |
|--------------------------|----------------|----------------|-------------------|----------------|--|------------------|
|                          | No             | N\$            | No                | N\$            | No                                       | N\$              |
| On hand as at 01/07/12   | 10             | 473 287        | 25                | 553 603        | 34                                       | 1 495 412        |
| On hand as at 30/06/2013 | <b>10</b>      | <b>473 287</b> | <b>25</b>         | <b>553 603</b> | <b>34</b>                                | <b>1 495 412</b> |

## 31. SPECIAL INVESTIGATIONS

No special investigations were conducted for the year under review.

## **32. GENERAL**

### **32.1 Internal controls**

There is a sufficient system of internal controls at the Municipality. Proper segregation of duties is not feasible due to the small number of staff employed. While increased management involvement reduces risks, the risk arises that management and Council override existing controls, a potentially dangerous practice, which Council should vigilantly guard against.

## **33. FORMAL AND INFORMAL QUERIES**

Formal queries are embodied in this report.

Informal queries addressed to the Chief Executive Officer consist of:

- \* Inadequate inventory control;
- \* Inadequate consumer deposits
- \* Long overdue debtors' accounts and monies long outstanding becoming doubtful;

## **34. DISCLAIMED AUDIT OPINION**

The accounts of the Municipality of Otjiwarongo for the financial year ended 30 June 2013, summarized in Annexure A to D, were audited by me in terms of provisions of Section 85 of the Local Authorities Act, 1992 read with Section 25(1) of the State Finance Act, 1991.

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

- \* The balance sheet does not balance. A difference of N\$ 192 061 was found due to internal loans not properly accounted for, for the year under review.
- \* The recalculated provision for doubtful debts revealed a material under provision of N\$ 3 474 124.
- \* A sample selected by auditors for assets verification which amounted to N\$ 130 383, were only provisional amounts which was posted to the fixed assets register and no physical assets existed.
- \* Assets which are written off or disposed off, were still included in the fixed assets.
- \* The Road Authority invoices for April, May and June 2013 which amounted to N\$ 432 763 outstanding was posted to sundry creditors (511) account instead to debtors account for the year under review.
- \* The difference of N\$ 119 507 found, is due to the VAT of December 2012, January, February and March 2013 that was not extracted from the ledger accounts for the year under review.

**WINDHOEK, December 2014**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

## MUNICIPALITY OF OTJIWARONGO

## BALANCE SHEET ON 30 JUNE 2013

|                                     | Notes | 2013<br>N\$        | 2012<br>N\$        |
|-------------------------------------|-------|--------------------|--------------------|
| <b>ASSETS</b>                       |       |                    |                    |
| <b>Non-current assets</b>           |       |                    |                    |
| Property, plant and equipment       | 3     | 58 365 750         | 51 648 609         |
| Investments                         | 4     | 62 385 049         | 61 481 622         |
| Loans receivables                   | 9     | 15 061 019         | 16 287 558         |
| <b>Current assets</b>               |       |                    |                    |
| Trade and other receivables         | 5     | 14 624 649         | 25 284 266         |
| Inventories                         | 8     | 78 166             | 62 399             |
| Cash and cash equivalents           | 10    | 5 400              | 568 045            |
| <b>TOTAL ASSETS</b>                 |       | <b>150 520 033</b> | <b>155 332 499</b> |
| <b>EQUITY AND LIABILITIES</b>       |       |                    |                    |
| <b>Funds</b>                        |       |                    |                    |
| Capital outlay                      | 2     | 38 406 379         | 29 980 294         |
| Fund and accounts                   | 2     | 99 705 354         | 115 497 527        |
| <b>Non-current liabilities</b>      |       |                    |                    |
| Long-term loans                     | 7     | 2 364 677          | 2 456 620          |
| Consumer deposits                   |       | 1 423 511          | 1 320 942          |
| <b>Current liabilities</b>          |       |                    |                    |
| Trade and other payables            | 6     | 5 201 741          | 6 077 116          |
| Bank overdraft                      | 10    | 3 418 371          | -                  |
| <b>TOTAL EQUITY AND LIABILITIES</b> |       | <b>150 520 033</b> | <b>155 332 499</b> |

## MUNICIPALITY OF OTJIWARONGO

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

|  | <b>Note</b> | <b>2013</b>      | <b>2012</b>       |
|--|-------------|------------------|-------------------|
|  |             | N\$              | N\$               |
| INCOME   |             | 67 494 422       | 58 984 572        |
| EXPENDITURE                                    |             | (67 802 899)     | (61 515 892)      |
| NET OPERATING LOSS                             |             | (308 477)        | (2 531 320)       |
| INVESTMENT INTEREST EARNED                     |             | -                | -                 |
| NET LOSS                                       |             | (308 477)        | (2 531 320)       |
| ADJUSTMENTS                                    | 11          | (16 736 924)     | 2 930 978         |
| NET (LOSS) / PROFIT for the year               |             | (17 045 400)     | 399 658           |
| APPROPRIATION ACCOUNT AT BEGINNING OF THE YEAR |             | 23 917 806       | 23 518 148        |
| APPROPRIATION ACCOUNT AT END OF YEAR           |             | <b>6 872 406</b> | <b>23 917 806</b> |

## MUNICIPALITY OF OTJIWARONGO

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

|  | Note      | 2013<br>N\$        | 2012<br>N\$    |
|--|-----------|--------------------|----------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>       |           |                    |                |
| Cash receipts from customers                     |           | 67 494 422         | 58 984 573     |
| Cash paid to suppliers                           |           | (74 771 348)       | (60 340 208)   |
| <i>Cash utilised by operations</i>               | <b>12</b> | (7 276 926)        | (1 355 635)    |
| Investment income                                |           | -                  | -              |
| <i>Movement in Fund accounts</i>                 |           | 9 679 312          | 6 270 725      |
| Increase in funds accounts                       |           | 1 253 227          | 3 742 773      |
| Increase in capital outlay                       |           | 8 426 085          | 2 527 952      |
| <i>Net cash inflow in operating activities</i>   |           | 2 402 386          | 4 915 090      |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>       |           |                    |                |
| Net increase in capital value                    |           | (6 394 029)        | (4 385 089)    |
| Increase in investments                          |           | (6 717 141)        | (1 275 621)    |
| Increase in investments                          |           | (903 427)          | (2 438 395)    |
| Decrease / (Increase) in loans receivables       |           | 1 226 539          | (671 073)      |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>       |           |                    |                |
| Decrease in long-term loans                      |           | 10 627             | 16 163         |
| Decrease in consumer deposits                    |           | (91 942)           | (82 887)       |
|  |           | 102 569            | 99 050         |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b> |           |                    |                |
|  |           | (3 981 016)        | 546 164        |
| Cash and cash equivalents at beginning of year   |           | 568 045            | 21 881         |
| Cash and cash equivalents at end of year         |           | <b>(3 412 971)</b> | <b>568 045</b> |

## MUNICIPALITY OF OTJIWARONGO

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE

**1 ACCOUNTING POLICIES****1.1 Introduction**

The annual financial statements set out in Annexures 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 and depreciation**

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 for fixed property, the cost or valuation of these items of property, plant and equipment is depreciated on the straight line basis over their expected useful lives as follows:

|                         |          |
|-------------------------|----------|
| Land and buildings      | 20 Years |
| Furniture and equipment | 10 Years |
| Motor vehicles          | 5 Years  |
| Tools and equipment     | 5 Years  |

**1.3 Internal Funds**

The following Funds were maintained by the municipality in terms of section 58 (1) and 80(4) of the Local Authorities Act, Act 23 of 1992.

**1.3.1 Capital Development Fund**

The purpose of the Fund is to make provision for future capital development projects of the Council. Income is derived from the Revenue Account and donations from Government.

**1.3.2 Renewal Fund**

Its purpose is to provide for replacement of assets and for additional depreciation on assets which abnormally decreased in value. Income for this account is derived from general revenue contributions as well as interest earned on investment.

**1.3.3 Revenue account**

All monies received by and accrued to and expenses paid, except for allocations to other Funds, are reflected in this account, and are kept in compliance with Section 86 (1)(b) of the Act.

**1.3.4 Capital Reserve Fund**

The purpose of the Fund is to build up a general capital reserve to ensure that the Municipality's financial position is stable. Income to this Fund is transferred from the general income account.

**1.3.5 Erven Trust Fund**

Proceeds on sale of property developed by the Municipality accumulate in this Fund. Costs incurred in the development of new townships are charged to this account.

## MUNICIPALITY OF OTJIWARONGO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE (continued)

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**1.3.6 Housing Levy Fund**

The purpose of this Fund is to build up a reserve to undertake improvements of the Municipality's infrastructure. The Municipality levies charges to consumers to build up this Fund.

**1.3.7 Tariff Stabilisation Fund**

The purpose of this Fund is to build up a reserve to prevent unnecessary fluctuation in tariffs for electricity and water during a financial year. Unforeseen increases in electricity and water tariffs and surcharges levied on the electricity accounts of Nampower will be partly subsidised from this account.

**1.3.8 Fixed Property Fund**

Proceeds on the sale of property developed by the Municipality accumulates to this Fund. Costs incurred in the purchases of land are charged to this account.

**1.3.9 Betterment Fund**

The purpose of this Fund is to provide for future improvements for municipal assets. Income to this Fund is transferred from the general income account and a certain part of the proceeds of the sale of land.

**1.3.10 Housing Scheme Fund**

The purpose of this Fund is to provide housing loans to staff. Proceeds of staff houses sold to staff members accumulate in this Fund.

**1.3.11 Housing Fund (Government)**

The purpose of this Fund is to provide housing loans to inhabitants as an agent of the Government. Funds are obtained by way of loans granted and interest on investments.

**1.3.12 Single Quarter Housing Scheme**

The purpose of this Fund, to administer money received from the Government of Namibia to finance the building of houses to replace the single quarters.

**1.3.13 Municipal Study Loan Fund**

The purpose of this Fund is to provide capacity building and training of staff.

**1.3.14 Disaster Fund**

The purpose of this Fund is to build up reserves to assist with costs of disasters which may occur at the town.

**1.3.15 Social Upliftment Fund**

The purpose of this Fund is to build up enough reserves for social activities which will involve the town's community.



## MUNICIPALITY OF OTJIWARONGO

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE (continued)

**1.3.16 Build Together Fund**

The purpose of this Fund is to provide housing loans to the low income group. Income to this Fund is derived from Government contributions, repayments, interest on investments and loans.

**1.3.17 Capacity Building Fund and Marketing Promotion Fund**

No purpose and sources of revenue for these Funds were submitted.

**1.4 Capital redemption on loans**

Capital redemptions on external and internal loans are charged against income. A similar amount is credited to the Loan Redemption Fund for the duration of the loan. As and when the loan is fully redeemed, the Loan Redemption Fund is transferred to the Revenue Contribution.

**1.5 Inventories**

Fuel inventory is valued at cost on the first-in-first-out basis.

|   | <b>2013</b>       | <b>2012</b>        |
|---|-------------------|--------------------|
|   | N\$               | N\$                |
| <b>2. OWN FUNDS</b>   |                   |                    |
| <b>2.1 Financing of capital:</b>  |                   |                    |
| <b>Internal Funds</b>   |                   |                    |
| Contribution from:  | <b>99 705 354</b> | <b>115 497 527</b> |
| Fixed Property Fund   | 6 250 444         | 6 425 997          |
| Betterment Fund   | 3 032 807         | 2 851 184          |
| Capital Reserve Fund  | 7 640 343         | 9 622 062          |
| Capital Development Fund  | 22 881 853        | 28 882 139         |
| Renewal Fund  | 1 224 445         | 1 499 593          |
| Personnel Housing Fund  | 1 905 552         | 1 798 553          |
| Erven Trust Fund  | 28 236 557        | 22 024 244         |
| Municipal Study Loan Fund   | 257 792           | 249 358            |
| Housing Fund (GRN)  | 1 545 970         | 1 540 312          |
| Built Together Fund   | 10 971 725        | 10 694 482         |
| BT - Informal Settlement Fund   | 204 628           | 1 051 720          |
| Single Quarters Housing Scheme  | 4 270 126         | 4 268 330          |
| Social Upliftment Fund  | 485 793           | 449 983            |
| Disaster Fund   | 221 764           | 221 764            |
| TIPEEG Project Fund   | 3 703 153         | -                  |
| Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992. | 6 872 402         | 23 917 806         |
| <b>2.2 Capital Outlay</b>   |                   |                    |
| Loans redeemed  | 10 061 070        | 11 006 706         |
| Revenue contributions   | 28 345 309        | 18 973 588         |
| <b>TOTAL FUNDS</b>  | <b>38 406 379</b> | <b>29 980 294</b>  |

## MUNICIPALITY OF OTJIWARONGO

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE (continued)

|  | <u>2013</u>       | <u>2012</u>       |
|--|-------------------|-------------------|
|  | N\$               | N\$               |
| <b>3. FIXED ASSETS</b>   |                   |                   |
| Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment. | <b>58 365 750</b> | <b>51 648 609</b> |
| Financed from:   |                   |                   |
| Loan assets  | 30 020 441        | 32 675 021        |
| Income assets  | 28 345 309        | 18 973 588        |
|  | <b>58 365 750</b> | <b>51 648 609</b> |
| <b>4. INVESTMENTS</b>  |                   |                   |
| Insurance companies  | 3 069 907         | 2 971 936         |
| Commercial banks   | 16 248 173        | 15 442 717        |
| CENORED (Pty)<br>Ltd   | 43 066 969        | 43 066 969        |
|  | <b>62 385 049</b> | <b>61 481 622</b> |
| Allocated to:  |                   |                   |
| Fixed Property Fund  | 2 897 712         | 3 682 930         |
| Capital Reserve Fund   | 2 017 243         | 1 737 449         |
| Betterment Fund  | 2 016 808         | 1 841 539         |
| Capital Development Fund   | 2 427 433         | 8 759 040         |
| Build Together Fund  | 1 629 364         | 2 393 695         |
| Revenue  | 43 066 969        | 43 066 969        |
| Erven Trust Fund   | 4 829 520         | -                 |
| TIPEEG Project Fund  | 3 500 000         | -                 |
|  | <b>62 385 049</b> | <b>61 481 622</b> |
| <b>5. ACCOUNTS RECEIVABLE</b>  |                   |                   |
| Trade debtors  | 32 121 518        | 28 394 169        |
| Value Added Tax  | 3 246 007         | 1 051 355         |
| Sundry debtors   | 546 127           | 491 028           |
| Less: Provision for bad debts  | (21 289 003)      | (4 652 286)       |
|  | <b>14 624 649</b> | <b>25 284 266</b> |
| <b>6. ACCOUNTS PAYABLE</b>   |                   |                   |
| Trade payables   | 1 394 272         | 1 374 449         |
| Provisions for staff leave   | 2 938 920         | 3 260 313         |
| Other payables   | 868 549           | 1 442 354         |
|  | <b>5 201 741</b>  | <b>6 077 116</b>  |

## MUNICIPALITY OF OTJIWARONGO

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE (continued)

|   | <u>2013</u>         | <u>2012</u>       |
|---|---------------------|-------------------|
|   | N\$                 | N\$               |
| <b>7. LONG-TERM LIABILITIES</b>                 |                     |                   |
| The Government of Namibia :                     |                     |                   |
| Capital section                                 | 2 364 677           | 2 456 620         |
|   | <b>2 364 677</b>    | <b>2 456 620</b>  |
| <b>8. INVENTORIES</b>                           |                     |                   |
| Inventory consists of:                          |                     |                   |
| Stores  | 78 166              | 62 399            |
|   | <b>78 166</b>       | <b>62 399</b>     |
| <b>9. SECURED LOANS</b>                         |                     |                   |
| Secured by mortgage bonds over fixed property:  |                     |                   |
| Erven Trust Fund                                | 4 300 376           | 4 710 761         |
| Single Quarters Housing Scheme                  | 3 113 884           | 3 422 986         |
| Build Together                                  | 5 782 817           | 6 375 175         |
| Personnel Housing Scheme                        | 1 017 930           | 953 423           |
| Other   | 846 013             | 825 213           |
|   | <b>15 061 019</b>   | <b>16 287 558</b> |
| <b>10. CASH AND BANK BALANCES</b>               |                     |                   |
| Current bank account                            | (3 418 371)         | 562 645           |
| Petty cash                                      | 5 400               | 5 400             |
|   | <b>(3 412 971)</b>  | <b>568 045</b>    |
| <b>11. ADJUSTMENTS AND UTILIZATIONS</b>         |                     |                   |
| Prior year adjustments                          | -                   | 2 930 978         |
| Prior year adjustments - Expenditure            | (17 085 878)        | -                 |
| Prior year adjustments - Revenue                | 541 014             | -                 |
| Interloans not accounted for during the year ** | (192 060)           | -                 |
|   | <b>(16 736 924)</b> | <b>2 930 978</b>  |

Note:

\*\* The difference of N\$ 192 061 found on the balance sheet is due to the Municipality's internal loans which were not properly accounted for the year under review.

## MUNICIPALITY OF OTJIWARONGO

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE (continued)

|   | <u>2013</u>                | <u>2012</u>               |
|---|----------------------------|---------------------------|
|   | N\$                        | N\$                       |
| <b>12. CASH UTILISED BY OPERATIONS</b>                    |                            |                           |
| Cash generated / (absorbed) by operations                 |                            |                           |
| Net loss before investment interest and adjustments.      | (308 477)                  | (2 531 320)               |
| Adjustment on appropriation account                       | (16 736 924)               | 2 930 978                 |
| Investment income   | -                          | -                         |
| <b>OPERATING INCOME BEFORE CHANGES IN WORKING CAPITAL</b> | <b><u>(17 045 401)</u></b> | <b><u>399 658</u></b>     |
| Utilized to increase working capital                      |                            |                           |
| Decrease / (increase) in trade and other receivable       | 10 659 617                 | (3 392 880)               |
| Increase in inventories                                   | (15 767)                   | (3 188)                   |
| (Decrease) / Increase in trade and other payable          | (875 375)                  | 1 640 775                 |
|   | <u>9 768 475</u>           | <u>(1 755 293)</u>        |
| <b>CASH UTILISED BY OPERATIONS</b>                        | <b><u>(7 276 926)</u></b>  | <b><u>(1 355 635)</u></b> |