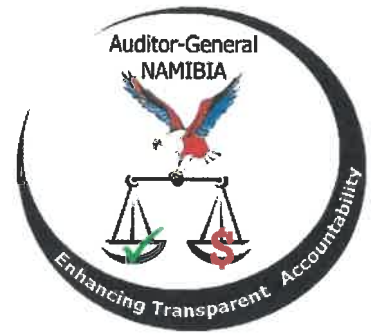




REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF TSUMEB
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

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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 year ended 30 June 2017, 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.

A handwritten signature in black ink, appearing to read "Junias Etuna Kandjeke".

JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

WINDHOEK, March 2018

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF TSUMEB FOR THE FINANCIAL YEAR
ENDED 30 JUNE 2017**

1. REPORT ON THE FINANCIAL STATEMENTS

1.1 INTRODUCTION

The accounts of the Municipality of Tsumeb for the year ended 30 June 2017 are being reported on in accordance with the provisions set out in section 86 of the Local Authorities Act, 1992 (Act 23 of 1992).

The firm Strategis Chartered Accountants 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).

I certify that I have audited the accompanying financial statements of the Municipality of Tsumeb for the year ended 30 June 2017. These financial statements comprise the following:

Annexure A: Balance sheet;
Annexure B: Income statement;
Annexure C: Cash flow statement; and
Annexure D: Notes to the annual financial statements.

The financial statements were submitted on time on the 29th of September 2017 by the Accounting Officer to the Auditor-General in compliance with the Section 87 (1) of the Local Authorities Act, 1992.

The financial statements, notes to the financial statements and general information provided by the Accounting Officer are attached as Annexure A – D.

2. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Section 86 of the Local Authorities Act, 1992 and for such internal control as management determines it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

3. AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on the audit. I conducted the audit in accordance with International Standards for Supreme Audit Institutions (ISSAIs). These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Powers and duties

Section 25(1) (c) of the State Finance Act, 1991, provides that the Auditor-General should satisfy himself that:

- (a) All reasonable precautions have been taken to ensure that all monies due to the State are collected, and that the laws relating to the collection of such monies have been complied with;
- (b) All reasonable precautions have been taken to safeguard the receipt, custody and issue of and accounting for, the State's assets, such as stores, equipment, securities and movable goods; and
- (c) The expenditure has taken place under proper authority and is supported by adequate vouchers or other proof.

In addition, Section 26(1) (b)(iv) of the State Finance Act, 1991, empowers the Auditor-General to investigate and report on the economy, efficiency and effectiveness of the use of the State's resources.

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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for the qualified opinion.

4. ACKNOWLEDGEMENT

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

5. KEY AUDIT FINDINGS

5.1 UNDERSTATEMENT OF PROVISION FOR BAD DEBTS

The auditors' reasonableness test calculation of provision for bad debts based on the recovery rate using three months' receipt after year end resulted in an estimated provision for bad debts of N\$ 115 776 846. This amount is significantly higher than the bad debts provision in the financial statements of N\$ 43 919 982. This has resulted in provision for bad debts being understated by N\$ 71 856 864.

RECOMENDATION

It is recommended that the Municipality should intensify its debt collection process. Furthermore, it is also recommended that the Municipality revises its provision for bad debts.

Management Comment

Council takes note of the observation and will ensure that Council's Credit Control Policy is implemented effectively and efficiently.

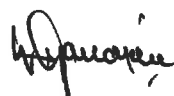
6. BASIS FOR QUALIFIED AUDIT OPINION

- Understatement of provision for bad debts amounting to N\$ 71 856 864.

7. QUALIFIED AUDIT OPINION

The accounts of the Municipality of Tsumeb for the financial year ended 30 June 2017 summarised in Annexure A to D were audited in terms of the provision of Section 85 of the Local Authorities Act, 1992.

In my opinion, except for the possible effects of the matters described in the Basis for Qualified Audit Opinion paragraph, the financial statements present fairly, in all material respects the financial position of the Municipality of Tsumeb as at 30 June 2017, and their financial performance and cash flows for the year then ended.



WINDHOEK, March 2018

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

MUNICIPALITY OF TSUMEB BALANCE SHEET AT 30 JUNE

	Note	2017 N\$	2016 N\$
ASSETS			
Non-current assets		144 472 510	136 454 095
Property, plant and equipment	2	76 414 975	69 427 092
Investments	3	65 854 477	64 590 520
Loans receivable	4	2 203 058	2 436 483
Current assets		76 192 656	72 538 648
Inventory	5	423 121	453 541
Debtors and other receivables	6	75 769 535	72 085 107
Total assets		220 665 166	208 992 743
FUNDS AND LIABILITIES			
Funds and reserves		157 269 709	133 165 577
Capital outlay	7	57 476 737	47 273 467
Funds and accounts	8	99 792 972	85 892 110
Non-current liabilities		13 242 516	15 963 041
Long-term loans	9	13 242 516	15 963 041
Current liabilities		50 152 941	59 864 125
Creditors and other payables	10	43 874 826	50 860 138
Bank overdraft	11	6 278 115	9 003 987
Total funds and liabilities		220 665 166	208 992 743

**ANNEXURE B
MUNICIPALITY OF TSUMEB
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE**

	2017	2016
	N\$	NS
INCOME	80 795 112	79 226 914
EXPENDITURE	(76 253 059)	(71 386 673)
NET OPERATING SURPLUS	4 542 053	7 840 241
Appropriation Account	2 880 163	(15 092 343)
Net surplus/(deficit) for the year	7 422 216	(7 252 886)

ANNEXURE C

**MUNICIPALITY OF TSUMEB
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE**

	2017	2016
	N\$	N\$
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from customers	80 795 112	79 226 914
Cash payments	(84 012 217)	(90 196 897)
Cash utilised by operations	(3 217 105)	(10 969 983)
Movement in funds	16 681 916	18 469 669
Increase in Fund Accounts	6 478 646	5 525 205
Increase in capital outlay	10 203 270	12 944 464
Net cash flow from operating activities	13 464 811	7 499 686
CASH FLOW FROM INVESTING ACTIVITIES	(8 018 415)	(11 493 111)
Net capital expenditure	(6 987 883)	(12 992 399)
Net decrease in loans receivable	233 425	314 901
Net (increase)/decrease in investments	(1 263 957)	1 184 387
CASH FLOW FROM FINANCING ACTIVITIES	(2 720 524)	680 257
(Decrease) increase in long term liabilities	(2 720 524)	680 257
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	2 725 872	(3 313 168)
CASH AND CASH EQUIVALENTS – AT THE BEGINNING OF THE YEAR	(9 003 987)	(9 553 402)
CASH AND CASH EQUIVALENTS – AT THE END OF THE YEAR	(6 278 115)	(12 866 570)

MUNICIPALITY OF TSUMEB
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1. ACCOUNTING POLICIES

1.1 Basis of presentation

1.1.1 These financial statements have been prepared to conform to the stipulations of the Local Authorities Act 1992 (Act 23 of 1992).

1.1.2 The accounting policies are consistent with those applied in the previous year except if otherwise indicated.

1.1.3 The financial statements have been based on an accrual system of income and expenditure accounting.

1.2 Provisions and reserves

The basis used in determining the provisions and reserves is as follows:

1.2.1 Repairs and maintenance

The annual saving or over-expenditure on maintenance for civic buildings is transferred to the civic building reserve.

The annual saving or over-expenditure on road maintenance is transferred to the reserve for road maintenance and is reviewed annually when the estimates for the following financial year are prepared.

1.2.2 Replacement of movable assets

Provision is made towards the replacement of all movable assets with a cost price in excess of N\$ 2 000. These provisions are based on the estimated replacement values which are revised annually.

Movable assets with value exceeding N\$ 15 000 are financed by way of hire purchases leases or internal loans.

1.2.3 Insurance claims

Self-insurance has been limited to minor risks whereas major risks such as public liability comprehensive vehicle and house insurance fire etc. are insured externally by the Municipality's insurance brokers on an open tender basis.

MUNICIPALITY OF TSUMEB
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1. ACCOUNTING POLICIES (continued)

1.3 Tariff policy

With the exception of electricity sales all other services are rendered at cost or below cost. With reference to sewerage and sanitation services the policy of no-loss/no-profit is applicable. Surpluses or deficits on these services are transferred to Tariff Stabilisation Funds.

Surpluses on the electricity account are utilised to subsidise the deficit on the Rate and General Account.

The Tariff Stabilisation Fund balance for water is limited to a maximum of 10% of the total income on the water account for that specific financial year. Any further surpluses on the water account must be transferred to the Capital Development Fund in order to finance water-related capital projects.

1.4 Property plant and equipment

(i) Property plant and equipment is stated

- at historical cost; or
- at valuation (based on the market price at the date of transfer) where assets have been acquired by grant or donations.

(ii) Depreciation

The loans redeemed are considered tantamount to a provision for depreciation.

Apart from advances from various internal funds and external loans assets may also be acquired through:

- Appropriations from revenue in which case the total cost of the asset is a direct and immediate charge against revenue and no further provision for depreciation is required.

1.5 Inventory

The value of commodities is reflected at cost plus freight charges. A financing charge on the average stock value less average working capital held during the financial year is annually charged to the stores account based on the average rate of interest earned by the Municipality on its investments during that financial year. Stores levies of 17.4% for stock items 1.5% for motor vehicles and computer ware purchases and 7.7% for all other direct purchases have been charged to cover overheads.

MUNICIPALITY OF TSUMEB
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1. ACCOUNTING POLICIES (continued)

1.6 Funds

1.6.1 Stores working capital

Appropriations are made on an annual basis from the operating account to the working capital account. The working capital account should over time be equal to the Municipality's investment in inventory.

1.6.2 Betterment Fund

The purpose of this Fund is to provide for future improvements of municipal assets. Part of the proceeds from the sale of land as well as interest earned on internal loans and investments accumulate in this Fund.

1.6.1 Betterment Contribution Fund

The purpose of this Fund is to provide for the future rezoning of erven. Income is derived from interest earned on investments and internal loans.

1.6.2 Endowment Fund

The purpose of this Fund is to provide for the future sub-division of erven. Income is derived from the proceeds of sub-division of erven as well as interest earned on investments and internal loans.

1.6.3 Housing Fund

The purpose of this Fund is to provide for housing loans. Income is derived from interest earned on secured housing loans and investments as well as profits made on the resale of housing scheme houses. Interest paid on external loans is charged to this Fund.

1.6.4 Capital Development Fund

The purpose of this Fund is to fund expenditure in general mostly by way of internal loans at favourable terms. It is funded from savings on budgeted over actual capital expenditure thus income interest earned on moneys invested and internal loans given as well as any contributions as may be decided upon by the Municipality.

1.7 Interest on investments

Interest earned on investments is allocated to the different Funds and surpluses on a percentage earned based on the opening balances.

MUNICIPALITY OF TSUMEB

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

(continued)

	2017	2016
	N\$	N\$
2. PROPERTY PLANT AND EQUIPMENT	76 414 975	69 427 092
Income assets	10 054 894	8 610 058
Loan assets	31 525 744	32 851 567
General capital assets	34 834 337	27 965 467
3. INVESTMENTS	65 854 477	64 590 520
Cash investments allocated to:		
-Commercial Banks	4 939 024	8 531 551
-Central-North Electricity Distribution Company	60 915 453	56 058 969

The investment in Central North Electricity Distribution Company (Pty) Ltd comprises a 12.6% (2016: 12.6%) holding in the share capital of Central North Electricity Distribution Company (Pty) Ltd at equity value.

ALLOCATED AS FOLLOWS:

	65 854 477	64 590 520
Build Together Fund	1 902 835	5 839 600
Fixed Property Fund	-	6 390
Dantago Hoadia	361 431	332 193
Khaibasen Group	216 414	197 713
Khomas Group	293 130	257 754
Natural Disaster Fund	450 000	400 000
Omwene Tukwafa Group	326 821	294 282
Peace Group	284 600	265 097
Peace maker	334 962	303 191
Revenue Account	60 915 453	56 058 969
Self-study scheme	332 233	220 120
Twatameka Two Savings	436 598	415 211

ANNEXURE D

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

	2017	2016
	N\$	N\$
4. LOANS RECEIVABLE	2 203 058	2 436 483
Fixed Property Fund	529	529
Dantago Hoadá	145 386	166 763
Build Together Fund	473 463	534 323
Housing Fund 1	380 998	(392 816)
Housing Fund 2	-	805 779
Housing Fund 2 – temporary advances	466 984	466 984
Khaibasen Group	93 809	107 462
Khomas Group	173 058	199 068
Omwene Tukwafa Group	191 060	213 405
Peace Group	120 549	133 709
Peace Maker	118 093	143 276
Twatameka Two Savings	39 129	58 001
5. INVENTORY	423 121	453 541
Central stores	423 121	453 541
6. TRADE AND OTHER RECEIVABLES	75 769 535	72 085 107
Services accounts	117 392 857	114 903 587
VAT provision	3 353 610	1 521 118
Sundries	536 345	385 023
Less: Customer deposits	(1 593 295)	(1 502 935)
Less: Provision for bad debts	(43 919 982)	(43 221 686)
7. CAPITAL OUTLAY	57 476 737	47 273 467
Loans redeemed	12 587 506	10 697 941
Revenue Contributions	10 054 894	8 610 058
General Capital Contributions	34 834 337	27 965 468

MUNICIPALITY OF TSUMEB

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

(continued)

	2017	2016
	N\$	N\$
8. FUNDS ACCOUNTS AND RESERVES	99 792 972	85 892 110
Accumulated surplus	20 231 099	12 808 884
Betterment Fund	-	1 955 186
Capital Development Fund	5 351 198	4 584 619
Fixed Property Fund	36 062 652	30 548 526
Housing Fund	9 640 158	9 392 765
Renewal Fund	24 590 589	22 873 660
Funds for expenditure to be incurred:		
Dantaga Hoada	506 817	498 956
Khaibasen Group	310 224	305 176
Khomas Group	466 188	456 823
Natural Disaster Fund	450 000	400 000
Omwene Tukwafa Group	517 882	507 686
Peace Group	405 149	398 806
Peace Maker	453 055	446 465
Self-study scheme	332 234	220 120
Twatameka Two Savings	475 727	473 212
Internal loans difference	-	21 226
9. LONG TERM LOANS	13 242 516	15 963 041
The Government of Namibia	6 864 030	7 601 156
Commercial Banks	6 378 486	8 361 885
10. TRADE AND OTHER PAYABLES	43 874 826	50 860 138
Accruals	288 533	418 460
Provisions	11 212 755	10 264 882
Arrears on loan interest and redemption	25 618 169	23 971 621
Unutilised funds for specific purpose	6 755 369	16 205 175
11. BANK ACCOUNTS	6 278 115	9 003 987
Current overdraft	6 278 115	9 003 987

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

	2017	2016
	N\$	N\$
12. ADJUSTMENTS AND UTILISATION	2 880 163	(15 093 127)
Provision for bad debts	-	15 000 000
Cash surplus	-	(793)
Money not reflecting in account		
Correction – expenditure	(1 796 767)	1 067 867
Bank reconciliation correction	-	197 337
Stale cheques	(727 260)	(727 260)
Auctioned sales	45 261	(508 165)
Movement on TVC stock	(1 214)	387
Unclaimed deposits	-	1 000
Provision severance and leave days	(353 521)	2 444 062
Revenue adjustments	643 210	(1 170 516)
Cenored dividends	213 971	(1 210 792)
Cenored fair value gain	4 856 483	-
13. CASH UTILISED BY OPERATIONS	(3 217 105)	(10 969 983)
Net operating surplus /(Deficit)	4 542 053	7 840 241
Adjustment: Appropriation Account	2 880 163	(15 093 127)
Decrease in inventory	30 420	36 376
Increase in debtors	(3 684 428)	(3 727 129)
Decrease in creditors and other payables	(6 985 313)	(26 343)

