



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

NATIONAL ARTS COUNCIL

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2012

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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 National Arts Council for the financial year ended 31 March 2012, in terms of Article 127(2) of the Namibian Constitution. My report is transmitted to the Minister of Youth, National Service, Sport and Culture in terms of Section 17(1) of the National Arts Fund Act, 2005 (Act 1 of 2005) to be laid upon the Table of the National Assembly by the Minister of Youth, National Service, Sport and Culture in terms of Section 17(3)(c) of the Act.

WINDHOEK, December 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR- GENERAL
ON THE ACCOUNTS OF THE NATIONAL
ARTS COUNCIL OF NAMIBIA
FOR THE FINANCIAL YEAR
ENDED 31 MARCH 2012**

1. INTRODUCTION

The Council was established in terms of Section 5 of the National Arts Fund of Namibia Act, 2005 (Act No. 1 of 2005), to promote and develop the arts in Namibia; to establish a Council to control and manage the fund and to provide for related matters. The Council's income is derived mainly from Government funds.

The accounts of the National Arts Council for the year ended 31 March 2012 are being reported on in accordance with the provisions set out in the State Finance Act, 1991 (Act 31 of 1991) and the National Arts Fund Act, 2005 (Act 1 of 2005)

The Council consists of seven (7) members; (a) the permanent secretary or any person in the Ministry delegated to represent the Permanent Secretary; (b) a staff member, designated by the Minister, who is responsible for the arts and who holds a rank not less than that of the Deputy Director; (c) a staff member, appointed by the Minister responsible for finance who holds a rank or grade equal to or higher than that of Deputy Director; (d) four persons nominated for appointment by the Minister, Institutions, Organisations and individuals with vested interests in arts. The objectives of the Fund are stipulated in terms of Section 4 of the National Arts Fund of Namibia Act (Act no. 1 of 2005) as follows:

- (a) to encourage participation of individual persons, groups, institutions and organisations in arts programmes;
- (b) to expand, improve, upgrade and develop arts activities and related educational services;
- (c) to support institutions and other bodies engaged in arts activities;
- (d) to provide and improve arts facilities especially for the socio-economically disadvantaged communities;
- (e) to grant scholarships and financial support relating to arts, to individuals; and
- (f) to raise funds from any source for the promotion and development of arts; and
- (g) to finance projects and programmes relating to arts;

2. FINANCIAL STATEMENTS

The 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 Statement
- Annexure C: Cash flow statement

3. SCOPE OF THE AUDIT

Management's Responsibility for the Financial Statements

The Accounting Officer of the Board is responsible for the preparation and fair presentation of these financial statements and of 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 the opinion of the Auditor-General to the National Assembly. The audit was conducted in accordance with International Standards on Auditing. Those standards require the auditor to 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 amount and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 statement 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 the management, as well as evaluating the overall presentation of the financial statements.

4. AUDIT ODSERVATIONS

4.1.1 Internal Audit

The National Arts Council does not have an Internal Audit department and Audit Committee to enhance the Council's oversight responsibilities and to evaluate the effectiveness of internal controls regularly.

4.1.2 Strategic Plan

The Councils strategic plan was not approved and implemented at the time of the audit, hence its performance in relation to performance contracts and strategic objectives could not be evaluated.

4.1.3 Risk Management Framework

The Council did not provide a risk assessment profile in conjunction with the Council's Strategic Objectives and also to evaluate the effectiveness of the control environment.

4.1.4 Information Technology Environment

The Council for the year under review outsourced its IT function to a 3rd party, although confidentiality was ensured in the contract the auditors observed that computer anti-viruses were not updated regularly and some computers lacked anti-viruses. Passwords were not updated and renewed regularly. No regular system backups were performed. No access control (physical & logical) to the IT environment was observed. The server was unprotected and lacked basic environmental controls. There was no disaster recovery or business continuity plan in place at the time of the audit.

4.1.5 Overall Internal Control environment.

For the fourth consecutive year, the auditors observed with great concern that the Council did not have an approved and implemented financial policy to direct and control financing activities. Furthermore, the auditors found that the Council did not possess a human resource and development policy to direct and control the human resource function within the Council which resulted in numerous overrides of management on controls due to Board members actively involved in the administrative functions of the Council.

Recommendation

The Council is urged to prepare, approve and implement the financial and human resource policies and procedures as a matter of urgency to avoid possible risks the council might be exposed to.

Management comments

This is true reflection on the way processes within the National Arts Council of Namibia was dealt with, due to a lack of Financial and Human Resource policies. However, the Council is in process of reviewing these policies for approval and implementation as a Deputy Director has been seconded for this purposes.

4.2. Presentation of annual financial statements.

4.2.1 The financial statements submitted by the National Arts Council of Namibia did not comply with the Generally Accepted Accounting Practice (G.A.AP) standards with regards to presentation.

The financial statements did not include the following information:

- Comparative figures
- Notes to the annual financial statements
- Cash flow statement

4.2.2 The accumulated fund balance in the income statement differed by N\$ 100 347 when compared to the amount reflected in the balance sheet.

4.2.3 A difference of N\$ 655 147 was observed between the cash flow statement and the balance sheet amounts for cash and cash equivalents.

4.2.4 Furthermore the following differences were observed between the balance sheet and the trial balance:

Description	Trial Balance	Balance sheet	Difference
	N\$	N\$	N\$
Total Fixed Assets	523 773	643 941	(120 168)
Total Current Assets	2 205 870	2 752 293	(546 422)
Total Capital Employed	2 729 643	3 396 234	(666 591)

Recommendation

The Council is advised to implement the Generally Accepted Accounting Practice with regards to presentation of annual financial statements and ensure compliance.

Furthermore, the Council should provide explanations for the above-mentioned differences.

Management comments

Measures are being put in place to prevent the re-occurrence of the above shortcoming detected during the audit process.

4.3. BURSARIES

- 4.3.1 At the time of the audit the auditors could not be supplied with the contract or agreement entered into with a bursary holder for verification purposes.
- 4.3.2 The auditors could not obtain a cost estimate or invoice to substantiate a payment of N\$ 117 190 made to the University of Namibia for bursaries.

Recommendation

The Council is requested to safeguard all relevant supporting documentation and provide them for audit purposes.

Management comments

Supporting documentation was nowhere to be found.

4.4 GRANTS

- 4.4.1 The auditors could not obtain the agreement entered into between the Council and the NTN for the sponsorship of the Last Band Standing project for which N\$ 65 000 was paid in price money.
- 4.4.2 Supporting documents for transactions totalling N\$ 51 921 in relation to grants paid could not be obtained for verification.
- 4.4.3 Transactions totalling N\$ 201 000 relating to sponsorships and N\$ 29 000 relating to bursaries were erroneously recorded as grants paid.
- 4.4.4 A Board member was awarded a grant totalling N\$ 50 000 for music of which he/she was a chair to the music selection committee, which could be regarded as possible conflict of interest.
- 4.4.5 It was also observed with grave concern that payments were made directly to grant holders instead of suppliers to the grant holders. No evidence was provided that the suppliers to the grand holders received the money.

Recommendation

The Council is requested to safeguard all relevant supporting documentation and provide them for audit purposes. Furthermore the Council is encouraged to improve supervision on transactions processed to avoid misallocation of amounts and to provide evidence that grants were used for the purpose intended.

Management comments

No supporting documents could be found. NACN regrets that these omissions occurred, but it is in the process of putting measures in place.

4.5 SELECTION COMMITTEE EXPENSES

4.5.1 At the time of the audit the auditors were not supplied with an approved Board resolution indicating how much each member serving on the selection committee is to be paid for sitting allowance.

4.5.2 A Board member was paid double sitting allowance for serving on two committees simultaneously.

Recommendation

The Council is requested to safeguard all relevant supporting documentation and provide them for audit purposes. Furthermore, the Council should investigate the double payment and provide explanations therefore and take corrective measures.

Management comments

The allowance is N\$ 1000 per day, supporting documentation for this could however not be found. Furthermore efforts are underway to obtain a refund from the respective Board member for the double payment.

4.6 SPONSORSHIPS

4.6.1 At the time of the audit the auditors could not obtain the agreement or pledge made to the City of Windhoek to sponsor artists for the //Ae – Gams festival, hence payments totalling N\$ 39 800 could not be verified.

Recommendation

The Council is requested to safeguard all relevant supporting documentation and provide them for audit purposes.

Management comments

No agreement/ pledge was done in writing, hence supporting evidence could not be secured.

4.7 CONSULTANCY FEES

4.7.1 The auditors could not obtain the agreements/ contracts/ resolutions taken by the Council to employ two Board members on a consultancy basis.

4.7.2 Furthermore the auditors observed with concern that two Board members received N\$ 193 500 for services rendered, however this amount was not subject to taxation as required by the Income Tax Act.

Recommendation

The Council is requested to safeguard all relevant supporting documentation and provide them for audit purposes. Furthermore the Council is encouraged to disclose all payments made to the relevant consultants to the revenue authorities.

Management comments

We regret to inform you that no supporting documentation could be secured. We are underway to obtain payment evidence to consultants and disclose them to the revenue authorities.

4.8 FIXED ASSETS

- 4.8.1 A difference of N\$ 66 837 was observed between the general ledger and the fixed asset register for total assets at cost, resulting in the Net Book Value of fixed assets in the annual financial statements being mistated.
- 4.8.2 The audit revealed that disposals were made consisting of office furniture valued at N\$ 15 263, on request, however the auditors could not be supplied with a resolution taken by the board to exercise this action.
- 4.8.3 Furthermore these disposals were not removed from the fixed asset register nor could the auditors determine the processes followed to dispose these assets and how proceeds received from disposals were accounted for.
- 4.8.4 The audit further revealed that purchases for office furniture and equipment worth N\$ 427 118 were made from a supplier, on request the auditors could however not be supplied with the agreement/ resolution taken to acquire the office furniture and equipment from the respective sole supplier. Furthermore it became evident that no tender regulations were followed in selecting the supplier. This is in contradiction with the Tender Board Act, 1996 (Act No.16 of 1996).
- 4.8.5 Transactions for the following cheque numbers were recorded incorrectly in the general ledger:

CHQ NR.	CHQ AMOUNT	GL AMOUNT
	N\$	N\$
1407	179 719	250 003
1532	26 191	3 819
1548	179 719	109 435
2067	2 691	4 864

- 4.9.6 The auditors observed with concern that the Council lacked basic controls regarding the receiving, recording and issuing/ safekeeping of assets. Motor vehicles lacked trip authorities/ logbooks to monitor movement; computers lacked a portable equipment policy.
- 4.9.7 Furthermore, it was observed that all assets are not marked with a unique asset identification code as required by the Treasury Instructions.

Recommendation

The Council is requested to safeguard all relevant supporting documentation and provide them for audit purposes. Furthermore the Council is encouraged to improve supervision on transactions processed to avoid misallocation/ omission of transactions. The Council is also encouraged to adhere to all relevant legislation regarding acquiring, marking, storing and disposing off of fixed assets.

Management comments

We regret to inform that no supporting evidence could be secured. The Council put measures in place to ensure accountability by introducing stock registers, log books and trip authorities.

4.10 INVENTORY

- 4.10.1 For the fourth consultative year, the audit revealed that although the Council have consumable stock on hand there is no reliable system of control in place to account for the stock at year end hence, the value of the stock on hand at year end was not reflected in the annual financial statements.

Recommendation

The Council is urged to develop and implement a system of control for consumable stock as a matter of urgency so as to account for consumable stock at year end and prevent the recurrence of this finding as well as mitigate possible risks the Council might be exposed to.

Management comments

The Council has put an inventory system in place.

4.11 PAYROLL

4.11.1 Transactions totalling N\$ 313 961 effected by the NTN (on behalf of the Council) were not disclosed in the Councils financial statements.

Recommendation

The Council is recommended to ensure that all transactions are disclosed in its annual financial statements.

Management comments

The Council is in the process of putting control measures in place by introducing the finance and human resources policies.

4.12 ACCOUNTS RECEIVABLE

4.12.1 Audit revealed that the Balance kept at the NTN for the administering of salaries (of the Council) as at 31 March 2012 amounted to N\$ 226 331. This amount was however not reflected as an account receivable as required by Generally Accepted Accounting Practice.

Recommendation

The Council is recommended to familiarise itself with the disclosure requirements (G.A.A.P) and ensure all relevant amounts are disclosed in the financial statements in future.

Management comments

We undertake to ensure all amounts are reflected in our books.

4.13 ADVERTISING

4.13.1 It was observed that payment vouchers totaling of N\$ 144 167 lacked supporting documentation.

Recommendation

The Council is requested to safeguard all relevant supporting documentation and provide them for audit purposes.

Management comments

We are unable to avail documentation as requested due to the fact that a proper filing system did not exist for the period under review.

4.14 GENERAL EXPENDITURES

4.14.1 At the time of the audit, payment vouchers totaling N\$ 163 772 lacked Supporting documentation.

Recommendation

The Council is requested to safeguard all relevant supporting documentation and provide them for audit purposes.

Management comments

We are unable to avail documentation as requested due to the fact that a proper filing system did not exist for the period under review.

4.15 GRANT ANNOUNCEMENT EXPENDITURES

4.15.1 It was observed that payment vouchers totaling N\$ 105 000 lacked supporting evidence.

4.16 SUBSISTENCE AND TRAVELLING ALLOWANCE

4.16.1 From a sample selected, the auditors observed with grave concern that payments made totaling N\$ 119 264 lacked supporting documentation.

Recommendation

The Council is requested to safeguard all relevant supporting documentation and provide them for audit purposes.

Management comments

No documentation was found.

5. ACKNOWLEDGEMENT

Courtesy is extended and assistance rendered by the staff of the National Arts Council of Namibia to the auditors during the audit, is highly appreciated.

6. DISCLAIMED AUDIT OPINION

The financial statements of the National Arts Council of Namibia for the financial year ended 31 March 2012 were audited by me in accordance with the provisions of Section 17(2) (b) of the National Arts Fund Act, 2005 (Act No.1 of 2005).

I am unable to express an opinion due to the following reasons:

- The accumulated fund balance in the income statement was misstated by N\$ 100 347.
- The cash and cash equivalents balance in the cash flow statement was misstated by N\$ 655 147.
- A difference of N\$ 120 168 was observed between the balance sheet and trial balance for total fixed assets.
- A difference of N\$ 546 422 was observed between the balance sheet and trail balance for total fixed assets.

- A difference of N\$ 666 591 was observed between the balance sheet and trail balance for retained earnings.
- Bursary payments totalling N\$ 117 190 lacked supporting evidence.
- Grant payments totalling N\$ 116 921 lacked supporting evidence.
- Transactions totalling N\$ 201 000 relating to sponsorships and N\$ 29 000 relating to bursaries were wrongly disclosed as grants paid.
- The Council did not reflect the inventory value at year end in the annual financial statements.
- Transactions totalling N\$ 313 961 relating to payroll were omitted from the books of the Council.
- An accounts receivable balance of N\$ 226 331 were omitted from the books of the Council.
- General expenditure payments totalling N\$ 412 939 lacked supporting evidence.
- Subsistence and travel payments totalling N\$ 119 264 lack supporting evidence.
- The financial statements submitted did not comply with the generally accepted Accounting practices with regards to presentation.

WINDHOEK, December 2013

**JUNIAS ETUNA KANDJEKE
AUDITOR GENERAL**

NATIONAL ARTS COUNCIL

BALANCE SHEET AS AT 31 MARCH

	2012	2011
	N\$	N\$
ASSETS		
Non-current assets	643 941	120 168
Motor Vehicle	236 600	56 261
Computer Equipment	53 518	32 513
Office Equipment	116 115	7 124
Furniture and Fittings	237 708	24 270
Current assets	2 752 293	546 422
Current Account	2 752 023	546 422
Suspense Account	270	-
Total assets	3 396 234	666 591
EQUITY AND LIABILITIES		
Equity	666 591	175 254
Accumulated Funds	666 591	175 254
Profit/ (loss) for the year	2 729 643	491 337
Total equity and liabilities	3 396 234	666 591

NATIONAL ARTS COUNCIL

INCOME STATEMENT AS AT 31 MARCH

	2012	2011
	N\$	N\$
INCOME	11 052 181	3 758 401
Grants received	10 991 570	3 727 740
Interest received	38 246	30 661
Other Income	22 365	-
GRANTS DISTRIBUTED	4 298 781	1 357 245
Grants distributed - Performing Arts	-	-
Grants distributed - Visual Arts	360 080	371 708
Grants distributed - Media	51 900	66 503
Grants distributed - Literature	505 589	198 052
Grants distributed - Crafts	203 636	36 407
Grants distributed - Music	2 162 791	649 537
Ad-hoc Funding	285 463	35 037
Grants distributed - Theatre	295 709	-
Grants distributed - Projects	433 612	-
OPERATING EXPENSES	4 023 757	1 909 820
Advertising and promotions	340 481	35 694
Bank Charges	44 692	24 132
Board members sitting & other fees	56 172	49 837
Bursaries	463 866	424 796
Computer expenses	15 683	29 096
Courier & postage	1 029	3 194
Depreciation	163 541	30 107
Insurance	36 378	16 607
Motor vehicle expenses	18 669	8 659
Repairs and maintenance	3 131	9 861
Rental expenditures	332 421	87 069
Petty cash (Other expenses)	2 763	4 283
Printing & Stationery	29 751	27 903
Salaries & Wages	550 885	463 650
Telephone & Fax	97 877	63 466
Travel & Accommodation	367 458	122 738
Selection committees	124 463	29 127
Sponsorships	117 800	69 166
Consulting fees	517 694	182 688
Finance Charges	-	10 661
General Expenses	358 139	18 568

Training & Workshops	161 727	198 518
Grant announcement	204 137	-
Staff welfare	15 000	-
PROFIT/(LOSS) BEFORE TAX	2 729 643	491 337
PREVIOUS YEAR BALANCE	566 244	74 907
CURRENT ACCUMULATED FUND	3 295 887	566 244

** The accumulated fund balance in the income statement differed by N\$ 100 347 when compared to the amount in the Balance sheet.

NATIONAL ARTS COUNCIL

CASHFLOW STATEMENT AS AT 31 MARCH

Cash utilised by operations	2012
	N\$
Net profit before transfers	2 729 643
Depreciation	163 541
Interest	(38 246)
OPERATING INCOME	2 854 938
Changes in working capital	
Increase/(Decrease) in trade & other payables	-
(Increase)/Decrease in trade & other receivables	-
	2 854 938
 CASHFLOW STATEMENT	
Cash receipts from customers	11 052 181
Cash paid to suppliers	(8 360 784)
Cash generated from operations	2 854 938
Interest received	38 246
	2 893 184
Movement in Fund accounts	
Movement in capital layout	(523 773)
Movement in funds	491 337
Net increase in cash & cash equivalents	2 860 748
Balance at beginning	546 422
Closing balance	3 407 170