



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

# TRUST FUND FOR REGIONAL DEVELOPMENT AND EQUITY PROVISIONS

FOR THE FINANCIAL YEARS ENDED 31 MARCH 2011

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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 Trust Fund for Regional Development and Equity Provisions for the financial years ended 31 March 2011 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 2012**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE  
TRUST FUND FOR REGIONAL DEVELOPMENT AND EQUITY PROVISIONS  
FOR THE FINANCIAL YEAR ENDED  
31 MARCH 2011**

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**1. INTRODUCTION**

The Trust Fund for Regional Development and Equity Provisions was established in terms of section 2 of the Trust Fund for Regional Development and Equity Provisions Act, 2000 (Act 22 of 2000).

The firm PKF (Namibia) has been appointed in terms of Section 26 (2) of the State Finance Act, 1991, to audit the accounts of the Board on behalf of the Auditor-General and under his supervision.

The Trust Fund for Regional Development and Equity Provisions main objectives are:

- a) to financially assist with:
  - i) The development of Regions and Local authorities; and
  - ii) The implementation, through the active participation of the local people and in accordance with the Decentralisation Enabling Act, 2000, of the decentralisation programmes at regional and local authority levels in Namibia;
- b) to provide, either at its own initiative or when so requested by a Regional Council or a Local Authority Council, and on the terms and conditions to be determined by the Board, funding for
  - i) Technical assistance, guidance and training in the identification, planning, preparation, appraisal, monitoring, evaluation, financing, implementation or management of development projects; and
  - ii) The formulation of specific projects, needs or proposals in regions or local authorities;
- c) to conduct negotiations in respect of and to control business ventures on behalf of Regional Councils and Local Authorities; and
- d) to cooperate and co-ordinate its activities with any person or body who or which has an interest, or is actively involved in the implementation of any decentralisation programme in Namibia.

The Board currently consist of (10) members, all appointed by the Ministry of Regional and Local Government, Housing and Rural Development, in terms of Sections 5 of the Act.

Figures in the report are rounded off to the nearest Namibia Dollar. Deficits are indicated in brackets.

**2. FINANCIAL STATEMENTS**

The audited financial statements published in this report are filed in the Office of the Auditor-General and comprise the following:

- Annexure A: Balance Sheet
- Annexure B: Income and expenditure statement
- Annexure C: Statement of changes in equity
- Annexure D: Cashflow statement
- Annexure E: Notes to the Financial Statements

### **3. SCOPE OF THE AUDIT**

The Chairperson of the Trust 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 the said firm, 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 chairperson of the trust fund in the preparation of the financial statements and of whether the accounting policies are appropriate to the trust fund's circumstances, consistently applied and adequately disclosed; and
- (c) evaluation of the overall adequacy of the presentation of information 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.

### **4. AUDIT OBSERVATIONS AND COMMENTS**

During the audit of the Trust Fund the following observations were made for the financial year under review:

#### **4.1 STATEMENT OF COMPREHENSIVE INCOME ITEMS**

##### **4.1.1 Income received from Ministry of Regional and Local Government, Housing and Rural Development and from the Ministry of Finance.**

The auditors noted that the Trust Fund has received funds from the Ministry of Regional and Local Government, Housing and Rural Development ("MRLGHRD") that are to be spend on special purposes, which are not always in accordance with the objectives and purposes of the Trust Fund.

At year end, the undistributed portion of the funds received, forms part of the net surplus of the Trust Fund. These should be shown as a net liability or transferred to a specific reserve created for such purposes.

##### **4.1.2 Verification of expenditure:**

All expenditure selected for testing, based on the materiality calculated was successfully verified to the supporting documentation.

Included in project expenses are amounts of N\$ 427 717 for the Karibib Municipality project and N\$ 818 682 for the Ondangwa Municipality project that related to prior period. If the expenses had been

recognised in the correct accounting period, the effect would be to reduce project expenses for the year by N\$ 1 246 399 and reduce opening surplus by N\$ 1 246 399.

These should be accounted for as a prior year expense and the opening balance surplus and the current year project expenses should decrease accordingly.

### **Management comment**

The Board took note of the finding and indicated that the error was rectified during 2011/2012 financial year.

## **4.2 EQUITY AND LIABILITIES**

### **4.2.1 PAYE obligations**

#### **Audit finding**

During the audit the auditors noted that a lump sum of N\$ 192 630.98 was paid for PAYE deducted in the 2005 and 2006 financial years. The Fund must prepare PAYE returns and PAYE reconciliations for those periods and submit them to the Receiver of Revenue. Currently, the N\$ 192 631 is stated as an unallocated credit on the tax status report. The auditors want to point out that a late submission will trigger possible penalties and interest on late payments. The penalties and interest up to the year ended 31 March 2011 will amount to N\$ 192 631 and N\$ 435 368 respectively.

A liability to the amount of N\$ 435 367 for interest should be recognised at year end.

Furthermore, the auditors found that the tax status report with regards to PAYE from the Receiver of Revenue shows penalties and interest outstanding to the amount of N\$ 3 316.

## **4.3 GENERAL**

### **4.3.1 Communication and enforcement of integrity and ethical values**

The Board of Trustees meet regularly, and the minutes to these meetings are kept. In these meetings all significant issues relating to the fund are being discussed and documented.

The auditors noted that there were only two meetings held during the year audited (i.e.: on the following dates, 3 August 2010 and 13 October 2010). As per the Trust Fund for Regional Development and Equity Provisions Act, 2000 Section 8(1), "The Board shall not, without the written consent of the Minister, hold less than four meetings during any year". Thus not all meetings as prescribe by the Act were held during the year under review.

Both minutes of meetings mentioned above were not signed as proof of approval.

Minutes should be signed after the meeting was held.

### **4.3.2 Participation of those charged with governance**

During the confirmation of the control environment it was noted that the Board of trustees are also involved in the day - to - day operation of the trust; in the approval of applications of the projects, and the signatories on payments.

## **Recommendation**

It is recommended that at least one meeting be held per quarter during the financial year as required under the Trust Fund for Regional Development and Equity Provisions Act, 2000 Section 8(1).

The Board should also not be involved with the day-to-day operation of the Trust as it will compromise its independence.

### **4.3.3 Duties of the Board**

The Auditors found that the Board does not fulfil all the duties as per the stipulation of the Trust Fund for Regional Development and Equity Provisions 2000, (Act 22 of 2000). Paragraph 6 requires that:

“The Board, acting on behalf of the Fund, shall –

- prepare, as soon as practicable after year end of each financial year, a revenue and expenditure account of the Fund relating to, and a balance sheet of the assets and liabilities of the Fund at the end of, such financial year, and shall submit such accounts and balance sheets to the Minister, together with a separate report on the activities of the Board in respect of every Region during the financial year concerned;
- determine the allocation of funds from the Trust Fund to the Housing Revolving Fund established by regional councils and local authority councils in terms of section 8 of the National Housing Development Act, 2000, and the manner in which such funds shall be paid over, including the amounts to be so paid over;
- prepare, subject to subsections (2) and (3), written guidelines containing
  - (i) the Fund’s –
    - (a) interpretation of its objects
    - (b) approach or policy relating to economic development in any specific or general field, form, manner or area; and
    - (c) preferences and priorities relating to economic development; and
  - (ii) any other matter relating to the achievement of the Fund’s objects which it considers necessary or useful to be determined,
- And shall not later than six months after the constitution of the Board in terms of section 5, submit the guidelines so prepared to the Minister; and
- cause, subject to section 8(11)(b), minutes to be kept of the proceedings at the meetings of the Board, which minutes shall be submitted to the Minister within a period of 14 days after the closing of the meeting concerned.”

According to the auditors knowledge obtained during the audit, these paragraphs, except for the preparation of the annual financial statements are not complied with.

## **5. QUALIFIED AUDIT OPINION**

The accounts of the trust fund for the financial year ended 31 March 2011 have been audited in terms of Section 25 (1) of the State Finance Act, 1991 read with Section 9(1) of the Trust Fund for Regional Development and Equity Provisions, Act, 2000 (Act 22 of 2000).

### **Basis for qualified opinion**

The auditors noted two invoices amounting to N\$ 427 717 and N\$ 818 682 which are recorded as current year expenses, but relate to prior year.

The entity has received funds to be incurred for a specific purpose and thus have conditions attached to them. At year-end, the balance of the undisbursed funds forms part of the accumulated surplus of the entity. Since there is a performance condition attached to the funds received, the amount should be disclosed as liability at year end. Had the liability been recognised, the surplus would decrease by N\$ 28 565 797 and liabilities would increase by N\$ 28 565 797.

In my opinion, except for the possible effects of the matters described in the basis of qualified opinion paragraph, the financial statements of the Trust Fund for Regional Development and Equity Provisions have been prepared for the year ended 31 March 2011 and in all material aspects, in accordance with the basis of accounting described in note 1 to the financial statements.

#### **Emphasis of matter**

The following issues were noted during the audit:

- Not all meetings as required by the Trust Fund for Regional Development and Equity Provisions Act, (Act 22 of 2000) have been held by the Trust during the year under review; and
- The Board did not fulfil all their statutory duties as per paragraph 6, subsection (e) to (h) of the Trust Fund for Regional Development and Equity Provisions Act, 2000 (Act 22 of 2000), except for the preparation of the annual financial statements.

**WINDHOEK , August 2012**

**JUNIAS ETUNA KANDJEKE  
AUDITOR- GENERAL**

## ANNEXURE A

## TRUST FUND FOR REGIONAL DEVELOPMENT AND EQUITY PROVISIONS

## BALANCE SHEETAS FOR THE YEAR ENDED 31 MARCH

	Note	2011 N\$	2010 N\$
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Property, plant and equipment	2	484 115	-
<b>Current Assets</b>			
Trade and other receivables	3	555 879	-
Cash and cash equivalents	4	158 138 214	112 722 405
<b>Total Assets</b>		159 178 208	112 722 405
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Accumulated surplus		159 178 208	112 722 405
<b>Total Equity and Liabilities</b>		159 178 208	112 722 405

## ANNEXURE B

**TRUST FUND FOR REGIONAL DEVELOPMENT AND EQUITY PROVISIONS**  
**INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH**

	Notes	2011 N\$	2010 N\$
<b>Revenue</b>			
Trust statutory income	5	30 000 000	30 000 000
<b>Other income</b>			
Grant received - Traditional authority buildings		3 499 993	9 470 930
Grant received - Shanghai World Expo		-	2 000 000
Grant received - Fire fighting equipment		77 465 675	-
Grant received - Adjusted annual salaries		6 600 000	-
Grant received - City of Windhoek		10 000 000	-
Grant received - Amount to LA's and RC's		11 000 000	-
		138 565 668	41 470 930
<b>Expenditure</b>			
		99 624 714	18 513 075
Accounting Fees		38 984	-
Advertising & Promotion		14 201	2 021
Bank charges		10 185	1 574
Depreciation		37 290	-
Employee cost		1 027 604	39 623
Entertainment		-	670
Lease rentals on operating lease		188 190	-
MRLGHRD-Adjusted annual salaries		5 873 306	-
MRLGHRD-Amount to LA's and RC's		11 000 000	-
MRLGHRD-City of Windhoek		10 000 000	-
MRLGHRD-Fire fighting equipment		53 623 502	-
MRLGHRD-Illegal grazing expenses		14 886	53 000
MRLGHRD-Mariental flood account		5 000 000	-
MRLGHRD-Shanghai world expo expense		-	1 991 597
MRLGHRD-Traditional Authority buildings		3 982 396	-
Postage		424	342
Printing and stationary		17 844	7 073
Project - Karasburg Municipality		3 076 397	-
Project - Karibib		427 717	3 879 942
Project - Ondangwa Sewer		818 683	1 788 250
Project - Ruacana		-	293 733
Project - Farm Emmerentia no 380		-	5 315 000
Project - Gibeon		-	67 506
Project - Rundu		3 791 976	5 058 232
Project - Warmbad		629 461	-
Refreshments		2 210	-
Sitting allowance - board meetings		7 000	2 000
Telephone		17 971	-
Travel and accommodation		24 487	12 512

<b>Operating surplus</b>		38 940 954	22 957 855
Investment revenue	6	7 514 968	5 538 192
Finance cost		(119)	-
<b>Surplus for the period</b>		<u>46 455 803</u>	<u>28 496 047</u>

**TRUST FUND FOR REGIONAL DEVELOPMENT AND EQUITY PROVISIONS**  
**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH**

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	<b>Accumulated surplus</b>	<b>Total equity</b>
	N\$	N\$
<b>Balance at 1 April 2009</b>	<b>84 226 358</b>	<b>84 226 358</b>
Changes in equity		
(Deficit)Surplus for the year	28 496 047	28 496 047
Total changes	28 496 047	28 496 047
<b>Balance at 1 April 2010</b>	<b>112 72 405</b>	<b>112 722 405</b>
Changes in equity		
Surplus for the year	46 455 803	46 455 803
Total changes	46 455 803	46 455 803
<b>Balance at 31 March 2011</b>	<b>159 178 208</b>	<b>159 178 208</b>

## ANNEXURE D

## TRUST FUND FOR REGIONAL DEVELOPMENT AND EQUITY PROVISIONS

## STATEMENT OF CASH FLOWS AS FOR THE YEAR ENDED 31 MARCH

	Notes	2011 N\$	2010 N\$
<b>Cash flows from operating activities</b>			
Cash used in operation	7	38 422 365	22 957 855
Interest income		7 514 968	5 538 192
Finance cost		(119)	-
<b>Net cash from operating activities</b>		45 937 214	28 496 047
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(521 405)	-
<b>Net cash from investing activities</b>		(521 405)	-
<b>Total cash movement for the period</b>		45 415 809	28 496 047
Cash at the beginning of the period		112 722 404	84 226 357
<b>Total cash at end of the period</b>	4	158 138 213	112 722 404

## TRUST FUND FOR REGIONAL DEVELOPMENT AND EQUITY PROVISIONS

## NOTES TO THE ANNUAL FINANCIAL STATEMENT

**1 Presentation of annual financial statements**

The annual financial statements have been prepared on the historical cost basis, and incorporate the principal account policies set out below.

These accounting policies are consistent with the previous period.

**1.1 Property, plant and equipment**

All property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributed to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to the statement of comprehensive income during the reporting year in which they are incurred.

Depreciation is charged to write off the depreciable amount of the assets, over the estimated useful lives, using a method that reflects the pattern in which the assets' future economic benefits are expected to be consumed by the company.

Depreciation is calculated on the straight line method to write off the cost of each asset, to their residual values over the assets' estimated useful lives, as follows:

Furniture and fittings	5 years
Motor vehicles	4 years
Office equipment	3 years
Computer equipment	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least at each reporting date. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal are determined by comparing the disposal proceeds with the carrying amount and are included in the statements of comprehensive income. On disposal of revalued assets, amounts in revaluation and other reserves relating to that asset are transferred to retained earnings.

**1.2 Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are carried at the lowest levels for which they are separately identifiable cash-generating units.

### 1.3 Financial instruments

#### Initial recognition

The trust classified financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the trust's statement of financial position when the trust becomes party to the contractual provisions of the instruments.

#### Loans to (from) related parties

These include loans to related parties and are carried at amortised cost less any accumulated impairment.

#### Trade and other payables

Trade and other payables are carried at amortised cost.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### Bank overdraft and borrowings

Bank overdraft and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction cost) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the trust's accounting policy for borrowings costs.

### 1.2 Revenue

Revenue comprise of money appropriated by Parliament and donations and contributions made to the fund.

Interest is recognised, in profit or loss, using the effective interest rate method.

### 1.3 Borrowing cost

Borrowing cost is recognised as an expense in the period in which they are incurred.

## 2. Property, plant and equipment

	2011			2010		
	Cost / valuation	Accumulated depreciation	Carrying value	Cost / valuation	Accumulated depreciation	Carrying value
	N\$	N\$	N\$	N\$	N\$	N\$
Furniture and fixtures	160 181	(10 679)	149 502	-	-	-
Motor vehicles	218 572	(9 107)	209 465	-	-	-
Office equipment	22 755	(1 934)	20 821	-	-	-
IT equipment	119 897	(15 570)	104 327	-	-	-
<b>Total</b>	<b>521 405</b>	<b>(37 290)</b>	<b>484 115</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
	N\$	N\$	N\$	N\$
Furniture and fixtures	-	160 181	(10 679)	149 502
Motor vehicles	-	218 572	(9 107)	209 465
Office equipment	-	22 755	(1 934)	20 821
IT equipment	-	119 897	(15 570)	104 327
	-	521 405	(37 290)	484 115
			<b>2011</b>	<b>2010</b>
			N\$	N\$
<b>3. Trade and other receivables</b>				
Value added tax			555 879	-
			<b>2011</b>	<b>2010</b>
			N\$	N\$
<b>4. Cash and cash equivalents</b>				
Cash and cash equivalents consist of:				
Nedbank current account			3 705 717	31 013 948
Nedbank call account			154 432 497	81 708 457
			158 138 214	112 722 405
<b>5. Revenue</b>				
Trust statutory income			30 000 000	30 000 000
Trust statutory income comprises of:				
Transfer from Ministry of RLGHRD			30 000 000	-
Transfer from finance			-	9 900 000
Transfer from finance			-	20 100 000
			30 000 000	30 000 000
<b>6. Investment revenue</b>				
<b>Interest revenue</b>				
Interest received - call account			7 481 403	5 207 108
Interest received - current account			33 565	331 084
			7 514 968	5 538 192

	<b>2011</b>	<b>2010</b>
	N\$	N\$
<b>7. Cash generated from operations</b>		
Surplus	46 455 803	28 496 047
<b>Adjustments for:</b>		
Depreciation and amortisation	37 290	
Interest received	(7 514 968)	(5 538 192)
Finance cost	119	-
<b>Change in working capital:</b>		
Trade and other payables	(555 879)	-
	<u>38 422 365</u>	<u>22 957 855</u>