



REPUBLIC OF NAMIBIA

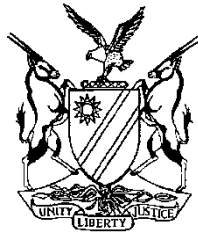


REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF WALVIS BAY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

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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 Walvis Bay 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, December 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

1. INTRODUCTION

The accounts of the Municipality of Walvis Bay for the year ended 30 June 2012 are being reported on in accordance with the provisions set out in the State Finance Act, 1991 (Act 31 of 1991) and the Local Authorities Act, 1992 (Act 23 of 1992).

The firm EDB & 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, **except that these were only signed on 06 December 2012 instead of three (3) months after year end.** 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 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 and to report his opinion to the National Assembly. The said firm conducted the audit in accordance with International Standards on Auditing and suggested an independent audit opinion based on their findings to the Auditor-General. Those standards require that the firm comply with ethical requirements, plan and perform 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 judgment, including the 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 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 accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Recoverability of debtors – Bad and doubtful debts

During the year under review, the Municipality's debts outstanding decreased by (24.2%) (2011: 15.9%) while provision for doubtful debts increased by 24.2% (2011: 23%), this indicates a positive change considering that the provisions are increased by 3 to 4 million per annum.

	2012	2011	2010
	N\$	N\$	N\$
Service debtors	*70 308 947	*56 611 592	67 320 156
Provision for bad debts	21 453 132	18 453 132	14 953 132
Percentage (decrease)/increase in outstanding debts	24,2%	15,9%	28%
Percentage (decrease)/increase in provision for bad debts	16.3%	23%	37%
Percentage provision vs. Debt	30.5%	32%	25%

* This amount excludes the Erongo Red debit of N\$ 11 253 850 (2011: N\$ 9 062 688). Although an amount of N\$ 21 453 132 is provided for doubtful debts, the auditors' calculation however, indicates that the provision for doubtful debts amount is understated by at least N\$ 12 666 994.

4.2 Recoverability of sundry debtors and subsidies

It was noted that although sundry debtors and subsidies remained high in monetary value, there is little prospects of ever being recovered, therefore, the amount is overstated.

4.3 Special accounts/funds

As also reported in my previous report, the auditors found that numerous loans on the Build Together and Housing Funds are poorly repaid, where debt stands at 120 days and more which constitute a significant percentage of the total debt due.

4.4 Investment in Associate – Erongo Red

Currently the investment in ERONGO RED is recorded at cost i.e “the cash amount of N\$ 6 233 750 paid to acquire the shares”. This excludes the Fair Value of Assets that was part of the transaction and was supposed to be transferred to Erongo Red as per a transfer agreement between the parties signed on the 9th of December 2005.

The investment in Erongo Red is materially misstated with N\$ 118 056 000 in the annual financial statements of the Municipality.

4.5 Investment in subsidiary – EPZMC

Auditor's recalculation of the Investment in the EPZCM Company according to the equity method revealed a material misstatement of the investment of N\$ 15 569 686 in the annual financial statements of the Municipality.

4.6 Control account reconciliations

Attention is drawn to the reconciled differences of the control accounts and the need for the follow up on reconciled items in order to correct and provide reasonable explanations.

The fact that a significant number of reconciling items relate to transactions that have not been

recorded in the general ledger, but were recorded in the subsidiary ledgers, indicates that the general ledger contains inaccurate information.

The following reconciliations were affected:

- Fixed assets
- Accounts payable
- Accounts receivables
- Special funds

4.7 Electrical assets – Erongo Red

Electrical assets should have been transferred over to the Erongo Red company effective 04 November 2007 (commencement of new Electricity Act). This was not done and currently fixed assets stated in the annual financial statements are materially overstated with N\$ 123 760 775.

4.8 Investments and interest proceeds

During the year under review, interest of commercial bank security deposits to the amount of N\$ 506 334 could not be accounted for.

4.9 Capital projects

An unexplained difference to the amount of N\$ 268 087 was observed between the expenditure incurred and how it was financed for capital projects.

4.10 Funds and reserves

The Build Together Fund as per the balance sheet did not match with the Build Together statement to the amount of N\$ 1 495 975.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

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

	Revenue	Expenditure	Surplus/ (deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus as at 01/07/2011				31 470 806
General services				
Rate and general	65 919 780	103 464 024	(37 544 244)	
Housing	3 169 086	8 510 530	(5 341 444)	
Self-supporting services				
Cleansing and sanitation	19 956 138	18 796 338	1 159 800	
Sewerage reticulation	21 422 867	18 044 894	3 377 973	
Trade accounts				
Water supply	75 013 634	51 527 452	23 486 182	
Resorts	2 548 696	6 507 895	(3 959 199)	
Markets	472 993	648 657	(175 664)	
Contributions from ERED				
Electricity Supply	27 904 050	1 885 181	26 018 869	
Surplus for the year	216 407 244	209 384 971	7 022 273	7 022 273
Interest on investments				38 493 079
Transfers to funds (See Note 11, Annexure D)				4 563 281
Adjustments (See Note 12, Annexure D)				45 641 987
				843 922
Accumulated surplus as at 30/06/2012				89 542 269

7. CURRENT BANK ACCOUNT

The cashbook balance stated at N\$ 3 458 636 (2011: N\$ 2 824 855) in the financial statements is also the reconciled balance.

	2012	2011
	N\$	N\$
Bank statement balance at year-end	17 046 712	8 365 912
Outstanding deposits	211 319	474 568
Outstanding cheques	(960 166)	(870 044)
Wrong allocations - suspense control account	583	(201)
Other uncleared matching differences on bank statement and cash-book	-	(1 645 468)
Outstanding EFT payments	(11 008 965)	(4 407 396)
Unexplained difference (current account)	(1 796 986)	933 856
Unexplained differences (hp account)	(33 862)	(26 372)
Cashbook bank balance	3 458 636	2 824 855

8. INVESTMENTS AND INTEREST PROCEEDS

At 30 June 2012 surplus funds were invested at approved financial institutions, as follows:

	Investments	
	2012	2011
	N\$	N\$
Commercial banks	60 400 310	56 975 094
Nampost	68 161 029	61 487 075
Investment in subsidiary	8 479 336	8 479 336
Investment in ERED Company (Pty) Ltd	6 233 750	6 233 750
	143 274 425	133 175 255

Allocation	2012		2011	
	Interest	Investment	Interest	Investment
	N\$	N\$	N\$	N\$
Capital Development Fund	35 521	648 654	32 327	561 944
Housing Fund	3 111 792	55 332 326	2 678 928	47 730 344
Revolving Fund	4 545 391	6 756 070	1 734 259	1 681 894
Replacement Reserves	-	-	1 308 200	-
Insurance Fund	472 449	8 627 468	418 672	7 250 981
Parking Facilities Fund	-	(2 098 873)	53 508	868 480
Maintenance rates and general	-	-	8 340	-
Major repairs reserve	-	-	23 474	-
Mayoral Relief Fund	15 377	280 805	24 655	373 522
Build Together Fund	1 683 520	31 061 108	1 842 802	30 858 603
Revenue - Unappropriated				
Surplus Fund	4 563 281	190 112	661 489	17 274 500
Revenue - Subsidiaries	-	14 713 086	-	14 713 086
Provisions	-	4 288 750	-	-
Assets - Unspent fund loans	-	13 334 152	-	3 260 381
Twahangana Fund	513 828	9 383 095	529 682	8 601 520
Environmental Fund	41 491	757 672	39 381	-
	14 982 650	143 274 425	9 355 717	133 175 255

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 water were as follow:

	2012	2011
	N\$	N\$
Sales	71 801 089	61 224 081
Cost of bulk purchases	(31 705 373)	(23 375 575)
Gross profit	40 095 716	37 848 506
Expenses (net)	(16 609 534)	(11 633 407)
Net surplus	23 486 182	26 215 099
Gross profit % on bulk purchases	126%	162%
Net surplus % on bulk purchases	74%	112%

10.2 Distribution losses for water were:

	2012	2011
	m ³	m ³
Units sold for the year	4 563 926	4 315 401
Units purchased during the year	5 305 939	4 983 918
Distribution loss	(742 013)	(668 517)
Distribution loss percentage	(14%)	(13%)

10.3 The results of operations of resorts were as follows:

	2012	2011
	N\$	N\$
Sales	2 548 696	2 193 920
Cost of sales	(3 663 238)	(2 960 146)
Gross loss	(1 114 542)	(766 226)
Expenses (net)	(2 844 657)	(2 513 599)
Net deficit	(3 959 199)	(3 279 825)
Gross loss % on sales	(44%)	(35%)
Net deficit % on sales	(155%)	(149%)

11. SELF-SUPPORTING SERVICES

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

	2012	2011
	N\$	N\$
Cleansing and sanitation works	1 159 800	2 172 910
Sewerage reticulation	3 377 973	3 017 616
	4 537 773	5 190 526

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

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

13. SUSPENSE ACCOUNTS

The suspense accounts were cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

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

15. CAPITAL PROJECTS

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

	2012	2011
	N\$	N\$
Building management – Civic Centre	120 320	269 441
Building management – Community halls	58 926	651 460
Building management – Municipal offices	297 063	411 653
CEO – Information Technology	157 337	263 570
CEO – Public relations	96 007	184 062
CEO – Administration	-	3 064
CEO – Customer services	124 380	-
Corporate services – Administration management	2 046	1 068
Corporate services – Human Resource, administration and training	4 911	-
Corporate services – Council's general expenditure	536 101	-
Environmental management – Health	-	5 344
Economic development Kuisebmond Market Mall	525 746	5 002
Economic development tourism	21 066	13 338
Finance and administration	399 501	124 501
Health inspectorate	466 863	44 232
Library and museum	429 110	4 448
Maintenance service – Management	11 282	712 995
Parks and recreation – Cemeteries	722 571	5 367 612
Parks and recreation – Parks	957 930	1 601 334
Protection services – Security	4 376	4 991
Protection services – Fire protection	4 351 362	1 260 197
Protection services - Development tourism	-	-
Public works – Labour resources	349 501	331 511
Public works – Roads and engineering	858 951	37 225
Public works – Streets	13 000 487	28 060 869
Residential administration – Hostel	-	362 351
Residential administration – Flats and single quarters	28 300	-
Residential administration – Old age home	11 438	-
Roads and building control – Administration management	299 264	4 450
Sanitation – Management	2 759 746	1 658 910
Sanitation and hazardous waste inspectorate	172 066	332 931
Sewerage services – Reticulation works	3 254 146	4 888 207
Sewerage services – Treatment works	6 220 081	803 200
Sports and resorts – Sport facilities	760 402	2 503 076
Sports and resorts – Dolphin park	224 804	-
Sports and resorts – Esplanade park	332 899	1 426 522
Sports and resorts – Long beach	3 395	-
Stores	624 444	2 438 727
Town planning	132 443	-
Town development projects WIP	101 834 875	31 105 315
Town development infrastructure	82 836 423	-
Traffic inspectorate - Management	4 688 757	79 776
Water waste and environmental management	3 882	114 995
Water distribution and equipment	1 514 269	908 995
Water supply – Purified effluent	4 995	10 795
Written-off	(88 614 216)	-
	140 588 253	85 996 169

Expenditure was financed as follows:

	2012	2011
	N\$	N\$
External loans	7 758 581	7 079 803
Revolving Fund	20 162 624	56 892 091
Internal loans	4 731 156	19 989 321
Parking Facilities Fund	2 971 165	7 991
Revenue	13 708 857	1 676 963
Grants and subsidies	3 951 360	-
Contributions by public	87 036 423	350 000
	140 320 166	85 996 169

16. BURSARIES

No bursaries and study aid expenditure were incurred during the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

The following financial assistance was rendered during the year under review:

	2012	2011
	N\$	N\$
Free services – staff	339 509	321 113
Exemption on assessment rates – Churches and welfare organisation	1 520 480	739 329
	1 859 989	1 060 442

18. COMPENSATION PAYMENTS

No compensation payments were made during the year under review.

19. VISITS TO FOREIGN COUNTRIES

The following visits were made:

Destination	Purpose	Travelling and subsistence	Other
		N\$	N\$
Botswana	Inter-Municipal Cooperation – Botswana		1 750.35
Botswana	Inter-Municipal Cooperation – Lobatse	1 227.00	
Republic of Cuba	14 th International Convention of regional and urban planning	5 606.99	3 503.13
Cape Town	Inter-Municipal Cooperation – Drakenstein	444.84	
Botswana		249.11	
Botswana	Poor residents comm comparative study	14 586.62	
Botswana	Poor residents comm comparative study	7 930.00	
	Car rental	3 874.62	
		13 265.08	
Mauritius	Poor residents comm comparative study	17 783.34	
Sri Lanka	Invitation to visit Sri Lanka, Colombo Council	20 049.12	
Sri Lanka	Visas to Sri Lanka		229.89
Sri Lanka	Invitation to visit Sri Lanka, Colombo Council		120.92
			1 798.29
Johannesburg	P3 Regional Dessimination Seminar		1 890.00

(continued)

19. VISITS TO FOREIGN COUNTRIES (continued)

Destination	Purpose	Travelling and subsistence	Other
		N\$	N\$
Johannesburg	P3 Regional Dessimation Seminar	1 719.51	
Johannesburg	P3 Regional Dessimation Seminar	5 028.00	
Johannesburg	P3 Regional Dessimation Seminar	1 846.34	
Cape Town	Inter-Municipal Cooperation – Drakenstein	5 395.00	
Botswana	Inter-Municipal Cooperation – Lobatse	5 231.00	
Lobatse	Inter-Municipal Cooperation – Lobatse	5 231.00	
Cape Town	Inter-Municipal Cooperation – Drakenstein	6 614.00	
Cape Town	Inter-Municipal Cooperation – Drakenstein	3 240.50	
Lobatse	Municipal Cooperation – Visit to Lobatse	1 186.30	-
Johannesburg	70 th IMESA Conference	2 880.00	-
Boksburg	70 th IMESA Conference		2 780.00
Johannesburg	70 th IMESA Conference	5 287.00	
Johannesburg	Water Investment World Africa Conference	6 370.88	
Brazil	Attendance ICLAI World Congress 2012	642.00	20 972.00
Cape Town	Cities 7 Biodiversity Outlook Workshop	1 738.62	
Cape Town	ICLEI closing workshop	2 506.20	
Finland	Benchmarking study tour		952.50
Botswana	Inter-Municipal Cooperation – Lobatse		1 750.35
Botswana	Inter-Municipal Cooperation – Lobatse	1 227.00	
Lobatse	Inter-Municipal Cooperation – Lobatse	5 283.00	
Sri Lanka	Invitation to visit Sri Lanka, Colombo Council	20 049.12	
			229.89
			1 798.29
Lobatse		5 283.00	
Cape Town	Inter-Municipal Cooperation – Drakenstein	10 277.34	
Republic of Cuba	14 th International convention on regional and urban planning	69 508.20	
Johannesburg & Cape Town	Trip to Botswana & Cape Town	12 260.66	
Sri Lanka	Invitation to visit Sri Lanka, Colombo Council	20 049.12	
Sri Lanka	Invitation to visit Sri Lanka, Colombo Council	20 049.12	
Sri Lanka	Invitation to visit Sri Lanka, Colombo Council	20 049.12	
Sri Lanka	Visas to Sri Lanka		689.66
Sri Lanka	Invitation to visit Sri Lanka, Colombo Council	40 158.00	
Cape Town	Inter-Municipal Cooperation – Drakenstein	1 840.50	
Cape Town	Inter-Municipal Cooperation – Drakenstein	1 840.50	
Cape Town	Inter-Municipal Cooperation – Drakenstein	1 840.50	
Cape Town	Inter-Municipal Cooperation – Drakenstein	1 840.50	
Botswana	Inter-Municipal Cooperation – Lobatse		5 251.05
Botswana	Inter-Municipal Cooperation – Lobatse	1 227.00	
Botswana	Inter-Municipal Cooperation – Lobatse	1 227.00	
Botswana	Inter-Municipal Cooperation – Lobatse	1 227.00	
Havana – Cuba	Invitation to International Convention & bi-lateral visit	13 975.85	
Botswana	Inter-Municipal Cooperation – Lobatse		362.40
Botswana			5 394.90
Cape Town	Inter-Municipal Cooperation – Drakenstein		8 930.50
Kimberley	Sebata course	7 788.00	
Kimberley	Sebata course	11 496.95	
Bloemfontein	Sebata course		8 100.00
Bloemfontein	Sebata user meeting	1 832.31	
Bloemfontein	Sebata user meeting	1 832.31	

(continued)

19. VISITS TO FOREIGN COUNTRIES (continued)

Destination	Purpose	Travelling and subsistence	Other
		N\$	N\$
Bloemfontein	Sebata user meeting	1 832.31	
Bloemfontein	Sebata user meeting	22 623.00	
Bloemfontein	Sebata user meeting		10 800.00
Johannesburg	Revenue Management Master class	6 358.00	
Bloemfontein	Sebata user meeting	2 358.92	
Bloemfontein	Sebata user meeting	2 358.92	
Bloemfontein	Sebata user meeting	2 358.92	
Bloemfontein	Sebata user meeting	25 740.00	
		475 725.24	77 304.12

20. CLAIMS AGAINST THE TOWN COUNCIL

No claims for losses were received during the year.

21. GIFTS / DONATIONS BY / TO THE LOCAL AUTHORITY

Description	2012	2011
	N\$	N\$
<i>Gifts and donations:</i>		
Corporate gifts	15 395	3 500
	15 395	3 500

22. TRANSFER OF PROPERTY TO / FROM GOVERNMENT

No properties were transferred from or to the Ministry of Regional and Local Government, Housing and Rural Development.

23. DEBTORS AND CREDITORS

23.1 Debtors at 30 June 2012 were:

	2012	2011
	N\$	N\$
Services debtors	70 308 947	56 611 592
Debtor: Erongo RED	11 253 850	9 062 688
	81 562 797	65 674 280
VAT control account	11 305 831	9 520 105
Subsidies receivable	4 127 094	4 592 422
Accrued interest	778 465	571 221
Sundry debtors	29 670 455	6 872 600
Build Together loan debtors	13 316 549	11 076 290
Less: Provision for doubtful debts	(21 453 132)	(18 453 132)
	119 308 059	79 854 786

23.2 Creditors at 30 June 2012 were:

	2012	2011
	N\$	N\$
Provisions and accruals	11 418 979	9 699 625
Consumer deposits	6 529 156	5 976 566
Sundry payables	7 159 419	7 310 078
Short-term portion of long-term borrowings	11 112 941	9 685 051
	36 220 495	32 671 320

24. ASSESSMENT RATES

	2012	2011
	N\$	N\$
The net proceeds from assessment rates were:	39 273 563	32 867 544
Tariffs per N\$1 valuation per annum (Residential properties)		
- Land	0.022541	0.022541
- Improvements	0.005253	0.005253
Tariffs per N\$1 valuation per annum (Business properties)		
- Land	0.024795	0.024795
- Improvements	0.005253	0.005253
Tariffs per N\$1 valuation per annum (Industrial properties)		
- Land	0.023668	0.023668
- Improvements	0.005253	0.005253
Valuations		
- Land	1 351 299 519	914 221 647
- Exempt	15 512 000	14 421 000
- Improvements	4 518 046 767	3 088 105 173
- Exempt	95 977 000	78 862 556

25. LOANS

25.1 External loans

External capital loan balance as at year-end was N\$ 54 624 750 (2011: N\$ 57 283 791). Loan moneys were used for the purpose for which they were obtained. Redemption payments are up to date. Loan assets were capitalised and no loan assets have been disposed off before the loan was redeemed.

25.2 Internal loans

Internal loan balances as at year end was N\$ 143 518 363 (2011: N\$ 132 027 645). The necessary approval was obtained for all internal loans advanced during the year. Redemption journals were passed. Loan assets were capitalised and interest calculations were correctly done.

25.3 Housing loans

The balances of housing loans to the amount of N\$ 12 105 835 (2011: 12 738 816) are in agreement with the balances on the relevant amortisation schedules. Redemption payments were up to date.

26. PROPERTY SOLD ON INSTALLMENT BASIS

	2012	2011
	N\$	N\$
Balance at the beginning of the year	5 840 458	6 261 223
Sales	410 145	44 149
Interest and insurance	320 661	384 493
Payments	(1 467 170)	(849 407)
Balance at the end of the year	5 104 096	5 840 458

27. TARIFF ADJUSTMENTS

All tariff adjustments were in accordance with the relevant Official Government notice.

28. APPROVALS

28.1 Excess on approved budget

The necessary approval on excess expenditure was obtained.

29. INVENTORY AND EQUIPMENT

29.1 Motor vehicles numbers and their values were:

	Sedan's		LDV's, 4x4's and Combi's		Heavy vehicles	
	Qty	Value	Qty	Value	Qty	Value
		N\$		N\$		N\$
Balance - 01/07/2011	21	2 395 419	58	9 079 320	55	21 240 731
Difference in opening balance	(6)	(420 903)	2	(73 261)	-	(2 147 497)
Additions	11	2 324 676	11	2 778 518	6	5 902 230
Sub-total	26	4 299 192	71	11 784 577	61	24 995 464
Disposals/write offs	(8)	(474 343)	(6)	(522 823)	(10)	(2 973 973)
Balance-30/06/2012	18	3 824 849	65	11 261 754	51	22 021 491
Kilometers covered	1 595 600		1 168 447		1 609 387	
Fuel Cost	N\$ 200 913		N\$ 999 328		N\$ 1 579 035	
Fuel cost per Km	N\$ 0.13		N\$ 0.86		N\$ 0.98	

29.2 Inventory

According to the Municipality, inventory comprising of fuel and consumables amounted to N\$ 1 091 734 (2011: N\$ 1 146 006).

30. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year.

31. GENERAL

31.1 Internal controls

The accounting and internal controls are satisfactory, except where indicated otherwise in this report.

32. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report.

Informal queries addressed to the Financial Manager consist of:

- * Investments
- * Inventory
- * Accounts receivable
- * Payroll

33. ADVERSE AUDIT OPINION

The accounts of the Municipality of Walvis Bay for the financial year ended 30 June 2012, 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.

The statements have been prepared on the basis of accounting practices applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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

- Provision for doubtful debts is understated by N\$ 12 666 994;
- Build Together loans are poorly repaid;
- The investment in Erongo Red is misstated with N\$ 118 056 000;
- Investment in the EPZMC company is misstated by N\$ 15 569 686;
- General ledger contains inaccurate information;
- Unexplained difference amounting to N\$ 1 495 975 between the balance sheet and the Build Together statement;
- Commercial bank security deposits amounting to N\$ 506 334 could not be accounted for;
- Fixed assets are overstated with N\$ 123 760 775; and
- Sundry debtors amounting to N\$ 70 308 947 are unlikely going to be recovered.

In my opinion, because of the significance of the matters discussed above, these financial statements do not fairly present the financial position of the Municipality as at 30 June 2013 and their results of operations and cash flows for the year then ended in accordance with generally accepted accounting practices.

WINDHOEK, December 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

MUNICIPALITY OF WALVIS BAY

BALANCE SHEET ON 30 JUNE

	Notes	2012	2011
		N\$	N\$
ASSETS			
Non-current assets		912 547 099	762 524 336
Property, plant and equipment	4	764 168 578	623 580 325
Loans	10	5 104 096	5 768 756
Investments	5	143 274 425	133 175 255
Current assets		126 720 985	83 830 947
Inventory	6	1 091 734	1 146 006
Accounts receivables	8	122 165 315	79 854 786
Cash and cash equivalents		3 463 936	2 830 155
TOTAL ASSETS		1 039 268 084	846 355 283
FUNDS AND LIABILITIES			
		959 535 780	766 085 222
Funds and reserves	2	345 366 822	288 634 333
Capital outlay	3	614 168 958	477 450 889
Non-current liabilities		43 511 809	47 598 740
Long-term loans	7	43 511 809	47 598 740
Current liabilities		36 220 495	32 671 321
Accounts payables	9	36 220 495	32 671 321
TOTAL FUNDS AND LIABILITIES		1 039 268 084	846 355 283

MUNICIPALITY OF WALVIS BAY

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	Notes	2012	2011
		N\$	N\$
INCOME		216 407 249	187 139 461
EXPENDITURE		(209 384 976)	(195 825 191)
NET OPERATING SURPLUS / (DEFICIT)		7 022 273	(8 685 730)
INVESTMENT INTEREST TO REVENUE		4 563 281	661 489
NET SURPLUS FOR THE YEAR		11 585 554	(8024 241)
TRANSFERS FROM FUNDS	11	45 641 987	4 755 117
ADJUSTMENTS	12	843 922	(11 321 159)
NET SURPLUS FOR THE YEAR		58 071 463	(14 590 283)
APPROPRIATION ACCOUNT AT BEGINNING OF THE YEAR		31 470 806	46 061 089
APPROPRIATION ACCOUNT AT END OF YEAR		89 542 269	31 470 806

MUNICIPALITY OF WALVIS BAY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2012 N\$	2011 N\$
CASH GENERATED / (UTILISED) BY OPERATIONS			
Cash receipts from customers		216 407 249	187 139 461
Cash paid to suppliers and employees		(201 606 150)	(188 950 555)
Cash inflows from operating activities	13	14 801 099	(1 811 094)
Investment income		4 563 281	661 489
Movement in Fund accounts:			
Decrease in Funds		(1 338 974)	(39 697 966)
Increase Capital outlay		136 718 069	74 973 810
Cash generated by operating activities		154 743 475	34 126 239
CASH FLOWS FROM INVESTING ACTIVITIES		(150 022 763)	(38 376 588)
Net capital expenditure		(140 588 253)	(85 996 169)
Decrease in loans receivable		664 660	427 150
(Increase)/decrease in investments		(10 099 170)	47 192 431
CASH FLOWS FROM FINANCING ACTIVITIES		(4 086 931)	(3 400 416)
Decrease in long-term liabilities		(4 086 931)	(3 400 416)
Net change in cash and cash equivalents		633 781	(7 650 765)
Cash and cash equivalents at beginning of year		2 830 155	10 480 920
Cash and cash equivalents at end of year		3 463 936	2 830 155

MUNICIPALITY OF WALVIS BAY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE

1. BASIS OF PRESENTATION

1.1 These financial statements have been prepared so as to conform to the standard laid down by the Auditor-General.

1.2 The financial statements are prepared on the historical cost basis, adjusted for capital expenditure as more fully detailed in note two. The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.

1.3 The financial statements are prepared on the accrual basis:

- Income is accrued when collectable and measurable. Certain direct income is accrued when received.
- Expenditure is accrued in the year it is incurred.

1.4 CONSOLIDATION

1.4.1 The balance sheet includes the Rate and General services. Housing service, Trading service and the different Funds, reserves and provisions. All inter departmental charges are set-off against each other, with the exception of assessment rates, refuse removal, electricity and water, which are treated as income and expenditure in the respective departments.

1.5 PROPERTY, PLANT AND EQUIPMENT**1.5.1 Property, plant and equipment are stated:**

- At historical cost, or
- At valuation (based on the market price at date of acquisition), where assets have been acquired by grant or donation, while they are in existence and fit for use, except in the case of bulk assets which are written off at the end of their estimated life as determined by the Treasurer.

1.5.2 Depreciation

The balance shown against the heading “Loans Redeemed and Other Capital Receipts” in the notes to the balance sheet is tantamount to a provision for depreciation; however, certain structural differences do exist. By way of this “Provision” assets are written down over their estimated useful life. Apart from advances from the various Council funds, assets may be acquired through:

- Appropriations from income, where the full cost of the assets forms an immediate and direct charge against the operating income, and therefore it is unnecessary to make any further provision for depreciation.
- Grant or donation, where the amount representing the value of such grant or donation is immediately credited to the “Loans Redeemed and Other Capital Receipts” account.

1.5.3 All net proceeds from the sale of erven are credited to the Revolving Fund. Proceeds from the sale of houses are credited to the Housing Fund. Net proceeds from the sale of all other assets are credited either to the Replacement Fund or the Walvis Bay Housing Fund.

MUNICIPALITY OF WALVIS BAY

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

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- 1.5.4** Capital assets are financed from different sources, including external loans, operating income, endowments and internal advances. These loans and advances are repaid within the estimated lives of the assets acquired from such loans or advances. Interest is charged to the service concerned at the ruling interest rate applicable at the time that the advance is made.
- 1.6 INVENTORY**
- Inventory is valued at the lower of cost, determined on the weighted average basis, and net realisable value.
- 1.7 FUNDS AND RESERVES**
- 1.7.1 Revolving Fund**
This Fund is used for the purchase of land for housing development projects and the funding of subsequent development. The proceeds of the sale of developed erven, are credited to this Fund.
- 1.7.2 Insurance Fund**
External insurance cover covers all major risks. Premiums are funded by this Fund and recovered from the various user departments. Lesser risks are carried by the Fund including comprehensive cover on trailers and vehicles older than five years.
- 1.7.3 Walvis Bay Housing Fund**
This Fund is operated in accordance with the Council's housing policy. Development is undertaken on behalf of qualifying participants on conditions that financing be arranged from a financial institution, the loan of which is subsequently guaranteed by the Council for a limited period of time.
- 1.7.4 Parking Areas Fund**
Revenue from this Fund is generated from contributions by developers for the provision of sufficient parking in business areas.
- 1.7.5 Tariff Stabilisation Reserves**
These reserves are funded by annual surpluses on sanitation and water services. The reserves are utilised towards stabilisation of tariffs in order to negate frequent adjustment of tariffs on the short-term.
- 1.7.6 Maintenance Reserves**
Annual contributions of a fixed percentage on the replacement value of buildings are made to this reserve. The net operating expenditure on the maintenance vote is annually set off against this Reserve.
- 1.7.7 Hostel Loan Redemption Reserve**
This reserve was initially established to accommodate loan redemption, the loan of which has subsequently been written off.
- 1.7.8 Replacement of Assets Reserve**
Contributions towards the replacement of assets are made to such an extent that adequate funds should be available on the date of replacement of the specific assets.
- 1.7.9 Mayoral Relief Fund**
A Trust administered on behalf of the Mayor and Councillors for application towards charitable and other identified deserving causes.

MUNICIPALITY OF WALVIS BAY

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

1.7.10 Major Repair Reserve

Annual contributions of a fixed percentage based on the budgeted contribution of the individual votes of heavy vehicles for maintenance is made to this reserve. The Reserve is established to finance any unforeseen major repair expenditure.

1.8 PROVISIONS

Provisions are established to meet liabilities or contingencies which are known at the date of the balance sheet, but for which the amounts cannot be determined with substantial accuracy. Previously provision for bad debts was calculated at 10% of debtor balances, which are outstanding for more than 120 days, but now are increased gradually with 3 to 4 million per annum to satisfy the doubtful debt criteria.

1.9 RETIREMENT BENEFITS

The Council and its members contribute to two pension funds namely:

- (a) Walvis Bay Retirement Fund, which is a provident fund with fixed contributions and benefits.
- (b) Retirement Fund for Local Authorities, which is a pension fund with fixed retirement benefits.

All permanent staff members participate in either of the funds, and contributions are calculated on the basic salaries. Current contributions are charged against operating income on the basis of current service costs.

Unfavourable experience adjustments may be written off over the lesser of the remaining period of service of employees or five years, whilst favourable adjustments are retained in the pension fund. Full actuarial valuations of the pension fund are performed at least every three years.

1.10 SURPLUSES AND DEFICITS

Any surpluses arising from the operation of the Electricity service are transferred to Rate and General services.

1.11 TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The cost of internal support services is transferred to the different services at a differential levy based on budgeted revenue and expenditure. Office and garage rental are allocated according to floor space utilised.

1.12 LEASED ASSETS

All leases are finance leases. The finance leases are capitalised and disclosed under "Property, plant and equipment".

1.13 INVESTMENTS AND INTEREST

Investments are shown at the lower of cost or market value. If a permanent decline in value occurred, the investment is written down. Investments are made in accordance with the provision of the Financial rules of the Council. Interests on investments are allocated to Funds, Reserves and the Appropriation account on the average balance method.

MUNICIPALITY OF WALVIS BAY

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

1.14 INCOME RECOGNITION**1.14.1 Water billing**

Water meters are read and billed monthly. Meters that cannot be read for a month are billed on average consumption. Income is recognised at the date meters are read and levies are charged. Queries on readings are dealt with immediately.

1.14.2 Assessment rates

The Council applies a standard site rating system, where no exception is made on the type of property used. In terms of this system assessment rates are levied on the land and improvements value of properties, and rebates are granted, in terms of the provisions of the Local Authorities Act.

Rebates are granted to property belonging to the Department of Works (State property), such as schools, hospitals, etc. and ecclesiastical institutions. Income is recognised as the monthly levies are debited against the debtors' accounts.

1.14.3 Other services

Income from services, rental and accommodation recovered by way of debtors, is recognised when such levies are debited against the accounts. Subsidies are recognised at the end of the financial year. All other income is recognised as soon as it is received.

	<u>2012</u>	<u>2011</u>
	N\$	N\$
2. OWN FUNDS AND RESERVES		
Build Together Fund	44 377 657	41 934 893
Built Together Fund – Difference calculated *	1 495 975	-
Capital Development Fund	1 006 303	959 384
Environmental Fund	757 672	662 059
Housing Fund	81 056 426	73 955 353
Insurance Fund	8 627 468	7 250 981
Parking Areas Fund	(2 098 873)	868 480
Revolving Fund	87 055 165	59 456 624
Fixed Assets Replacement Reserve	30 215 385	69 037 771
Future Repairs and Maintenance Reserve	1 998 238	1 619 603
Major Repair Reserve	1 052 332	738 332
Mayoral Relief Fund	279 046	371 860
Athletic Track - Narraville	1 759	1 662
Power Failure Reserve	-	306 525
Subtotal	<u>255 824 553</u>	<u>257 163 527</u>
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	89 542 269	31 470 806
Total Funds	<u><u>345 366 822</u></u>	<u><u>288 634 333</u></u>

* The Build Together Fund as per the councils balance sheet did not match the Build Together statement, a difference of N\$ 1 495 975 was calculated.

MUNICIPALITY OF WALVIS BAY

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

	2012	2011
	N\$	N\$
3. CAPITAL OUTLAY		
Loans redeemed	78 924 531	82 337 844
General capital contributions	535 244 427	395 113 045
	614 168 958	477 450 889
4. FIXED ASSETS		
Infrastructure, land and buildings, motor vehicles, office equipment, furniture and fittings and computer equipment.	764 168 578	623 580 325
Group as follows:		
Capital assets	673 696 141	553 981 903
Town development projects	90 472 437	69 598 422
	764 168 578	623 580 325
5. INVESTMENTS		
Nampost	68 161 029	61 487 075
Commercial banks	60 400 310	56 975 094
Shares in subsidiary company – EPZMC (Pty) Ltd	8 479 336	8 479 336
Shares in Erongo Regional Distributor Company (Pty) Ltd	6 233 750	6 233 750
	143 274 425	133 175 255
6. INVENTORY		
Comprising of:		
Consumable stores and fuel	1 091 734	1 146 006
	1 091 734	1 146 006
7. LONG-TERM LIABILITIES		
From the Government of Namibia, Nedbank and NIB	54 624 750	57 283 791
Short-term portion included under account payables	(11 112 941)	(9 685 051)
	43 511 809	47 598 740

MUNICIPALITY OF WALVIS BAY

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

	2012	2011
	N\$	N\$
8. ACCOUNTS RECEIVABLE		
Service debtors	84 420 053*	65 674 280
VAT control account	11 305 831	9 520 105
Subsidies receivable	4 127 094	4 592 422
Accrued interest	778 465	571 221
Sundry debtors	29 670 455	6 873 600
Build Together loans	13 316 549	11 076 290
Less: Provision for doubtful debts	(21 453 132)	(18 453 132)
	122 165 315	79 854 786
*This amount includes Erongo Red as debtor.		
9. ACCOUNTS PAYABLES		
Provisions and accruals	11 418 979	9 699 626
Consumer deposits	6 529 156	5 976 566
Sundry payables	7 159 419	7 310 078
Short-term portion of long-term borrowings	11 112 941	9 685 051
	36 220 495	32 671 321
10. LONG-TERM LOANS RECEIVABLE		
Personnel loans	98 047	109 246
NBF loans	9 125	36 040
CDF loans	524 121	753 050
CLB loans	364 747	435 914
LCR loans	1 138 717	823 647
Leasehold loans	169 835	183 164
Consumer loans	6 913	-
Staff Economic Housing loans	2 792 590	3 427 696
	5 104 096	5 768 756
11. TRANSFERS FROM / (TO) INTERNAL FUNDS AND RESERVES		
Revolving Fund – Redemption of external loans	5 433 011	4 735 053
Rates and General Funds	40 208 977	-
Housing Fund – Redemption of external loans	-	20 064
	45 641 987	4 755 117

MUNICIPALITY OF WALVIS BAY

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

	2012	2011
	N\$	N\$
12. ADJUSTMENTS AND UTILIZATIONS		
Current year transactions	18 983	(9 656 386)
Provision for prior year transactions	-	(8 694 131)
Prior year income	430 738	6 416 572
Stock adjustments	(103 389)	512 612
VAT adjustments	497 590	100 174
	843 922	(11 321 159)
13. CASH GENERATED / (UTILISED) BY OPERATIONS		
Reconciliation of net operating profit to cash utilized in operations:		
Net operating (deficit)/surplus before adjustments:	11 585 554	(8 024 241)
Adjusted for:		
- Transfers from Funds	45 641 987	4 755 117
- Appropriation account adjustments	843 922	(11 321 159)
- Investment income	(4 563 281)	(661 489)
<i>Changes in working capital:</i>		
- Decrease in inventories	54 272	566 458
- (Increase) / decrease in accounts receivable	(42 310 529)	15 264 643
- Increase / (decrease) in trade and payables	3 549 174	(2 390 423)
Cash generated/(utilised) by operations	14 801 099	(1 811 094)