



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

# REGIONAL COUNCIL FOR THE KUNENE REGION

FOR THE FINANCIAL YEAR ENDED 31 MARCH 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 Regional Council for the Kunene region for the financial year ended 31 March 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, October 2010**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE  
ACCOUNTS OF THE REGIONAL COUNCIL FOR THE KUNENE REGION  
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2008**

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**1. INTRODUCTION**

The Regional Council of the Kunene region was established under Section 2(1) of the Regional Councils Act, 1992 (Act 22 of 1992).

The financial powers, duties and functions of the Council are stipulated in Article 108 of the Namibian Constitution and Section 28 of the Regional Councils Act. Sections 39 and 40 of the Act require that accounting records of the Council shall be kept and its financial statements shall be prepared by its Chief Regional Officer.

Figures in the report are rounded off to the nearest Namibian dollar.

**2. FINANCIAL STATEMENTS**

The Regional Council's financial statements were submitted to the Auditor-General by the Accounting Officer in compliance with Section 40(1) of the Regional Councils Act, 1992, **except that these were only signed on 7 July 2008 instead of three months after the end of the financial year as stipulated in the Act and was only received by this Office on 14 January 2009.** The abridged balance sheet, Annexure A, is a true reflection of the original.

The following annexures are also attached to this report:

Annexure B: Statements of income and expenditure  
Annexure C: Cash flow statement\*  
Annexure D: Notes to the financial statements

\* The cash flow statement was compiled by the staff of the Office of the Auditor-General and not by the Council.

**3. DELAY OF THE REPORT**

The Office of the Auditor-General experienced a lack of capacity which contributed to the delay.

**4. SCOPE OF THE AUDIT**

The Chief Regional Officer of the Regional Council is responsible for the preparation of the financial statements and of 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 the regularity of the financial transactions included in them and to report his opinion to the National Assembly.

The audit as carried out by staff of the Office the Auditor-General, included:

- Examination on a test basis of the evidence relevant to the amounts, disclosure and regularity of 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 expenditure and income have been applied to the purposes intended by the Regional Councils Act; and
- the financial transactions conform to the authorities which govern them.

## 5. AUDIT OBSERVATIONS AND COMMENTS

At the time of finalizing the report, the audit observations were communicated to the Chief Regional Officer by way of a management letter. A reply was received from the Council and only unresolved matters are reported on in this report.

### 5.1 Comparisons of current year annual financial statement figures with prior year annual financial statement figures.

The following differences were found between the closing balance for 2006/2007 financial year and the opening balances in the 2007/2008 financial statements.

Description	Current year	Prior year	Difference
	N\$	N\$	N\$
Accumulated depreciation	1 608 718	274 712	1 334 006
Land and buildings at cost	7 141 174	9 573 589	(2 432 415)
Motor vehicles and machinery at cost	3 289 175	2 580 047	709 128
Work in progress	3 640 148	3 714 437	(74 289)
Office furniture, computers and equipment	760 021	658 757	101 264
Investment	1 942 807	1 514 020	428 787
Debtors – Build Together Housing Scheme	851 537	657 039	194 498
FNB Main Account	278 356	539 923	(261 567)
FNB Traditional Authority Account	31 527	31 462	65
FNB Build Together Call Account	2 415 129	2 446 737	(31 608)
FNB Gender Equality Account	382 229	179 258	202 971
Petty Cash Control Account	96	20	76
Bank overdraft	109 002	-	109 002
Development Fund Capital Projects	19 120 769	19 470 769	(350 000)
Revolving Fund Build Together	5 014 576	5 002 000	12 576
Retained income/deficit	13 202 857	15 370 647	(2 167 790)

It is totally unacceptable to change previous audited figures. Council should refrain from this practise in future.

### 5.2 Income

#### 5.2.1 5% Assessment rates

At the time of the audit confirmation/notification letters for the 5 % assessment rates levies payable to the Council by the Local Authorities to the amount of N\$14 167 could not be provided.

#### 5.2.2 Rates, charges and fees (Settlement income)

5.2.2.1 Receipt books for the period of April 2007 up to January 2008 could not be provided at the time of the audit.

**5.2.2.2** Payments to the value of N\$ 19 591 were received from the Ministry of Health and Social Services. This income was not reflected in the general ledger.

### **5.3 Investments**

It was observed during the audit that the premiums in the general ledger were only reflected up to 31/12/2007 instead of up to 31/03/2008. The missing recordings/postings resulted in a misstatement of N\$ 277 153.

Furthermore, it was noted that the general ledger reflected a premium of N\$ 23 767 on 02/07/2007. The correct premium amounts to N\$ 59 051. This resulted in a misstatement of N\$ 35 284.

During the year under review, the Council had investment with one of the local investment company. For the past consecutive years, the Council could not provide proof that the investments were approved by the Minister as per Section 33(3) of the Regional Councils Act.

### **5.4 Fixed assets**

The Council is commended for providing a fixed asset register. However, the register is not updated on a regular basis, hence no reliance could be placed thereon.

### **5.5 Accumulated depreciation**

The audit revealed that an amount of N\$ 42 230 was wrongly recorded as accumulated depreciation instead of purchase of office furniture, fitting and equipment.

### **5.6 Capital projects**

Supporting documents to the value of N\$ 1 125 050 could not be provided at the time of the audit.

### **5.7 Salaries and other allowances**

The salary printout could not be confirmed to the annual financial statements, due to the fact that monthly salary sheets, applicable the financial year, could not be provided at the time of the audit.

The salary notch for a Deputy Director was wrongly calculated at N\$ 16 143 per month instead of N\$ 15 151, which resulted in a monthly overpayment of N\$ 993. A total amount of N\$ 12 903 was overpaid for the year under review. According to evidence available, this official was overpaid from 1 August 2006 up to 30 June 2008. Council should provide evidence that these overpayments were recovered.

### **5.8 Delegated funds – Income**

From the selected sample, notification letters/remittance advices for transfer of funds to the value of N\$ 261 235 could not be provided at the time of the audit.

A journal to the amount of N\$ 82 253 was passed but the correctness could not be confirmed by the auditors due to non-submission of supporting documents

### **5.9 Trade and other receivables – Build Together Housing Scheme**

At the time of the audit, it was noted that the amount of N\$ 832 387 was disclosed as build together debtors but included settlement area debtors and traditional authority debtors. Council should rectify this mistake during the next financial year.

It was also observed that a total loan of N\$ 72 000 was not reflected in the customer detailed ledger. Aforementioned amount relates to four (4) beneficiaries.

Loan payments to the value of N\$ 31 800 were made to a beneficiary. The customer detailed ledger however reflects only loan payments to the value of N\$ 8 904. Built Together Housing Scheme debtors is therefore understated by N\$ 22 896. Council should rectify this error during the next financial year.

#### **5.10 Expenditure – Build Together Scheme**

An amount of N\$ 24 802 was paid to a contractor but is not reflected in the supplier detailed ledger.

#### **5.11 Stock/inventory**

The stock counter books are not fully completed. Furthermore, the stock balances are not reflected correctly in the stock counter books. The value of the stock is also not reflected in the financial statements of the Council.

#### **5.12 Bank charges**

The trial balance reflects bank charges as N\$ 82 335, while the audited amount is N\$ 71 369. This resulted in a difference of N\$ 10 966.

#### **5.13 Cash and bank**

##### **5.13.1 Closed bank account**

A bank account was closed during the year under review but is still disclosed with an overdraft amount of N\$ 150 130 in the financial statements of the Council. Current liabilities are therefore overstated with the said amount.

##### **5.13.2 Current account**

According to the bank reconciliation this account closed with a positive balance of N\$ 656 778 while the cash-book and general ledger indicates an overdraft balance of N\$ 252 030. The difference of N\$ 908 808 should be investigated and cleared.

##### **5.13.3 Call account**

According to the bank reconciliation and the general ledger the account balance at year-end was a negative amount of N\$ 150 130 but the cash-book reveals a negative amount of N\$ 147 457. The difference of N\$ 2 673 should be investigated and cleared.

##### **5.13.4 Disaster account**

According to the bank reconciliation the account closed with a balance of N\$ 228 955 while the cash-book closed with a balance of N\$ 279 018 and the general ledger with yet another balance of N\$ 229 559. Council should investigate this account and determine the correct balance.

#### **5.14 Build Together programme**

It was noted that the Council does not have a system in place that controls the re-payments from build together beneficiaries. It was further noted that the interest rate charged by the Council was 9% instead of the approved 4%.

During the audit it was noted that in many cases loan agreements were not approved.

## **5.15 Adjustments**

A credit adjustment of N\$ 2 130 060 was made in the financial statements of the Council, by the auditors, to balance the accounts of the Council. Council should investigate the reason for this and report their findings to the Auditor-General

## **6. ACKNOWLEDGEMENT**

The courtesy and assistance extended to the Auditor-General's staff by the Chief Regional Officer and his staff during the audit is appreciated.

## **7. DISCLAIMED AUDIT OPINION**

The accounts of the Regional Council of the Kunene region for the financial year ended 31 March 2008 have been audited in terms of Section 38 of the Regional Councils Act, 1992 (Act 22 of 1992) and Section 25(1)(b) of the State Finance Act, 1991 (Act 31 of 1991).

I am unable to express an audit opinion on the financial statements, financial position, results of operations and cash flows for the year ended 31 March 2008 due to the following reasons:

- The closing balances for the 2006/2007 and the opening balances for the 2007/2008 financial years differs on several account areas.
- Assessment rates levies receivable by the Council to the amount of N\$ 14 167 could not be confirmed.
- Receipt books related to settlement income for the period from April 2007 up to January 2008 could not be provided.
- Income of N\$ 19 591 is not reflected in the general ledger.
- Investments are misstated by N\$ 277 153.
- Investment premiums were recorded wrongly by an amount of N\$ 35 284.
- The fixed asset register is not updated.
- An amount of N\$ 42 230 was wrongly recorded as accumulated depreciation instead of purchases of office furniture, fitting and equipment.
- Supporting documentation related to capital expenditure to the amount of N\$ 1 125 050 could not be provided.
- Salaries could not be confirmed because the Council did not provide the auditors with salary printouts.
- An official was overpaid by N\$ 12 903 during the period under review.
- Delegated funds income to the amount of N\$ 261 235 could not be verified due to a lack of information.
- A journal to the amount of N4 82 253 could not be verified due to a lack of supporting documentation.
- Settlement area and traditional authority debtors to an amount of N\$ 832 387 is wrongly included in Build Together Housing Scheme debtors.
- Build Together Housing Scheme debtors is understated by N\$ 22 896.
- A difference of N\$ 908 808 was noted between reconciled bank balance of the current account and the general ledger.
- A difference of N\$ 2 673 was noted between the general ledger amount of the call account and the cash-book.
- According to the bank reconciliation for the disaster account the balance of year-end was N\$ 228 955 while the cash-book closed with a balance of N\$ 279 018 but the general ledger reflects yet another amount of N\$ 229 559.
- An amount of N\$ 24 802 was paid to a contractor but is not reflected in the supplier detailed ledger.
- The value of stock is not reflected in the accounts of the Council.
- Bank charges are overstated by N\$ 10 966.
- An adjustment of N\$ 2 130 060 was made to balance the accounts of the Council.

## REGIONAL COUNCIL OF THE KUNENE REGION

## BALANCE SHEETS AS AT 31 MARCH

	Notes	2008 N\$	2007 N\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
		20 908 921	17 766 138
Fixed assets	2	18 169 938	16 252 118
Investments	5	2 738 983	1 514 020
<b>Current assets</b>			
		19 482 014	22 077 278
Cash on hand and bank	3	18 277 387	21 281 495
Accounts receivable	4	1 204 627	795 783
<b>Total assets</b>		<b>40 390 935</b>	<b>39 843 416</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Accumulated Funds</b>			
		39 988 775	39 843 416
Development Fund: Capital projects		24 759 981	19 470 769
Development Fund: Build Together		5 014 576	5 002 000
Accumulated Funds	8	10 214 218	15 370 647
<b>Current liabilities</b>			
		402 160	-
Bank overdraft	6	402 160	-
<b>TOTAL LIABILITES &amp; CAPITAL</b>		<b>40 390 935</b>	<b>39 843 416</b>



## REGIONAL COUNCIL OF THE KUNENE REGION

## INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH

	Notes	2008 N\$	2007 N\$
Income	8	12 616 779	14 923 307
Expenditure	9	16 395 876	13 294 929
Net operating surplus/(loss)		(3 779 097)	1 628 378
Interest earned	7	752 728	1 406 492
Net surplus/(loss)		(3 026 369)	3 034 870
Accumulated funds:			
- At the beginning of the year		15 370 647	14 309 300
- Adjustments		(2 130 060)	(1 973 523)
- At the end of the year		<b>10 214 218</b>	<b>15 370 647</b>

## REGIONAL COUNCIL OF THE KUNENE REGION

## CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 MARCH

	Note	2008 N\$	2007 N\$
<b>Cash flow from operating activities</b>			
Cash receipt form customers		12 616 779	14 923 307
Cash paid to suppliers		(18 934 780)	(15 907 591)
Cash (utilized) by operations	10	(6 318 001)	(984 284)
Plus: Interest received		752 728	1 406 492
Increase in fund accounts		5 301 788	6 461 424
Net cash flow from operating activities		(263 485)	6 883 632
<b>Cash flow from investing activities</b>			
(Increase) in investments		(1 224 963)	(139 658)
Net capital expenditure		(1 917 820)	(4 467 574)
Net (decrease)/increase in cash and cash equivalents		(3 406 268)	2 276 400
<b>CASH AND CASH EQUIVALENTS</b>			
- Beginning of the year		21 281 495	19 005 095
- End of the year		<b>17 875 227</b>	<b>21 281 495</b>

## REGIONAL COUNCIL OF THE KUNENE REGION

## NOTES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH

**1. ACCOUNTING POLICIES**

The annual statements are prepared under the historical cost convention. The following accounting policies are consistent, in all material respects, with those of the previous year:

- 1.1** The annual statements are prepared in line with the accrual concept. It should be noted, however, that income and expenditure in relation to delegated functions are accounted for during the year on a cash accounting concept, in line with the State Finance Act, 1992. However, since all liability in relation to delegated functions remains with the relevant Line Ministry and all unexpensed Delegated Funds are returned to the State Account as at 31 March, this does not materially affect the Regional Council's financial statements.
- 1.2** All fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write-off the cost of each asset over their estimated useful lives as follows:

Buildings	50 years	2% pa
Machinery & equipment	5 years	20% pa
Motor vehicles	5 years	20% pa
Office of furniture and equipment	3 years	33.33%pa
Computer equipment	3 years	33.33%pa

**2. FIXED ASSETS**

<b>31 March 2008</b>	<b>Land and buildings</b>	<b>Work in progress</b>	<b>Vehicles</b>	<b>Office furniture &amp; equipment and computer</b>	<b>Total</b>
	N\$	N\$	N\$	N\$	N\$
<b>Cost as at 1 April 2007</b>	7 141 174	3 640 148	3 289 175	760 021	14 830 518
Additions	-	4 682 672	1 626 920	606 711	6 916 303
<b>Revaluations</b>	687 976	-	-	-	687 976
<b>Cost as at 31 March 2008</b>	<b>7 829 150</b>	<b>8 322 820</b>	<b>4 916 095</b>	<b>1 366 732</b>	<b>22 434 797</b>
Accumulated depreciation as at 31 March 2007	145 738	-	1 027 032	435 948	1 608 718
Charge for the year	393 402	-	1 811 137	451 602	2 656 141
<b>Accumulated depreciation as at 31 March 2008</b>	<b>539 140</b>	<b>-</b>	<b>2 838 169</b>	<b>887 550</b>	<b>4 264 859</b>
<b>Net book value as at 31 March 2008</b>	<b>7 290 010</b>	<b>8 322 820</b>	<b>2 077 926</b>	<b>479 182</b>	<b>18 169 938</b>

## REGIONAL COUNCIL OF THE KUNENE REGION

## NOTES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH (continued)

## 2. FIXED ASSETS (continued)

31 March 2007	Land and building	Work in progress	Vehicles	Office furniture & equipment	Computer	Total
	N\$	N\$	N\$	N\$	N\$	N\$
<b>Cost as at 1 April 2006</b>	9 573 589	3 714 437	1 816 004	145 666	149 285	15 398 981
Addition	-	-	764 043	159 373	204 433	1 127 849
<b>Cost as at 31 March 2007</b>	<b>9 573 589</b>	<b>3 714 437</b>	<b>2 580 047</b>	<b>305 039</b>	<b>353 718</b>	<b>16 526 830</b>
Accumulated depreciation as at 31 March 2006	97 569	-	36 320	2 914	2 986	139 789
Charge for the year	74 289	-	30 321	19 349	10 964	134 923
<b>Accumulated depreciation as at 31 March 2007</b>	<b>171 858</b>	<b>-</b>	<b>66 641</b>	<b>22 263</b>	<b>13 950</b>	<b>274 712</b>
<b>Net book value as at 31 March 2007</b>	<b>9 401 731</b>	<b>3 714 437</b>	<b>2 513 406</b>	<b>282 776</b>	<b>339 768</b>	<b>16 252 118</b>

## 3. CASH IN THE BANK

Bank and cash comprise of the following bank balances

	2008 N\$	2007 N\$
FNB - Cheque account	-	539 923
FNB - Call account	-	1 489 939
FNB - Revenue	626 710	254 002
FNB - Traditional Authority	27 285	31 462
FNB - Build Together Receipt	34 120	28 780
FNB - Build Together Revolving	3 200 160	1 064 677
FNB - Build Together call	252 838	2 446 737
FNB - Capital account	3 461 249	7 238 154
FNB - Disaster Fund account	229 559	209 522
FNB - Cash for work account	1 928	5 219
FNB - HIV AIDS account	1 288	2 077
FNB - Call account 2	5 107 555	1 993 818
GNB - Gender Equality	58 200	179 258
FNB - Call account 1	5 276 495	5 797 907
Cash Control	-	20
	<b>18 277 387</b>	<b>21 281 495</b>

## REGIONAL COUNCIL OF THE KUNENE REGION

## NOTES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH (continued)

	<b>2008</b>	<b>2007</b>
	N\$	N\$
<b>4. ACCOUNTS RECEIVABLE</b>		
Debtors control	832 387	657 039
Value added tax	23 818	-
Contractor on debit (Build Together Scheme)	100 282	-
Sundry debtors (Emergency Management Unit)	137 547	137 547
Subsistence and travel advance	110 593	1 197
	<b>1 204 627</b>	<b>795 783</b>
<b>5. INVESTMENTS</b>		
Insurance companies	2 738 983	1 514 020
	<b>2 738 983</b>	<b>1 514 020</b>
<b>6. BANK OVERDRAFT</b>		
FNB - Cheque account	252 030	-
FNB - Call account	150 130	-
	<b>402 160</b>	<b>-</b>
<b>7. INTEREST EARNED</b>		
Interest earned	752 728	1 406 492
	<b>752 728</b>	<b>1 406 492</b>
<b>8. INCOME</b>		
Subsidies & grants	12 050 000	14 513 269
5% Assessment rates	88 412	-
Water & electricity settlements	5 500	51 298
Grants and donations	2 000	-
Other income	40 940	47 136
Delegated functions	429 927	311 604
	<b>12 616 779</b>	<b>14 923 307</b>

## REGIONAL COUNCIL OF THE KUNENE REGION

## NOTES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH (continued)

	<u>2008</u>	<u>2007</u>
	N\$	N\$
<b>9. EXPENDITURE</b>		
Subsidies and donations	196 275	210 833
Utilities	2 184 636	3 734 428
Maintenance expenses	153 384	360 085
Personnel expenditure	5 855 289	4 795 318
Interest charges	396	219
Other expenditure	1 976 374	952 119
Property rental	158 436	19 185
Depreciation expenses	1 362 796	274 707
Motor vehicle expenses	2 375 069	1 336 450
Travel & accommodation	1 398 183	1 472 241
Settlement areas	251 043	15 690
Delegated functions	483 995	123 654
	<b><u>16 395 876</u></b>	<b><u>13 294 929</u></b>
<b>10. CASH (UTILISED)/GENERATED BY OPERATIONS</b>		
Net (deficit)/surplus before adjustments and interest received	(3 779 097)	1 628 378
Adjustments to accumulated fund	(2 130 060)	(1 973 523)
Operating (deficit) before changes in working Capital	(5 909 157)	(345 145)
Changes in working capital		
(Increase) in trade and other receivables	(408 844)	(639 139)
Cash (utilized) by operations	<b><u>(6 318 001)</u></b>	<b><u>(984 284)</u></b>