

Republic of Namibia



AUDIT REPORT ON THE ACCOUNTS OF THE

FISHERIES OBSERVER FUND

FOR THE FINANCIAL YEARS ENDED 31 MARCH 2002,
2003, 2004 AND 2005

Published by authority

Price (Vat excluded): N\$ 17.40
Report no: 590

Office of the Auditor-General

2002, 2003, 2004 & 2005

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 Fisheries Observer Fund for the financial years ended 31 March 2002, 2003, 2004 and 2005, 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 2008

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT of the AUDITOR-GENERAL
on the ACCOUNTS of the FISHERIES OBSERVER FUND
for the financial years ended 31 MARCH 2002, 2003, 2004 AND 2005**

1. INTRODUCTION

The accounts of the Fisheries Observer Fund (the Fund) for the financial years 2002, 2003, 2004 and 2005 are being reported on in accordance with the provisions set out in the State Finance Act, 1991 (Act 31 of 1991) and the Marine Resources Act, 2000 (Act 27 of 2000).

2. ESTABLISHMENT

The Fisheries Observer Fund was established in terms of Section 46(1) of the Marine Resources Act, (Act 27 of 2000). The following Revenue should be paid into the Fund:

- (a) moneys collected in respect of the levy imposed under section 44(4);
- (b) moneys appropriated by Parliament for the realization of the objects of the Fund;
- (c) interest on investments;
- (d) moneys which, with the approval of the Minister and the Minister responsible for finance, may accrue to the Fund from any other source; and
- (e) interest recovered by virtue of section 44(6).

The Fund shall be administered by the Permanent Secretary of Fisheries and Marine Resources who is also the Accounting Officer.

3. FINANCIAL STATEMENTS

When the staff of the Office of the Auditor-General enquired about the whereabouts of the financial records for the 2001/02 financial year the auditing and accounting firm who is responsible to do the accounting work on behalf of the Fund responded as follows:

“We are only able to supply your Office with a copy of the draft financial statements. All electronic cash-books and general ledgers and trial balances were removed from our systems in terms of our firm’s standard risk control policies. Bank reconciliations and debtors’ age analysis were also deleted.

The bank statements and returned cheques for the year should be available at the offices of the Fisheries Observer Agency (F.O.A.). The F.O.A. signed a list of documents which were handed over to F.O.A. for safe keeping in December 2003. Mr Itenge (employee of this Office) acknowledged receipt of such documents (list of documents handed over). Amongst the documents so handed over to the F.O.A. were the trip sheets of the observers from which the income was generated and the salaries that were paid.”

The auditors requested these documents and were informed that the boxes were packed away in a store room and it will take a long time to find the boxes with the relevant information. Due to time constraints it was decided to continue with the audit of the 2005/06 financial year and not to waste time on searching for the accounting records.

The figures in this report regarding the 2001/02 financial year have thus not been audited.

It is strongly recommended that the Fund should keep all accounting records on their premises until the audit is completed. The Accounting Officer is also reminded that, even if an accounting firm is need as their agent, the accounting records are their property and not the agent’s and it is their responsibility to ensure safeguarding of all these records.

The Fund's financial statements for the other years under review were audited in terms of Section 46(7) of the Act and are filed in the Office of the Auditor-General. Those published in this report are:

Annexure A:	Balance sheet
Annexure B:	Income and expenditure statement
Annexure C:	Notes to the financial statements

4. SCOPE OF THE AUDIT

The Accounting Officer of the Fund 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 staff of the Office of the Auditor-General 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 Fund in the preparation of the financial statements and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed; and
- (c) evaluation of the overall adequacy of the presentation of information for its inclusion 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.

5. AUDIT OBSERVATIONS

5.1. Management letter

A management letter was addressed to the Accounting Officer of the Fund on 28 June 2006 addressing all the audit observations for the years under review. A response was received on 10 August 2006 dealing with the matters raised. In the response it was indicated that the trial balances were adjusted where necessary. The financial statements published in this report are the adjusted figures as provided by the Fund. It should be mentioned that these adjustments were not audited due to time and distance constraints. The adjustments will be audited during the next visit to the Fund and if deemed necessary, reported on in the next report.

It was however decided to still report on the following observations:

5.1.1 Budget

The auditors established during the audit that the Fund has never drawn up a budget of its revenue and expenditures for the 2002/03 and 2003/04 financial years. This is in contravention with Section 46(3) of the Act which stipulates as follows:

“The Fund shall be administered by the Permanent Secretary, with the approval of the Minister responsible for finance, in accordance with an estimate or a supplementary or revised estimate of revenue and expenditures approved by the Minister, after consultation with the Advisory Council, and by the Minister responsible for finance, and no expenditure payable from the Fund may be incurred except in accordance with such approved estimate of expenditures.”

The Fund prepared a budget as from the 2004/05 up to the 2007/08 financial year.

5.1.2 Revenue

5.1.2.1 Observer income

Financial year: 2002/03

Observer trip claim form

The audit revealed that some observers' trip claim forms were not fully completed as required.

The form has a provision for an amount to be invoiced to the fishing right holder. In some instances the provided space is not completed. Regular changes are made on these forms, without the signature of the person who made the alterations on the mentioned face value document. Similar findings were encountered when auditing revenue for the other financial years.

Management comment

“Emphasis was placed on the proper signing of departure and arrival times of vessels. Subsequent to processing, differences sometimes had to be conceded to by Ministry officials (i.e. with concessionaires) and adjustments arose.”

5.1.3 Expenditure

5.1.3.1 Non-submission of expenditure vouchers

For the selected sample on observer trip claim forms, claim form no: 1081, issued on the 12th October 2003, could not be provided for audit purposes. Supporting documents for the following payments could not be submitted:

Financial year: 2004/05

Date	Cheque No.	Beneficiary	Amount
			N\$
01.04.2004	7182	P. Siloka Project	11 738.90
01.04.2004	7215	E.P Shilongo	13 787.20
15.04.2004	7244	N. Uhoivgova	14 181.36
28.04.2004	7287	Standard Bank	166 708.75
24.06.2004	7347	FNB	34 399.27
28.07.2004	7403	Commercial Bank	75 001.59
16.12.2004	7667	NedBank	87 250.80
01.04.2004	7196	Receiver of Revenue	500 925.93

Financial year: 2003/04

Date	Cheque No	Beneficiary	Amount
			N\$
29.09.2003	6904	L P N Muhoney	2 703.58
02.10.2003	6942	Shiweda	4 386.00
14.10.2003	6948	Mungungu (PWC)	287.50
30.01.2004	7108	Receiver of Revenue	109 728.52
28.11.2003	7032	Sanlam	63 512.88
27.11.2003	7025	Prosperity Health	71 777.00

Financial year: 2002/03

No	Date of Payment	Beneficiary	Amount
			N\$
1.	19. 08. 2002	Receiver of Revenue	47 634.20
2.	29. 11. 2002	V. Heerden	1 100.00

Expenditure vouchers should be filed properly and kept in safe custody for audit purposes.

Management comment

“ We concur with the recommendation. It could happen that documentation drawn subsequently from files to solve queries could be misfiled or filed in a next pay run and not be properly referenced. However, we believe that this happened only occasionally.”

5.1.3.2 VAT

Financial year: 2002/03

VAT – Services rendered are not subjected to VAT, but VAT was charged and the amount of N\$ 1 746 398 shown as being payable to the Receiver of Revenue is reflected in the balance sheet. The audit calculated the amount to be N\$ 1 852 445. The difference of N\$ 106 047 remained unexplained.

Financial year 2003/04

According to the findings of the audit, an amount of N\$ 46 581 was still owed to the Receiver of Revenue up to the end of September 2003. The balance sheet does not reflect this liability but instead shows a debtor under current assets of N\$ 4 390.

The necessary corrections should be made in the current financial year.

5.1.4 Bank charges

Financial year: 2004/05

(a) A difference of N\$ 18 924 was discovered between the financial statement and the bank statements.

Bank charges to the value of N\$ 22 493 are included in the general ledger but could not be verified neither could these be explained by the client. Included in this amount is N\$ 859 which was posted to the general ledger on a monthly basis.

No comment was received from management for this financial year. The other financial years were answered satisfactory.

Financial year 2002/03

The audit confirmed bank charges to the amount of N\$ 60 562 whereas the financial statements show this amount to be N\$ 53 798. The difference of N\$ 6 764 remained unexplained.

5.1.5 General

5.1.5.1 Accounts receivable

The Fund maintains very high amounts of debts on the observers and non-observers income due from the fishing companies.

This situation introduces the risk that bad debts may occur from time to time. Accounts receivable may be outstanding for an unacceptable long period. Adequate provision should also be made annually to cover possible bad debts.

The Fund is required to implement measures of control and recover revenue due within a reasonable period and to ensure that control measures are put in place.

Management comment

“The minutes of the committee meetings held show that, on various occasions, the committee pleaded with the officials not to allow a vessel to leave port before paying its outstanding account. Officials were specifically authorised by the Ministry to take such measures in order to bring debt collections under control”

5.1.5.2 Contributions to Fisheries Observer Agency (FOA)

The Fund disclosed salaries and wages on its income statement in respect of payments made to employees of FOA.

The Permanent Secretary is advised that the Observer Fund should pay a lump sum of the approved estimated budget to FOA on a quarterly basis or any other agreed intervals, until such time the FOA manages its own financial affairs.

Management comment

“We concur with the recommendation.”

6. ACKNOWLEDGEMENT

The assistance and co-operation by the management and staff of the Fisheries Observer Fund during the audit is appreciated.

7. AUDIT OPINIONS

7.1 Disclaimed audit opinion (2001/02)

The accounts and the financial statements of the Fisheries Observer Fund for the financial year ended 31 March 2002 could not be audited by me in terms of Section 46(7) of the Act, read with Section 25(1)(b) of the State Finance Act, 1991 due to the unavailability of financial records as mentioned in paragraph 3 of this report. As such I am unable to express an opinion on these financial statements.

7.2 Qualified audit opinion (2002/03, 2003/04 and 2004/05)

The accounts and the financial statements of the Fisheries Observer Fund for the financial years ended 31 March 2003, 2004 and 2005 were audited by me in terms of Section 46(7) of the Act, read with Section 25(1)(b) of the State Finance Act, 1991.

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

- Non-submission of supporting documents for expenditure transactions.
- VAT payable is understated by N\$ 106 047 (2002/03).
- No provision has been made for bad debts and debtors may as such be considerably overstated.

Except for the above-mentioned items, in my opinion, the financial statements fairly present the financial position of the Fund and the results of its operations for the years ended 31 March 2003, 2004 and 2005.

WINDHOEK, May 2008

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

FISHERIES OBSERVER FUND

BALANCE SHEETS AS AT 31 MARCH

	Notes	2005 N\$	2004 N\$	2003 N\$	2002 N\$
ASSETS					
Current assets		10 938 183	13 156 468	9 488 231	4 257 930
Accounts receivable and prepayments	2	4 794 323	4 565 349	2 803 806	2 269 358
Cash and cash equivalents	3	6 143 860	8 586 729	6 684 425	1 988 572
VAT receivable		-	4 390	-	-
Total Assets		10 938 183	13 156 468	9 488 231	4 257 930
EQUITY AND LIABILITIES					
Funds					
Accumulated surplus	4	10 938 183	13 156 468	7 741 833	4 257 930
Current liabilities					
VAT payable		-	-	1 746 398	-
Total Owner's Interest		10 938 183	13 156 468	9 488 231	4 257 930

ANNEXURE B

FISHERIES OBSERVER FUND

INCOME AND EXPENDITURE ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 MARCH

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
	N\$	N\$	N\$	N\$
Revenue	16 887 412	17 118 938	14 925 014	8 043 070
Observers	14 363 451	13 400 851	11 856 062	6 296 387
Non-observers	2 191 179	3 389 535	2 776 916	1 579 172
Interest income	332 782	328 552	292 036	167 511
Less: Operating Expenses	16 055 697	12 251 947	11 264 340	7 802 389
Salaries and wages	15 918 498	11 889 145	10 995 633	7 749 018
Bad debts	-	42 126	-	-
Bank charges	137 199	59 5157	53 798	35 736
Accounting fees (for FOA)	-	261 119	214 909	17 635
OPERATING PROFIT/ (LOSS) FOR THE YEAR	831 715	4 866 991	3 660 674	240 681
Grant from the Ministry of Fisheries and Marine Resources	-	1 747 644	1 347 545	-
Less: Transfer to Fisheries Observer Agency	(3 050 000)	(1 200 000)	(1 300 000)	-
Surplus/(deficit) for the year	(2 218 285)	5 414 635	3 708 219	240 681

FISHERIES OBSERVER FUND**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 MARCH****1. BASIC OF PREPARATION**

The financial statements are prepared on the historical cost basis.

1.1.1 Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

1.1.2 Revenue recognition

Revenue is recognised in the financial statements at date that services are rendered.

2. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
	N\$	N\$	N\$	N\$
Trade debtors				
Total trade debtors (new)	4 107 521	3 884 341	2 083 806	2 269 358
Total trade debtors (old)	<u>686 802</u>	<u>681 008</u>	<u>-</u>	<u>-</u>
	<u>4 794 323</u>	<u>4 565 349</u>	<u>2 803 806</u>	<u>2 269 358</u>

3. CASH AND CASH EQUIVALENTS

Bank balances	<u>6 143 860</u>	<u>8 586 729</u>	<u>6 684 425</u>	<u>1 988 572</u>
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4. ACCUMULATED SURPLUS

Balance on 1 April	13 156 468	7 741 833	4 257 930	4 017 249
Surplus/(deficit) for the year	(2 218 285)	5 414 635	3 708 219	240 681
Corrections: Bad debt provision	<u>-</u>	<u>-</u>	<u>(224 316)</u>	<u>-</u>
	<u>10 938 183</u>	<u>13 156 468</u>	<u>7 741 833</u>	<u>4 257 930</u>