



REPUBLIC OF NAMIBIA



AUDIT REPORT ON THE ACCOUNTS OF THE

REGIONAL COUNCIL OF THE KUNENE REGION

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2013

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 of the Kunene region for the financial year ended 31 March 2013, 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, June 2014

**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 2013**

1. INTRODUCTION

The Regional Council for 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. Deficits are indicated in brackets.

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.

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 statements

Annexure D: Notes to the financial statements

3. SCOPE OF THE AUDIT

Management's responsibility for the financial statements

The Accounting Officer of the Regional Council is responsible for the preparation and fair presentation of these financial statements and for ensuring the regularity of the financial transactions. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

It is the responsibility of the Auditor-General to form an independent opinion, based on the audit, on those statements and on the regularity of the financial transactions included in them and to report his opinion to the National Assembly. The said Office conducted the audit in accordance with International Standards on Auditing. Those standards require that the Office comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Information technology (IT)

The Council does not have an established IT division to manage and control IT functions of the Council. There are no established IT policies, procedures and plans developed to enhance IT governance hence the Council relies heavily on Ministerial guidance.

It was furthermore observed that not all computers at the Council had installed and updated Anti-virus protection which could result in data corruption and service interruptions.

Access to the server room is not adequately controlled and the server rooms lacked fire suppression systems or fire extinguishers which could result in unauthorized access to the server room and damage to IT infrastructure due to fire.

User access rights on the financial systems are not adequately monitored and controlled by the Council and the Council does not perform their own backups and retention of critical data which could result in unauthorized access/updates to financial data as well as the loss of critical data.

4.2 5% Rates and taxes levy

Although 5% rates and taxes were received from the Local Authorities, it was observed that no detail supporting documentations were provided to substantiate the amount disclosed.

4.3 VAT refund

It was observed that the Council has received a VAT refund to the amount of N\$ 2 585 858 during the year under review, but this amount was not disclosed in the financial statements.

4.4 General expenditures

Transactions to the amount of N\$ 243 558 did not have supporting documents.

4.5 Cash and cash equivalents

The following differences were observed between the bank reconciliation and the financial statements

Account name	Account number	Bank reconciliation	Financial Statement	Difference
		N\$	N\$	N\$
FNB Revenue Account	620757759179	189 394	175 572	13 822
FNB Build Together	62080247250	501 564	505 426	(3 862)
FNB Build Together Call	62070701498	697 473	701 117	(3 643)
FNB Capital Projects Chq	62070687010	967 744	907 729	60 014
FNB HIV/AIDS Chq	62067514185	22 921	65 574	(42 652)
FNB Gender Equality Chq	62083573305	(166 793)	(143 887)	(22 905)
KRC Dev Trust Fund	6221921751356	258 045	8 982	249 063
Kunene Rural Development	8001793970	5 614 868	5 615 019	(150)
FNB Capital Projects Call	62180773501	1 411 974	1 247 623	164 351
BWK Cash for work call	3000507908	3 795 877	5 793 550	(1 997 672)
Fransfontein STD Receipt	42619173	87 097	44 333	42 764

4.6 Payroll

The following differences were observed between the salary report and the general ledger. The Council did not provide the auditors with salary reports for February and March 2013 therefore, the completeness and accuracy of the personnel expenditure could not be confirmed.

Month	VIP Payroll	General Ledger	Difference
	N\$	N\$	N\$
April	799 672	786 383	13 289
May	838 716	800 541	38 174
June	832 047	849 458	(17 411)
July	821 646	801 155	20 491
August	813 786	801 960	11 826
September	906 460	866 682	39 778
October	858 292	955 917	(97 625)
November	832 916	869 398	(36 481)
December	786 983	940 358	(153 375)
January	1 295 488	1 563 157	(267 669)
February	-	888 797	(888 797)
March	-	645 158	(645 158)

4.7 Additions to fixed assets

Assets to the value of N\$ 543 899 were not accounted for/disclosed in the fixed asset register.

The Council did not account for depreciation on a pro rata basis when assets are acquired. Furthermore depreciation was also not correctly accounted for.

4.8 Fixed asset reconciliations

The following differences were observed between the fixed asset register and the general ledger:

	Asset register	General ledger	Difference
	N\$	N\$	N\$
Total fixed Assets @ cost	14 059 839	13 770 646	289 193
Total fixed Asset depreciation	4 265 227	5 601 388	(1 336 160)

The following differences were also observed between the fixed asset register and the annual financial statements:

	Asset register	Annual financial statements	Difference
	N\$	N\$	N\$
Total fixed assets @ cost	14 059 839	14 107 467	(47 628)
Total fixed asset depreciation	5 542 403	5 938 207	(395 804)

4.9 Capital projects

Expenditures totalling N\$ 128 5604 relating to the Opuwo Cultural Village were incurred and no evidence was provided that formal tendering procedures for the approval of these expenses were followed.

The Council did not treat V.A.T consistently throughout the year under review when processing various capital expenditures.

4.10 Inventory/Consumable stock

The auditors could not satisfy themselves with the existence of stock at year-end because they did not attend the formal stock count; however, the auditors, through the inspection of controls, observed that controls are operating ineffectively/inadequately. It was found that numerous items procured were not updated/included in their respective stock cards whilst others did not have stock cards.

Furthermore the auditors were not provided with a consumable stock report to verify the accuracy of the consumable stock figure presented in the annual financial statements totalling N\$ 277 329.

4.11 Debtors

A difference of N\$ 201 841 was observed between the annual financial statement and the general ledger for the financial year under review.

It was also observed with great concern that customers' accounts for Build Together were not updated with their monthly payments received throughout the year.

It was further observed that the Council did not disclose the debtors for water sales from the Settlement areas.

4.12 Trade and other payables

During the time of the audit, the auditors could not place any reliance on the creditors control account reflected in the annual financial statements due to the fact that the account had an unreconciled debit balance of N\$ 923 958.

The account also had an un-reconciled credit balance of N\$ 1 241 999 for Sundry Creditors Capital Projects.

5. 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.

6. QUALIFIED AUDIT OPINION

The accounts of the Regional Council of the Kunene region for the financial year ended 31 March 2013 have been audited in terms of Section 25(1)(b) of the State Finance Act, 1991 (Act 31 of 1991) read with Section 38 of the Regional Councils Act, 1992 (Act 22 of 1992).

The audit opinion has been qualified due to the following reasons:

- The Council does not have an established IT division to manage and control all IT functions;
- No supporting documents were provided to substantiate disclosed rates and taxes levy;
- VAT refund to the amount of N\$ 2 585 858 was not disclosed in the financial statements;
- General expenditure to the amount of N\$ 243 558 was not supported by documentation;
- Differences were observed between bank reconciliation and the financial statements;
- Differences were observed between the salary reports and the general ledger;
- Differences were observed between the fixed asset register, general ledger and financial statements;
- Expenditure totalling N\$ 128 560 was incurred without the following Tender procedures;
- No consumable reports were provided for audit purposes;
- A difference of N\$ 201 841 for debtors was observed between the financial statements and the general ledger; and
- Unreconciled debit balance of N\$ 923 958 and credit balance of N\$ 1 241 999.

Except for the above-mentioned remarks, in my opinion, these financial statements fairly represent the financial position of the Council as at 31 March 2013, and their result of operations and cash flows for the year then ended in accordance with generally accepted accounting practice.

WINDHOEK, June 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

REGIONAL COUNCIL FOR THE KUNENE REGION

BALANCE SHEET AS AT 31 MARCH

	Notes	2013 N\$	2012 N\$
ASSETS			
Non-current assets		42 892 031	35 605 733
Property, plant and equipment		8 169 260	8 379 288
Work-In-Progress		34 722 771	27 226 445
Current assets		34 596 413	38 947 195
Cash on hand and bank		26 424 379	26 932 691
Accounts receivable		3 285 595	3 487 436
Other current assets		4 609 110	8 345 603
Consumable stock		277 329	181 465
Total assets		77 488 444	74 552 928
EQUITY AND LIABILITIES			
Accumulated Funds		75 372 329	67 477 834
Development Fund: Capital projects		71 948 210	61 082 988
Development Fund: Build Together		10 378 576	10 378 576
Retained income		(6 954 457)	(3 983 730)
Current liabilities		2 116 115	7 153 687
Bank overdraft		151 196	5 441 577
Other current liabilities		882 147	470 110
Accounts payable		1 082 772	1 242 000
Total equity and liabilities		77 488 444	74 631 521

REGIONAL COUNCIL FOR THE KUNENE REGION

INCOME STATEMENT AS AT 31 MARCH

	Notes	2013 N\$	2012 N\$
Income	8	28 719 127	20 560 144
Expenditure	9	(32 256 216)	(24 449 355)
Net operating surplus/(loss)		(3 537 089)	(3 889 211)
Interest earned	7	566 362	335 338
		(2 970 727)	(3 553 873)
Accumulated funds			
- At the beginning of the year		21 767 210	11 405 823
End of the year		18 796 483	7 851 950

REGIONAL COUNCIL FOR THE KUNENE REGION

CASH FLOW STATEMENT FOR THE YEARS ENDED 31 MARCH

	Note	2013 N\$	2012 N\$
Cash flow from operating activities			
Cash receipt from customers		32 571 807	22 005 545
Cash paid to suppliers		(31 411 449)	(20 753 017)
Cash (utilised) by operations		1 160 358	1 252 528
Plus: Interest received	7	566 362	335 338
Net cash flow from operating activities		1 726 720	1 587 866
Cash flow from investing activities			
Capital Projects expenditure		(7 496 326)	-
Build Together loan disbursement		-	(1 705 748)
Purchase of motor vehicles		(131 470)	(497 838)
Purchase of property, equipment, asset under construction		(346 322)	(14 504 777)
		(7 974 118)	(16 708 363)
Cash flow from financing activities			
Transfer of Build Together		-	-
Transfer of capital projects		10 865 222	-
		10 865 222	-
Net increase/(decrease) in cash and cash equivalents		4 617 824	(15 120 497)
Cash and cash equivalent beginning of the year		21 789 407	36 909 904
Cash and cash equivalent end of the year		26 407 231	21 789 407

REGIONAL COUNCIL OF THE KUNENE REGION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 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 financial statements are prepared in line with the accruals concept. It should be noted however, that income and expenditure in relation to Delegated Functions is 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 Councils financial statements.

1.2 All fixed assets are stated at Historic 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
Vehicles	5 Years	20% pa
Office furniture & equipment	3 Years	33.33% pa
Computer equipment	3 Years	33.33% pa

2. FIXED ASSETS

2012	Land and buildings	Machinery & vehicles	Office furniture, equipment & computer	Total
	N\$	N\$	N\$	N\$
Cost as at 1 April 2011	7 979 150	3 891 895	403 108	12 274 153
Additions/(Disposals)	-	1 627 667	59 058	1 686 725
Cost as at 31 March 2012	7 979 150	5 519 562	462 166	13 960 878
Accumulated depreciation as at 1 April 2011	1 060 222	3 425 861	260 251	4 746 334
Charge for the year	159 583	604 242	71 431	835 256
Accumulated depreciation as at 31 March 2012	1 219 805	4 030 103	331 682	5 581 590
Net book value as at 31 March 2012	6 759 345	1 489 459	130 484	8 379 288

REGIONAL COUNCIL OF THE KUNENE REGION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH (continued)

2013	Land and buildings	Machinery & vehicles	Office furniture, equipment & computer	Total
	N\$	N\$	N\$	N\$
Cost as at 1 April 2012	7 979 150	5 040 450	741 545	13 761 145
Additions/(Disposals)	-	131 470	214 852	346 322
Cost as at 31 March 2013	7 979 150	5 171 920	956 397	14 107 467
Accumulated depreciation as at 1 April 2012	1 219 805	3 550 990	611 059	5 381 854
Charge for the year	172 603	324 186	59 564	556 353
Accumulated depreciation as at 31 March 2013	1 392 408	3 875 176	670 623	5 938 207
Net book value as at 31 March 2013	6 586 742	1 296 744	285 774	8 169 260

2013	2012
N\$	N\$

4. CASH AT BANK

FNB Cheque account	-	56 700
FNB Revenue account	175 572	40 333
FNB Build Together Receipt account	505 427	319 294
FNB Build Together Revolving account	9 710 371	119 289
FNB Build Together call account	701 117	843 027
FNB Capital Project call account	1 247 623	16 121 835
FNB Capital cheque account	907 730	-
FNB Disaster Fund account	9 077	312 915
KRC Dev Trust Fund	8 982	4 048
FNB HIV/AIDS account	65 574	82 519
FNB Call account 364	973 573	2 642 317
BWK Cash for Work account	5 615 019	3 510 072
FNB Gender Equality account	-	59 992
Inter Bank transfer account	-	5 200
FNB Call account 700	666 431	2 815 150
BWK call account 7908	5 793 550	-
Fransfontein Std Receipt	44 333	-
	26 424 379	26 932 691

5. OTHER CURRENT ASSETS

Sundry debtors	402 095
Salary and wages	615 494
Provision account/BT material supplied	4 686 608
Value Added Tax	2 641 405
Ministry of Gender, Equality and Child Welfare	-
Ministry of Education	-
Disaster Fund OPM	-
	8 345 602

REGIONAL COUNCIL OF THE KUNENE REGION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH (continued)

	2013	2012
	N\$	N\$
6. CURRENT LIABILITIES		
Bank overdraft		
FNB Cheque account	7 309	-
BWK Cash for Work call account	-	5 008 594
Cash control account	-	164 240
FNB Gender Equality	143 887	-
FNB Capital projects cheque account	-	268 743
	151 196	5 441 577
7. INTEREST EARNED		
Interest and dividends	566 362	335 338
	-	-
	566 362	335 338
8. INCOME		
Subsidies & grants	21 150 296	20 100 000
5% Assessment rates	151 713	-
Settlement income	12 620	-
Grants and donations	4 031 892	168 237
Other income	1 469 454	137 646
Delegated functions	1 903 152	154 261
	28 719 127	20 560 144
9. EXPENDITURE		
Personnel expenditure	12 306 552	10 548 209
Transport charges	2 956 632	760 919
Subsistence and travel	3 422 544	3 172 258
Property rental	519 056	298 886
Utilities	2 773 963	2 776 928
Maintenance and repair	455 341	1 654 208
Other services and expenditure	2 920 804	3 115 901
Grants and contributions	4 121 297	931 293
Settlement Areas	1 600	-
Interest payable	1 074	-
Depreciation	565 852	835 256
Delegated functions	2 211 501	355 497
	32 256 216	24 449 355