



REPUBLIC OF NAMIBIA



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

FOR THE FINANCIAL YEARS ENDED 30 JUNE 2007 and 2008

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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 Tsumeb for the financial years ended 30 June 2007 and 2008, 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 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF TSUMEB
FOR THE FINANCIAL YEARS ENDED 30 JUNE 2007 AND 2008**

1. INTRODUCTION

The accounts of the Municipality of Tsumeb for the years ended 30 June 2007 and 2008 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 Namibian dollar.

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 they were only submitted on 15 June 2009. The Act stipulates such submission three 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 sheets at Annexure A are a true reflection of the originals signed by the Accounting Officer. The following annexures are also attached to this report:

Annexure B	:	Abridged income statements
Annexure C	:	Cash flow statements
Annexure D	:	Notes to the financial statements

3. SCOPE OF THE AUDIT

The Accounting Officer of the Municipality is responsible for the preparation of the financial statements and for ensuring the regularity of the financial transactions. 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 audit as carried out by the said firm, included:

- a) Examination on a test basis of the evidence relevant to the amounts, disclosure and regularity of the financial transactions included in the financial statements;
- b) assessment of the significant estimates and judgements made by the Accounting Officer of the Municipality in the preparation of the financial statements and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed; and
- c) evaluation of the overall adequacy of the presentation of information in the financial statements.

The audit was planned and performed so as to obtain all the information and explanations considered necessary to provide sufficient evidence to give reasonable assurance that:

- The financial statements are free from material misstatement, whether caused by error, fraud or other irregularity;
- in all material respects, the expenditure and income have been applied to the purposes intended and
- the financial transactions conform to the authorities which govern them.

4. AUDIT OBSERVATIONS AND COMMENTS

Items that were also reported in the previous financial year are indicated by way of an asterisk (*).

4.1 Collection of debts (*) (2007 & 2008)

Uncollected services debts have continued to increase out of proportion during the past financial years. This adversely affects the cash flow of the Municipality. (See paragraph 23.1)

4.2 Bad and doubtful debts (*) (2007 & 2008)

No provision for bad and doubtful debts has been made, however, debts amounting to N\$ 43 391 809 for 2008 and N\$ 36 744 756 for 2007 (2006: N\$ 31 803 714) were more than 120 days due. The calculations of the auditors reveal that the provision is understated by N\$ 45 624 568 for 2008 and N\$ 39 450 490 for 2007 (2006: N\$ 28 644 204). This has a negative impact on the Municipality's cash flow position. It appears that the Council's credit policy is ineffective and should urgently be revised to ensure debts are collected on a regular and timeous basis as individual debtors' accounts have reached unacceptable high levels and distort the financial statements.

4.3 Cash flow position (*) (2007 & 2008)

The Municipality is facing an adverse cash flow problem as indicated by the temporary advances to revenue from other Funds and accounts amounting to N\$ 28 134 787 for 2008 and N\$ 24 264 901 for 2007, and an overdraft position of N\$ 922 276 for 2008 and N\$ 772 584 for 2007 as at year end. Furthermore, external loan redemptions and interest amounting to N\$ 10 790 654 for 2008 and N\$ 9 125 073 for 2007 (2006: N\$ 7 459 493) have not been paid and some have been outstanding for the past 6 years.

4.4 Rental contracts (*) (2007 & 2008)

No rental contracts are kept by the Council for the property under lease. Therefore the auditors could not verify completeness of rental income amounting to N\$ 793 776 for 2008 and N\$ 1 013 578 for 2007 (2006: N\$1 017 477).

The Council should ensure that contracts are entered into for leasing arrangements and copies of such documents are filed.

4.5 Leave and bonus provision (*) (2007 & 2008)

No leave and bonus payment listings could be provided by Council. As a result the auditors could not verify the completeness, accuracy, valuation and existence of the leave and bonus liability as at year end.

4.6 Censored investment (*) (2007)

The Council has a 13, 6% holding in Censored, however Council has recorded the investment at an amount of N\$ 1 379 346. The confirmed value of the Censored investment is N\$ 35 236 648 at 30 June 2007. The investment is thus understated by N\$ 33 857 302.

4.7 Redemption of loans (*) (2007 & 2008)

Assets whose loans are fully redeemed in the current year were not transferred to the contribution ex-revenue account, and neither was the related loans transferred to the redemption account. Consequently, depreciation is understated and thus the related fixed assets are overstated by that amount. **(Also refer to paragraph 15).**

4.8 Lack of supporting documents. (2007 & 2008)

Supporting documents for the following accounts were not availed for audit verification:

	2008	2007	
	N\$	N\$	
Reticulation	38 209	112 671	(2006: N\$ 633 691)
Fuel and oil	30 470	166 757	
Copper festival	222 683	111 000	
Printing and stationery	-	13 845	
Street lights	43 909	23 885	
Transport	-	105 125	
Travel & accommodation	-	139 608	
Machine and equipment	-	31 110	
Buildings	-	66 542	
Streets SWD & sidewalks	205 465	-	
Incidental	55 194	-	
Valuation	65 217	-	
Bank charges	154 789	-	
Total	815 936	770 543	

The auditors could therefore not satisfy themselves as to the completeness, existence and accuracy of the above votes.

4.9 VAT differences (*) (2007 & 2008)

Sales per VAT returns did not reconcile with the sales per ledger by N\$ 8 275 299 for 2008 and N\$ 8 908 608 for 2007 (2006: N\$ 3 152 066) resulting in the VAT liability being understated by N\$ 1 241 295 for 2008 and N\$ 1 336 291 for 2007 (2006: N\$ 472 810). The VAT reconciliation did not agree to the general ledger by an amount N\$ 180 065 for 2008 and N\$ 157 773 for 2007. This means that the VAT asset could be understated by N\$ 180 065 for 2008 and N\$ 157 773 for 2007. This situation poses a risk of being penalized by tax authorities if the information in the tax returns is found to be incorrect.

Furthermore the recoverability of the VAT asset of N\$ 1 381 737 for 2008 and N\$ 941 092 for 2007 (2006: N\$ 449 446) is in doubt due to outstanding penalties and interest which is reflected on the Receiver of Revenue account. Council should negotiate these interests and penalty charges and ensure that the necessary adjustments are being made in order to increase the possibility of any receivables on this account.

4.10 Interest on overdue debtors (2007 & 2008)

The Council has not been charging all its debtors the 15% interest on overdue accounts. This has resulted in the Council losing out on potential interest income.

4.11 Contract workers (2007 & 2008)

It would appear that the contract workers who are employed by the Council do not have contracts in place between the Council and the workers. This could expose the Council to possible litigation as no legally binding agreement between the employee and the Council exists.

4.12 Discrepancies on internal and external loans (2007 & 2008)

The external and internal loan balances at year end have a difference of N\$ 1 900 697 for 2008 and N\$ 1 900 679 for 2007 between the loan statements and the financial statements. The difference on the interest on internal and external loans is N\$ 951 for 2008 and N\$ 64 091 for 2007, and the difference on the

redemption of internal and external loans is N\$ 51 356 for 2008 and N\$ 105 963 for 2007. Council could not resolve these differences at the time of audit.

4.13 Fixed assets register(2007 & 2008)

The Council has not been maintaining a proper fixed assets register. As such the auditors could not satisfy themselves with regards to the completeness, accuracy and existence of the assets.

4.14 Payables (2007 & 2008)

No supporting documentation for payables valued at N\$ 3 766 753 for 2008 and N\$ 905 048 for 2007 and other payables valued at N\$ 2 372 253 for 2008 could be made available to the auditors. Therefore the auditors could not satisfy themselves with regards to the existence, accuracy and completeness of the payables balance. Also the Regional Council accrual appears to be understated by an amount of N\$ 344 766 for 2008.

4.15 Bank (2007 & 2008)

The financial statements reflect a suspense account related to bank and cash of N\$ 5 680 282 for 2008 and N\$ 1 043 172 for 2007 for which Council could not provide a reconciliation. This indicates Council does not have appropriate controls in place for reconciliation of its bank account. The correctness of the cash-book balances reflected in the balance sheets is thus doubtful.

4.16 Government Gazette (2007)

Council has not been able to supply the auditors with the published Government gazette relating the tariffs for the financial year ended 30 June 2007. Therefore the auditors could not satisfy themselves that income is complete and accurate.

4.17 Suspense account (2007 & 2008)

The Council could not resolve the identified differences between the internal loan registers and the municipal statements. This difference amounted to N\$ 1 489 950 for 2008 and N\$ 1 759 904 for 2007. (Also refer to paragraph 4.12)

4.18 Uncleared suspense balances (2007 & 2008)

The Municipality's records are characterized by long outstanding suspense accounts, the majority of which could not be explained. The balances have remained unchanged from prior year periods and it appears that no action is being taken by the Town Treasurer to clear these accounts. The balance is so significant that it distorts the fair presentation of the financial statements. The following account balance should receive immediate attention:

Description	Amount
Social housing	N\$ Dr/(Cr) (1 500 000)

The accounting department is once again urged to clear the balances in the forthcoming financial year.

4.19 Inadequacy of disclosure in the OAG's report (2007 & 2008)

The lack of audit preparedness coupled with the nature of the records caused inadequate disclosures in this report and the financial statements as required in terms of the governing legislation and reporting framework. The following information could not be made available to the auditors before finalization of the audit:

- a) A reconciliation of the motor vehicles and their respective values, distance travelled and fuel consumption (See paragraph 30.1 of this report).
- b) A reconciliation of properties and erven sold on an instalment sale basis to the figure of the prior year financial statements.
- c) The details regarding any compensation payments made during the year.
- d) Distribution statistics for water losses.

4.20 Erven sales (2008)

Council could not provide the auditors with a listing of the sales of erven. As a result they could not satisfy themselves with regards to the completeness, accuracy and existence of the sales.

4.21 Inventory (2008)

Council could not provide the auditors with a listing of inventory as at year end 30 June 2008. As a result they could not satisfy themselves with regards to the existence, completeness, accuracy and valuation of the inventory balance.

4.22 Expenses charged out (2008)

The Council has been charging out their expenses at the budgeted amount and not at the actual amount. This has resulted in a difference of N\$ 506 694 between the expenses per financial statements and per the expense schedules.

4.23 Surcharges (2008)

The auditors calculations have revealed that the Cenored surcharges income in the general ledger is understated by N\$ 940 082.

4.24 Consumer deposits (2008)

The auditors' calculations have revealed that the Council has held insufficient consumer deposits as at 30 June 2008. These deposits are not sufficient to cover an average month's consumption.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL STATEMENTS

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

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus 01/07/2007				7 526 355
General accounts				
Non-profitable	9 056 428	18 327 904	(9 271 474)	
Self-supporting	7 330 871	5 884 528	1 446 343	
Trade accounts				
Electricity	5 433 849	4 362 776	1 071 073	
Water	8 451 110	8 762 050	(310 940)	
Total loss for the year	30 272 258	37 337 258	(7 065 000)	(7 065 000)
Adjustments and utilizations (See note 10 of Annexure D)				29 355 294
Accumulated surplus 30/06/2008				29 816 649

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus 01/07/2006				5 698 609
General accounts				
Non-profitable	13 417 067	18 678 508	(5 261 441)	
Self-supporting	7 013 152	5 354 685	1 658 467	
Trade accounts				
Electricity	9 780 074	3 681 505	6 098 569	
Water	6 896 860	9 375 046	(2 478 186)	
Total surplus for the year	37 107 153	37 089 744	17 409	17 409
Adjustments and utilizations (See note 10 of Annexure D)				1 810 337
Accumulated surplus 30/06/2007				7 526 355

7. CURRENT BANK ACCOUNT

The bank statement reflected a favourable balance of N\$ 740 423 for 2008 and favourable N\$ 142 789 for 2007 (2006: Favourable N\$ 7 646). Cheques totaling N\$ 2 759 483 for 2008 and N\$ 1 595 370 for 2007 (2006: N\$ 2 036 552) were outstanding at year-end. The cash-book balance was in overdraft with N\$ 922 276 for 2008 and N\$ 1 815 756 for 2007 (2006: N\$ 1 623 071). The bank reconciliation did not balance as at year-end (Also refer to paragraph 4.15).

8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June there was N\$ 3 443 386 for 2008 and N\$ 2 300 375 for 2007 (2006: N\$ 1 587 921) invested at financial institutions, as follows:

	2008		2007	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Commercial banks	2 443 386	176 851	1 300 375	102 634
NAMPOST	1 000 000	82 726	1 000 000	82 726
	3 443 386	259 577	2 300 375	185 360

	2007		2006	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Commercial banks	1 300 375	102 634	597 921	90 299
NAMPOST	1 000 000	82 726	1 000 000	83 710
	2 300 375	185 360	1 597 921	174 009

The investments and interest earned were allocated as follows:

	2008		2007	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Capital Development Fund	775 990	-	-	-
Build Together	2 667 396	-	2 300 375	175 655
Revenue Account	-	259 577	-	9 705
	3 443 386	259 577	2 300 375	185 360

	2007		2006	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Build Together	2 300 375	175 655	1 597 921	-
Revenue Account	-	9 705	-	174 009
	2 300 375	185 360	1 587 921	174 009

9. FUND ACCOUNTS

The position of the Fund accounts at the end of both financial years under review are shown in Note 7 in Annexure D. Temporary advances amounting to N\$ 28 134 787 for 2008 and N\$ 24 264 901 for 2007 (2006: N\$ 21 379 416) were made from the Fund accounts to Revenue to finance operating expenditure. Funds are as such no longer fully cash backed and can thus not be fully utilized for the purposes for which they have been created. The increase of these advances indicates the speed with which the Municipality is depleting its funds.

10. TRADE ACCOUNTS

10.1 The results of operations were as follows:

	Electricity		Water	
	2008	2007	2008	2007
	N\$	N\$	N\$	N\$
Sales	231 601	1 006 030	8 420 139	6 841 370
Cost of bulk purchases	-	-	-	-
Gross profit	231 601	1 006 030	8 420 139	6 841 370
Net income/(expenditure)	839 471	5 092 538	8 731 079	(9 319 556)
Net surplus/ (deficit)	1 071 072	6 098 568	(310 940)	(2 478 186)

	Electricity		Water	
	2007	2006	2007	2006
	N\$	N\$	N\$	N\$
Sales	1 006 030	5 433 495	6 841 370	13 385 495
Cost of bulk purchases	-	(2 960 540)	-	(5 954 182)
Gross profit	1 006 030	2 514 663	6 841 370	7 446 187
Net income/(expenditure)	5 092 538	2 824 074	(9 319 556)	(10 057 162)
Net surplus/ (deficit)	6 098 568	5 297 029	(2 478 186)	(2 625 849)
Gross profit on bulk purchases	N/A	84%	N/A	125%
Net surplus/(deficit) on bulk purchases	N/A	179%	N/A	(44%)

The surplus for electricity indicates that the electricity service was operating on a sound financial basis. The net income on electricity is a result of Censored surcharges that were received during the year. The loss on water decreased compared to the prior year. Council should find ways to ensure that the water trade account becomes profitable.

10.2 Distribution losses:

Council could not provide the auditors with statistics for the water losses for both financial years under review.

No electricity statistics for the years were available as Censored is responsible for the electricity distribution in Tsumeb from the 2007 year onward.

11. SELF-SUPPORTING SERVICES

The net results of the following operations were as follows:

	2008	2007	2006
	N\$	N\$	N\$
Cleansing	(257 295)	132 932	22 461
Sewerage	1 703 638	1 525 535	1 071 870
Sanitation	-	-	(51 790)
	1 446 343	1 658 467	1 042 541

Sewerage continued to operate on a self sustaining basis but the cleansing account needs attention.

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorized or avoidable expenditure was revealed during the years under review.

13. SUSPENSE ACCOUNTS

The balance sheets include the following suspense accounts:

	2008		2007	
	Dr	Cr	Dr	Cr
	N\$	N\$	N\$	N\$
Omutali savings	-	288 791	-	288 791
Social housing	-	1 500 000	-	1 500 000
Provisions for Natis	221 084	-	187 362	-
External loans	-	10 790 654	-	9 125 073
	221 084	12 579 445	187 362	10 913 864

	2007		2006	
	Dr	Cr	Dr	Cr
	N\$	N\$	N\$	N\$
Grants	-	-	-	927 569
Stabilization Fund	-	-	-	913 993
Omutali savings	-	288 791	-	300 000
Social housing	-	1 500 000	-	1 500 000
Provisions for Natis	187 362	-	47 057	-
Suspense staff uniforms	-	-	4 116	-
Elverum Funds/Sewerage	-	-	-	24 275
Correction to investments	-	-	359 040	-
External loans	-	9 125 073	-	7 459 493
Provision for dog taxes	-	-	-	1 151
	410 213	10 913 864	410 213	11 126 481

The suspense accounts also reflected an amount of N\$ 10 709 654 for 2008 and N\$ 9 125 073 for 2007 (2006: N\$ 7 459 493) which is in respect of arrear payments as well as interest payable to the Government of Namibia on external loans. All suspense accounts should be cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

No irregularities or losses due to theft, fire and accidents were revealed during the years under review.

15. CAPITAL PROJECTS

Nature of capital expenditure	Total expenditure 2007/2008	External loans	Revenue
	N\$	N\$	N\$
Vehicles	238 723	238 723	-
Other vehicles	21 839	-	21 839
Soweto development	506 615	-	506 615
Town engineers	13 609	-	13 609
Sub division of Erf 1462	76 025	-	76 025
Informal market upgrade	96 121	-	96 121
Soweto earth leakage installation	95 165	-	95 165
	1 048 097	238 723	809 374

Nature of capital expenditure	Total expenditure 2006/2007	Internal loans
	N\$	N\$
Computer: Mayor's office	4 783	4 783
Arial survey settlement	87 971	87 970
PMS: Pavement	5 416	5 416
Hospice project	150 000	150 000
Town planning	12 378	12 378
Resettlement area extension: Town planning	10 000	10 000
Soweto development	541 553	541 553
	812 101	812 101

During the 2005/06 financial year capital expenditure amounted to N\$ 3 113 152.

Assets relating to loans which were fully redeemed during the year amounting to N\$ 451 013 for 2008 and N\$ 205 427 for 2007 (2006: N\$ 392 232) have not been transferred to assets ex-revenue. This implies that the two capital statements are misstated by the amounts.

16. BURSARIES

No bursaries were granted during the years under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions other than listed in paragraph 21 were made during the years under review.

18. COMPENSATION PAYMENTS

No compensation payments were made during the years under review.

19. VISITS TO FOREIGN COUNTRIES

Information regarding visits to foreign countries could not be availed due to inadequate record keeping.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims were accrued and paid as a result of accidents.

21. GIFTS / DONATIONS BY THE LOCAL AUTHORITY

The following were donations made during the year which were approved by the Council:

Beneficiary	2008	2007
	N\$	N\$
Female staff uniforms	36 313	-
Staff track suits sponsor	13 131	-
Tina's T-shirts	-	2 254
Nombtsoub Old Age Home	10 500	-
Tsumeb Women & Child Centre	7 000	-
A R Enterprises	4 500	-
L P Designs	2 600	-
Tsumeb Museum	-	403
Tsumeb Secondary School	1 020	300
Metro Cahs & Carry	856	-
Lisboa Wholesalers	691	-
Jansen van Vuuren S	525	-
ELCIN Church	500	-
Kierie Spar	413	-
ALAN	1 000	-
Otjiwarongo Municipality	-	4 500
S P C A	-	2 400
Tsintsabis Primary School	-	300
Namibian Police	-	700
Cenored	-	1 979
Tsumeb Museum	3 630	3 630
Oshikoto Secondary School	-	300
Municipality of Walvisbay	-	1 000
Chamber of Commerce	-	10 000
Pensioner's subsidy	123 685	97 503
Other	1 548	17 375
	207 912	142 644

22. TRANSFER OF PROPERTY

Property was transferred from the Municipality during the year as follows:

Date	Transfer Deed No	Erf No	Purchase price
			N\$
19.07.07	T3643/07	952 T	18 900
31.07.07	T3942/07	85 N	15 950
23.08.07	T4535/07	1045N	Donation
23.08.07	T4539/07	22N	12 334
06.09.07	T4732/07	1388T	81 000
18.09.07	T4997/07	25N	45 000
18.09.07	T5000/07	323N	10 633
01.10.07	T5268/07	989T	43 000
04.10.07	T5380/07	617T	28 580
16.10.07	T5859/07	86N	36 000
26.10.07	T6097/07	937T	21 582
26.10.07	T6098/07	954T	13 000
26.10.07	T6102/07	958T	13 000
07.11.07	T6331/07	40 N	25 000
22.11.07	T6611/07	965T	22 380
05.12.07	T6988/07	228N	20 926
20.02.07	T614/08	283N	13 000
25.02.08	T733.08	1327T	Transfer
04.03.08	T946/08	978T	21 906
15.04.08	T1907/08	1804N	22 300
26.06.08	T3373/08	1200N	3 600
26.06.08	T3374/08	1243N	3 546

Property was transferred from other to the Municipality as follows;

2007/08

Date	Deed number	Erf no	Area	Purchase price
			m ²	N\$
14.09.07	T4906/07	1272 T	478	22 548
15.11.07	T6495/07	605 N	525	1.00
25.02.08	T732/08	1328 T	465	Transfer

2006/07

Date	Transfer Deed No	Erf No	Purchase price
			N\$
24/08/06	T6097/06	1025T	14 322
17/11/06	T8266/06	939T	13 000
24/11/06	T8439/06	646T	5 228
07/12/06	T8856/06	968T	15 000
15/12/06	T9324/06	1167N	10 633
24/01/07	T119/2007	2341T	1 810
24/01/07	T122/2007	2342T	Donation
09/03/07	T1013/07	276N	35 000
15/03/07	T1120/07	1292N	3 600
12/04/07	T1634/07	601T	64 000
24/04/07	T1820/07	300N	37 000
16/05/07	T2273/07	981T	11 400

23. DEBTORS / CREDITORS

23.1 Debtors

	2008	2007	2006
	N\$	N\$	N\$
Consumers, combined billing	48 210 989	43 045 298	38 192 271
Subsidies receivable from Government	-	-	748 367
Accrued interest on investments	-	232	11 102
Surcharges	2 414 925	4 060 659	4 157 805
VAT accrual	1 381 737	941 092	449 446
Suspense accounts and provisions	420 771	352 067	491 590
	52 428 422	48 399 348	44 050 581

Refer to 4.1 regarding recoverability.

23.2 Creditors

	2008	2007	2006
	N\$	N\$	N\$
Trade creditors	962 708	905 049	554 541
Accruals	2 804 044	-	-
Loan interest and redemption in arrears	10 790 654	9 125 073	7 459 493
Leave bonus and salary reserve	3 066 962	2 541 195	2 358 751
Suspense accounts	4 346 446	2 048 356	3 666 988
Sundry creditors	742 857	783 206	555 991
	22 713 671	15 402 879	14 591 764

24. ASSESSMENT RATES

Net proceeds from assessment rates were N\$ 6 985 322 for 2008 and N\$ 5 943 563 for 2007 (2006: N\$ 5 556 703). The tariffs for private and business property were 0.21416 for 2008 and N\$ 0.19469 for 2007 (2006: N\$ 0.1770) per dollar per year of the site valuation plus 0.00519 for 2008 and N\$ 0.00472 for 2007 (2006: N\$ 0.0043) per dollar per year of the valuation of improvements.

25. LOANS

25.1 External loans

Balances at 30 June were N\$ 10 843 895 for 2008 and N\$ 11 079 745 for 2007 (2006: N\$ 11 496 249). The balances correspond with the balances as per actuarial tables and the general ledger. Redemption payments are not up to date as stated in paragraph 13.

Loan assets were correctly capitalized and no loan assets have been disposed of before the loan was completely redeemed. Loan moneys were used for the purposes they were obtained for. However there were amounts totaling N\$ 4 556 853 for 2008 and N\$ 4 556 853 for 2007 (2006: N\$ 4 556 853) which were unspent on loans and appear to be long term in nature. This amount is reflected as N\$ 4 323 873 in the balance sheets of the Council.

25.2 Internal loans

Balances at 30 June were N\$ 7 298 101 for 2008 and N\$ 9 190 562 for 2007 (2006: N\$ 11 983 587). All assets financed by internal loans were capitalized.

25.3 Housing Fund loans were as follows at 30 June 2007:

	2008	2007	2006
	N\$	N\$	N\$
Balance owed to the Municipality by property owners	935 296	1 031 259	1 072 976

26. SALE OF ERVEN

The proceeds for the sale of erven amounted to N\$ 656 232 for 2008 and N\$ 79 210 for 2007 (2006: N\$ 302 071) and the full amount was allocated to the Fixed Property Fund.

27. PROPERTIES SOLD ON AN INSTALMENT BASIS

No figures were provided for the years under review.

28. TARIFF ADJUSTMENTS

Tariff adjustments were all in accordance with the relevant Official Government notice. The tariffs for the financial year 2006/07 could not be confirmed as the relevant Government gazette could not be submitted.

29. APPROVALS

29.1 Revenue written off

Bad debts amounting to N\$ 868 999 for 2008 and N\$ 11 763 for 2007 were written off with Council approval during the year.

29.2 Excess on approved budget

The following votes were exceeded:

2008

Vote	Approved budget	Actual expenditure	Over expenditure
	N\$	N\$	N\$
Salaries wages and allowances	11 979 551	13 169 918	(1 190 367)
Allowance	129 635	258 841	(129 206)
Security service	362 249	617 087	(254 838)
Fuel and oil	446 877	668 959	(222 082)
Legal costs	22 423	229 901	(207 478)
Incidental expenses	-	146 896	(146 896)
Valuation costs	65 000	217 391	(152 391)
Copper festival	150 000	319 076	(169 076)
Labour and impiment hire	645 000	1 121 865	(476 865)
Redemption internal loans	1 641 691	2 171 361	(529 670)
Interest on internal loans	491 993	924 539	(432 546)
Leave bonus and salary reserve	430 516	543 287	(112 771)
	16 364 935	20 389 121	4 024 186

2007

Vote	Approved budget	Actual expenditure	Over-expenditure
	N\$	N\$	N\$
Housing: Allowance	1 116 257	1 308 997	(192 740)
Fuel and oil	374 997	583 419	(208 422)
Electricity department	2 275 397	3 596 320	(1 320 923)
Incidental expenses	100 000	219 468	(119 468)
Street lights	-	178 784	(178 784)
Redemption internal loans	1 506 443	2 031 529	(525 086)
Interest internal loans	631 744	966 884	(335 140)
Capital budget	-	1 053 936	(1 053 936)
	6 004 838	9 939 337	(3 934 499)

29.3 Internal loans

Internal loans advanced during the year amounted to N\$ 238 723 for 2008 and N\$ 812 101 for 2007.

30. INVENTORY AND EQUIPMENT**30.1 Motor vehicles**

The reconciliation of the number of motor vehicles, distance travelled and fuel consumed could not be availed for disclosure in this report. Also see paragraph 4.19.

30.2 Inventory

Record keeping and stock controls are exercised. No obsolete stock was identified.

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the years under review.

32. GENERAL

The accounting and internal controls applied by the Council are not sufficient.

33. FORMAL AND INFORMAL QUERIES

Formal queries are embodied in this report.

Informal queries addressed to the Chief Executive Officer comprise:

1. Inadequacy of provision for bad debts (2007 & 2008)
2. Unauthorized over-expenditure (2007 & 2008)
3. Lack of rental contracts (2007 & 2008)
4. Lack of housing loan agreements (2007 & 2008)
5. Lack of contracts for contract workers (2007 & 2008)
6. Discrepancies on loans (2007 & 2008)
7. VAT differences (2007 & 2008)
8. Fully redeemed loan assets (2007 & 2008)
9. No fixed assets register is maintained (2007 & 2008)
10. Audit fee provision (2007 & 2008)
11. Lack of security controls (2007 & 2008)
12. Investment in Cenored (2007)
13. Payables (2007 & 2008)

14. Leave provision (2007 & 2008)
15. Government Gazette (2007 & 2008)
16. Interest on overdue debtors (2007 & 2008)
17. Stock (2008)
18. Difference in expenses (2008)

Council should address the above areas of concern as a matter of urgency.

34. DISCLAIMED AUDIT OPINION

The accounts of the Municipality of Tsumeb for the financial years ended 30 June 2007 and 2008, summarized in Annexures 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.

I am unable to express an opinion on the financial statements and financial position of the Municipality due to the following reasons:

- No provision for bad and doubtful debts has been made. The auditors calculated that the provision should be N\$ 45 624 568 for 2008 and N\$ 39 450 490 for 2007.
- The Municipality is facing an adverse cash flow problem. Temporary advances to Revenue from other funds amounted to N\$ 28 134 787 for 2008 and N\$ 24 264 901 for 2007. External loan redemptions and interest to the amount of N\$ 10 790 654 for 2008 and N\$ 9 125 073 for 2007 have not been paid.
- No rental contracts are kept by the Council therefore the auditors could not verify the completeness of rental income.
- Listings relating to leave and bonus provisions could not be provided by the Council. The auditors could therefore not verify the completeness, accuracy, valuation and existence thereof.
- During the 2006/07 financial year the Council recorded an investment to the amount of N\$ 1 379 346 in Cenored. The confirmed value of the investment is N\$ 35 236 648. Investments are as such understated by N\$ 33 857 302.
- Assets whose loans were fully redeemed during the years under review were not transferred to the contribution ex-revenue account and neither were the related loans transferred to the redemption account. Consequently depreciation is understated and the related fixed assets overstated.
- Supporting documents relating to expenditure valued at N\$ 815 936 for 2008 and N\$ 770 543 for 2007 could not be submitted for audit purposes. Therefore the auditors could not satisfy themselves as to the completeness, existence and accuracy of expenses.
- The sales per VAT return did not reconcile with the sales per ledger resulting in the VAT liability being understated by N\$ 1 241 295 for 2008 and N\$ 1 336 291 for 2007. Furthermore the recoverability of VAT to the amount of N\$ 1 381 737 for 2008 and N\$ 941 092 for 2007 is in doubt due to outstanding penalties and interests.
- Council did not charge all its debtors with 15% interest on overdue accounts. This resulted in Council losing out on interest income.
- The external and internal loan balances at year-end differ with N\$ 1 900 697 for both financial years between the loan statements and the financial statements.
- The Council did not maintain a proper fixed asset register therefore the auditors could not satisfy themselves with regards to the completeness, accuracy and existence of the assets.
- No supporting documentation relating to accounts payable to the amounts of N\$ 6 139 006 for 2008 and N\$ 905 048 for 2007 could be made available to the auditors.
- The financial statements of the Council disclose a bank and cash figure of N\$ 5 680 282 for 2008 and N\$ 1 043 172 for 2007 for which no bank reconciliation could be provided.
- The Council could not provide the auditors with a Government gazette for the year ended June 2007 and therefore the auditors could not satisfy themselves that the income is complete and accurate.
- The Council could not resolve identified differences between the internal loan register and the Municipality's financial statements. The uncleared differences amounted to N\$ 1 489 950 for 2008 and N\$ 195 904 for 2007.

- The Municipality's accounting records are characterized by long outstanding suspense accounts. The balances remained unchanged. The suspense account relating to social housing with a credit balance of N\$ 1 500 000 distorts the fair presentation of the financial statements.
- A list of erven sales relating to the 2008 financial year could not be provided to the auditors. Therefore the auditors could not verify the completeness, accuracy and existence of the sales.
- Council could not provide the auditors with a listing of inventory at 30 June 2008. Therefore the auditors could not verify the value of inventory as disclosed in the financial statements.
- Council has been charging out their expenses on the budgeted figure and not on the actual amounts. This resulted in a difference of N\$ 506 694.
- The audit revealed that the Censored surcharges for 2008 are understated by N\$ 940 082.

WINDHOEK, May 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

MUNICIPALITY OF TSUMEB

BALANCE SHEETS AT 30 JUNE

	Notes	2008 N\$	2007 N\$	2006 N\$
ASSETS				
Non-current assets				
Property, plant and equipment	2	50 078 386	49 621 239	49 406 923
Investments	3	38 680 034	3 679 721	1 597 921
Suspense accounts	4	1 489 950	1 759 877	-
Loans		2 644 590	2 670 100	2 849 479
Current assets				
Inventory	5	736 047	321 110	319 925
Accounts receivable	6	51 294 970	47 309 435	42 972 933
TOTAL ASSETS		144 923 977	105 361 482	97 147 181
EQUITY AND LIABILITIES				
Equity				
Capital outlay	7.1	36 260 262	33 674 804	30 250 959
Fund accounts and reserves	7.2	68 503 589	43 388 297	39 185 142
Non-current liabilities				
Long-term liabilities	8	10 843 895	11 079 745	11 496 249
Current liabilities				
Accounts payable	9	22 713 671	15 402 880	14 591 760
Bank overdraft		6 602 560	1 815 756	1 623 071
TOTAL EQUITY AND LIABILITIES		144 923 977	105 361 482	97 147 181

MUNICIPALITY OF TSUMEB

INCOME STATEMENTS FOR THE YEARS ENDED 30 JUNE

	Note	2008 N\$	2007 N\$	2006 N\$
INCOME		30 272 258	37 097 448	46 306 634
EXPENDITURE		(37 337 258)	(37 089 744)	(43 646 505)
OPERATING PROFIT/(LOSS) FOR THE YEAR		(7 065 000)	7 704	2 660 129
INTEREST ON INVESTMENTS		-	9 705	184 009
NET PROFIT/(LOSS) FOR THE YEAR		(7 065 000)	17 409	2 844 138
Add : Appropriations and adjustments	10	29 355 294	1 810 337	(664 860)
RETAINED INCOME FOR THE YEAR		22 290 294	1 827 746	2 179 278
30 June 2006		7 526 355	5 698 609	3 519 331
30 June 2007		29 816 649	7 526 355	5 698 609

MUNICIPALITY OF TSUMEB

CASH FLOW STATEMENTS FOR THE YEARS ENDED 30 JUNE

	Note	2008	2007	2006
		N\$	N\$	N\$
CASH GENERATED BY OPERATING ACTIVITIES				
Cash received from customers		30 272 258	37 097 448	46 306 634
Cash paid to suppliers		5 071 645	(38 805 974)	(47 679 268)
Cash (utilized)/generated from operations	11	25 200 613	(1 708 526)	(1 372 634)
Investments income		-	9 705	184 009
Movement in fund accounts				
Increase/(decrease) in Fund accounts		5 410 456	5 799 254	3 061 936
		30 611 069	4 100 433	1 873 311
Cash flow from investing activities				
Nett capital expenditure		(457 147)	(214 316)	(2 467 049)
(Increase)/decrease in suspense accounts		269 927	(1 759 877)	-
(Increase)/decrease in investments		(35 000 313)	(2 081 800)	2 197 040
(Increase)/decrease in loans		25 510	179 379	128 193
		(35 162 023)	(3 876 614)	(141 816)
Increase/(decrease) in long-term liabilities		(235 850)	(416 505)	(1 295 786)
Cash and cash equivalents		(4 786 804)	(192 686)	435 709
CASH AND CASH EQUIVALENTS				
- Beginning of the year		(1 815 756)	(1 623 070)	(2 058 779)
- End of the year		(6 602 560)	(1 815 756)	(1 623 070)

MUNICIPALITY OF TSUMEB

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE

1. ACCOUNTING POLICIES

The financial statements are prepared on historical cost basis and incorporate the following principal accounting policies, which are consistent with those applied in the previous year:

1.1 Fixed assets

Fixed assets are stated at cost or at valuation where assets have been acquired by grant or by donation, less depreciation written off over the expected useful lives as determined by Council from time to time. Fixed assets acquired with loan funds are not depreciated until the loan is repaid unless the expected lifetime of the asset is less than the repayment period of the loan in which case depreciation is calculated on the shortfall.

1.2 Stock

Stock is valued at the average cost on the first-in-first-out basis. Obsolete stock is written off against the income statement.

1.3 Funds**Revenue Account**

All monies received and accrued and expenses paid and accrued, except for allocation to other Funds, are reflected in this account, and are kept in compliance with Section 86(1)(b) of the Local Authorities Act of 1992 as amended.

Housing Fund

The purpose of this Fund is to provide funds to enable tenants of houses to buy such houses as required in terms of Section 58 of the Act.

1.4 Special Funds

The Municipality also maintains the following Funds in terms of the authorizations in Section 80(4) of the Local Authorities Act of 1992.

Parking Meter Fund

The purpose of this Fund is to provide for the installation and up keeping of parking meters.

Capital Development Fund

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

Betterment Fund

The purpose of this Fund is to provide for future improvement of Municipal assets. Part of the proceeds of the sale of properties developed by the Municipality accumulate in this Fund as well as interest derived from investments.

Fixed Property Fund

Proceeds on the sale of developed properties accumulate in this Fund and are used to develop properties.

MUNICIPALITY OF TSUMEB

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE (continued)

1.4 Special Funds (continued)**Renewal Fund**

The purpose of this Fund is to provide for replacement of assets and for additional depreciation on assets which decreased in value. Income is obtained from the Revenue Account and interest derived from investments.

Build Together Fund (Part of Housing Funds)

The purpose of this Fund is to provide loans to applicants who want to build or buy houses with the help of the community. The instalments received for the payment of these loans are reinvested in this Fund.

	2008	2007	2006
	N\$	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT			
Consists of :			
Property, plant and equipment	50 078 386	49 621 239	49 406 923
Financed by :			
External and internal loans			
General capital	18 441	18 441	18 441
Revenue account	22 957 352	22 738 928	23 336 713
Loans redeemed	27 102 593	26 863 870	26 051 769
	50 078 386	49 621 239	49 406 923
3. INVESTMENTS			
Cenored investment	35 236 648	1 379 346	-
Fixed deposits	3 443 386	2 300 375	1 597 921
	38 680 034	3 679 721	1 597 921
4. SUSPENSE ACCOUNTS			
Internal loans per Municipality annual financial statements	(7 298 101)	(9 190 562)	-
Internal loans per the loans schedule	8 787 086	10 867 493	-
Other	965	82 946	-
	1 489 950	1 759 877	-

MUNICIPALITY OF TSUMEB

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE (continued)

	2008	2007	2006
	N\$	N\$	N\$
5. INVENTORY			
Other consumables	736 047	321 110	319 925
	736 047	321 110	319 925
6. ACCOUNTS RECEIVABLE			
Trade debtors	48 210 989	43 045 298	38 192 271
Sundry debtors	4 217 433	5 354 077	5 858 310
	52 428 422	48 399 375	44 050 581
<i>Less :</i>			
Consumer deposits for services	(1 133 452)	(1 089 940)	(1 077 648)
	51 294 970	47 309 435	42 972 933
7. FUNDS AND ACCOUNTS			
7.1 Capital outlay			
Loans redeemed from revenue	13 284 469	10 917 435	6 895 805
General capital contributions	22 975 793	22 757 369	23 355 154
	36 260 262	33 674 804	30 250 959
7.2 Funds, accounts and reserves			
Fixed Property Fund	13 922 715	12 810 409	12 147 998
Twatameka Two Savings Revolving Fund	26 353	41 955	-
Capital Development Fund	2 467 405	2 354 718	2 254 343
Betterment Fund	1 955 185	1 951 727	1 948 892
Renewal Fund	14 032 549	12 813 181	11 518 602
Parking Meter Fund	-	-	37 336
Housing Funds	6 282 733	5 889 952	5 579 363
Revenue Account kept in compliance with Section 86(1) of the Local Authorities Act, 1992	29 816 649	7 526 355	5 698 609
	68 503 589	43 388 297	39 185 142

MUNICIPALITY OF TSUMEB

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE (continued)

	2008	2007	2006
	N\$	N\$	N\$
8. LONG TERM LIABILITIES			
Loans from Government	10 843 895	11 079 745	11 496 249
	10 843 895	11 079 745	11 496 249
9. ACCOUNTS PAYABLE			
Trade payables	962 708	905 049	554 541
Accruals	2 804 044	-	-
Leave and salary fee provision	3 066 962	2 541 194	2 510 117
Arrears for loan interest and redemptions	10 790 654	9 125 073	7 459 493
Sundries	902 081	978 451	400 625
	18 526 449	13 549 767	10 924 776
Suspense accounts			
Stabilization Fund	-	-	913 993
Omutuli savings	288 791	288 791	300 000
Soweto development	2 372 253	-	-
Grants	-	-	927 565
Social housing	1 500 000	1 500 000	1 500 000
Other	26 178	64 322	25 426
	4 187 222	1 853 113	3 666 984
Total	22 713 671	15 402 880	14 591 760
10. ADJUSTMENTS AND APPROPRIATIONS			
Bad debts	(868 999)	(11 763)	(348 771)
Payments regarding previous years	-	-	(516 288)
Stale cheques	-	(2 132)	-
Cheques	-	15 347	-
Correction of investments	-	(359 039)	-
Unclaimed balances	(500)	-	3 185
Miscellaneous adjustments	(3 779 997)	(1 198 482)	197 014
Cenored equity	33 857 302	1 379 346	-
Adjustments- Revenue relating to prior year	147 488	1 987 060	-
	29 355 294	1 810 337	(664 860)

MUNICIPALITY OF TSUMEB

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE (continued)

	2008	2007	2006
	N\$	N\$	N\$
11. CASH UTILISED IN OPERATIONS			
Net operating surplus/(deficit)	(7 065 000)	17 409	2 844 138
Adjustments (appropriations)			
- Appropriation account	29 355 294	1 810 335	(664 860)
- Interest on investments	-	(9 705)	(184 0009)
Operating (loss)/surplus before changes in working capital	22 290 294	1 818 041	1 995 269
Changes in working capital			
(Increase)/decrease in trade and other receivables	(3 985 535)	(4 336 502)	(7 677 173)
(Decrease)/increase in trade and other payables	7 310 791	811 120	4 260 565
(Increase)/decrease in inventories	(414 937)	(1 185)	48 705
	2 910 319	(3 526 567)	(3 367 903)
Cash utilized/generated by operations	25 200 613	(1 708 526)	(1 372 634)