



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF TSUMEB
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

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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 2018 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, August 2019

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

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF TSUMEB
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

1. ADVERSE AUDIT OPINION

I have audited the financial statements of the Municipality of Tsumeb for the financial year ended 30 June 2018, provided by the Accounting Officer as attached in Annexure A to D. These financial statements comprise the Balance Sheet, Income Statement, Statement of Cash Flow and Notes to Financial Statements for the year then ended, and a summary of significant accounting policies..

In my opinion, because of the significance of the matters discussed in the Basis for Adverse audit Opinion paragraph, the financial statements do not presents fairly, in all material respects, the financial position of the Municipality as at 30 June 2018 and the result of its operations and cash flows for the year then ended.

2. BASIS FOR ADVERSE AUDIT OPINION

I conducted my audit in accordance with International Standards for Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the entity in accordance with the Code of Ethics for Supreme Audit Institutions together with the ethical requirements that are relevant to my audit of the financial statements in Namibia, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the Code of Ethics. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. An adverse audit opinion is being expressed due to the following:

- Under-provision for bad debts by N\$ 72 278 144;
- Depreciation on assets amounting to N\$ 79 305 912 not accounted for;
- No financial reporting framework in place;
- Lack of adequate documentation in regards to the reasons for adjustments to appropriation account amounting to N\$ 11 443 613;
- Immovable Property was transferred with outstanding arrears, amounting to N\$ 96 091, in contravention of section 78 of the Local Authorities Act, 1992 (Act 23 of 1992); Misrepresentations were made by the CEO and Property Officer, indicating that there was no outstanding balance on this property;
- Non-compliance with section 78 (b) (i) (aa) of the Local Authorities Act, 23 of 1992 and false representation by the Municipality to the Executive Director of the Ministry of Urban and Rural Development and the Registrar of Deeds;
- No Municipal account which was created for a certain Erf Number 506. The property is owned by the Senior Accountant, the account is in the name of his father on the Municipal FINSTEL system, and benefiting from benefits meant for pensioners. Debit notes and Debtor Journal Vouchers passed by the Accountant on property owned by the Senior Accountant without proper authorization and without paying money; and

- The Accountant position was not filled by the successful candidate. Current employee has a B. Tech degree in Marketing which was not what was required for the position. The position required someone with an Accounting degree.

3. KEY AUDIT MATTERS

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. I have nothing to report in this regard.

4. OTHER INFORMATION

Management is responsible for the other information. My opinion on the financial statements does not cover the other information and, accordingly, the auditor does not express any form of assurance conclusion thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit or otherwise appears to be materially misstated. I have nothing to report in this regard.

5. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Section 87 (1) of the Local Authorities Act 1992, (Act 23 of 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.

In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible of overseeing the entity's financial reporting process.

6. AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs), will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards for Supreme Audit Institutions, I exercise professional scepticism throughout the audit, I also:

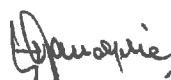
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;
- Obtain an understanding of internal control relevant to the audit 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;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence, obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the entity to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit;
- Provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards;

- From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my report unless law or regulation precludes public disclosure about the matter or, when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

WINDHOEK, August 2019



**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**MUNICIPALITY OF TSUMEB
BALANCE SHEET AS AT 30 JUNE**

	Note	2018 N\$	2017 N\$
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	2	79 305 912	76 414 975
Loans receivable	3	1 516 695	2 203 058
Investments	4	56 571 981	65 854 477
		137 394 588	144 472 510
CURRENT ASSETS			
Trade and other receivables	5	85 037 396	75 769 535
Inventories		317 879	423 121
		85 355 275	76 192 656
TOTAL ASSETS		222 749 863	220 665 166
FUNDS AND LIABILITIES			
FUNDS AND RESERVES			
Capital outlay	6	59 848 901	57 476 737
Funds and accounts	7	93 000 427	99 792 972
		152 849 328	157 269 709
NON-CURRENT LIABILITIES			
Long-term loans	8	14 136 767	13 242 516
		14 136 767	13 242 516
CURRENT LIABILITIES			
Trade and other payables	9	46 085 107	43 874 826
Bank overdraft		9 678 661	6 278 115
		55 763 768	50 152 941
TOTAL FUNDS AND LIABILITIES		222 749 863	220 665 166

MUNICIPALITY OF TSUMEB
INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE

		2018	2017
	Note	N\$	N\$
Income		83 144 060	80 795 112
Expenditure		<u>(81 357 425)</u>	<u>(76 253 059)</u>
Net operating surplus		1 786 635	4 542 053
Appropriation account	10	<u>(11 443 613)</u>	<u>2 880 163</u>
Net surplus/ (deficit) after appropriations		(9 656 978)	7 422 216
Revenue account - beginning of year		20 231 099	12 808 883
Revenue account - end of year		<u>10 574 121</u>	<u>20 231 099</u>

ANNEXURE C

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

	Note	2018 N\$	2017 N\$
Cash flow from operating activities			
Cash utilised by operations	11	(16 609 316)	(3 217 105)
Increase in fund accounts		2 864 433	6 478 646
Increase in capital outlay		2 372 164	10 203 270
Net cash flow from operating activities		(11 372 719)	13 464 811
Cash flow from investing activities			
Net capital expenditure		(2 890 937)	(6 987 883)
Decrease in loans receivable		686 363	233 425
Increase in investments		9 282 496	(1 263 957)
Net cash flow from investing activities		7 077 922	(8 018 415)
Cash flow from financing activities			
Increase/(decrease) in long-term liabilities		894 251	(2 720 524)
Net cash flow from financing activities		894 251	(2 720 524)
Net decrease in cash and cash equivalents		(3 400 546)	2 725 872
Cash and cash equivalents - beginning of year		(6 278 115)	(9 003 987)
Cash and cash equivalents - end of year		(9 678 661)	(6 278 115)

MUNICIPALITY OF TSUMEB

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

1. ACCOUNTING POLICIES

1.1 Basis of preparation

1.1.1 The 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 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 values exceeding N\$15 000 are financed by way of revenue, instalment sale agreements, leases or internal loans from Funds.

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****(Continued)**

1.3 Tariff policy

With the exception of water 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.

1.4 Property, plant and equipment

Property, plant and equipment 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.

1.5 Stock

Stock is valued at the lower of cost and net realizable value. Obsolete stock is written off against the income statement.

1.6 Funds**1.6.1 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.

1.6.2 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.

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

1.7 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.

1.7.1 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.

1.7.2 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 accumulates in this Fund as well as interest derived from investments.

1.7.3 Fixed Property Fund

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

1.7.4 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.

1.8 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)

	2018	2017
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT	79 305 912	76 414 975
Income assets	9 233 565	10 054 894
Loan assets	35 249 432	31 525 744
General capital assets	34 822 915	34 834 337
3. LOANS RECEIVABLE	1 516 695	2 203 058
Housing Fund 1	352 173	380 998
Housing Fund 2 - Temporary advances	-	466 984
Build Together Fund	409 172	473 463
Twatameka Two Savings	30 982	39 129
Dantago Hoda	125 203	145 386
Peace Maker	95 777	118 093
Khaibasen Group	84 261	93 809
Peace Group	100 868	120 549
Omwene Tukwafa Group	166 895	191 060
Khomas Group	150 835	173 058
Fixed Property Fund	529	529

MUNICIPALITY OF TSUMEB

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

(Continued)

	2018	2017
	N\$	N\$
4. INVESTMENTS	56 571 981	65 854 477
Build Together Fund	1 133 425	1 902 835
Twatameka Two Savings	446 516	436 598
Dantago Hoda	388 402	361 431
Peace Maker	362 644	334 962
Khaibasen Group	230 433	216 414
Peace Group	310 050	284 600
Omwene Tukwafa Group	359 979	326 821
Khomas Group	323 491	293 130
Natural Disaster Fund	500 000	450 000
Self-study scheme	459 763	332 233
Censored Investment	52 057 278	60 915 453
5. TRADE AND OTHER RECEIVABLES	85 037 396	75 769 535
Services rendered and assessment rates	128 990 426	117 392 857
VAT Provision	4 241 247	3 353 610
Sundries	357 540	536 345
Provision for bad debts	(44 619 982)	(43 919 982)
Consumer deposits	(3 931 835)	(1 593 295)
6. CAPITAL OUTLAY	59 848 901	57 476 737
Loans redeemed	15 792 421	12 587 506
Revenue contributions	9 233 565	10 054 894
General capital contributions	34 822 915	34 834 337

MUNICIPALITY OF TSUMEB

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

(Continued)

	2018	2017
	N\$	N\$
7. FUNDS, ACCOUNTS AND RESERVES	93 000 427	99 792 972
Fixed Property Fund	36 613 070	36 062 652
Capital Development Fund	5 979 507	5 351 198
Renewal Fund	26 279 146	24 590 589
Twatameka Two Savings	477 498	475 727
Dantago Hoada	513 605	506 817
Peace Maker	458 420	453 055
Khaibasen Group	314 694	310 224
Peace Group	410 917	405 149
Omwene Tukwafa Group	526 874	517 882
Khomas Group	474 326	466 188
Natural Disaster Fund	500 000	450 000
Self-study scheme	459 764	332 234
Housing Funds	9 418 485	9 640 158
Revenue account kept in compliance with Section 86(1) of the Local Authority Act, 1992.	10 574 121	20 231 099
8. LONG-TERM LIABILITIES	14 136 767	13 242 516
The Government of Namibia	6 025 565	6 864 030
Commercial Banks	8 111 202	6 378 486
9. TRADE AND OTHER PAYABLES	46 085 107	43 874 826
Accruals	572 836	288 533
Provisions	12 213 736	11 212 755
Arrears for loan interest and redemptions	27 264 717	25 618 169
Sundries	6 033 818	6 755 369

MUNICIPALITY OF TSUMEB

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

(Continued)

	2018	2017
	N\$	N\$
10. ADJUSTMENTS TO APPROPRIATION ACCOUNT	(11 443 613)	2 880 163
Auctioned sales	-	45 261
Censored dividends	-	213 971
Censored fair value adjustments	(8 858 175)	4 856 483
Cheques paid to wrong creditors	(121 717)	-
Correction - Expenditure	(603 310)	(1 796 767)
Donation from Regional Council	4 584	-
J.T. Kambuta - Erf 1833	(180 756)	-
Movement on TVG inventory	(1 250)	(1 214)
Provision for severance pay and leave days	(308 897)	(353 521)
Revenue adjustments	(1 374 092)	643 210
Stale cheques	-	(727 260)
11. Cash utilised by operations	(16 609 316)	(3 217 105)
Net operating surplus before interest and transfers	1 786 635	4 542 053
Adjustments to appropriation account	(11 443 613)	2 880 163
Operating (deficit)/surplus before changes in working capital	(9 656 978)	7 422 216
Changes in working capital		
Increase in trade and other receivables	(9 267 861)	(3 684 428)
Increase in inventories	105 242	30 420
Increase in trade and other payables	2 210 281	(6 985 313)