

# **Report of the Auditor-General**

Polokwane Housing Association

30 June 2014

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# REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON THABATSHWEU HOUSING COMPANY (PTY) LTD TRADING AS POLOKWANE HOUSING ASSOCIATION

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Thabatshweu Housing Company (Pty) Ltd t/a Polokwane Housing Association set out on page 1 to 28, which comprise the statement of financial position as at 30 June 2014, statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. 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 judgement, 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.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Unqualified Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Thabatshweu Housing Company (Pty) Ltd trading as Polokwane Housing Association as at 30 June 2014, its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters:

## **Restatement of corresponding figures**

8. As disclosed in note 27 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the entity at and for the year ended 30 June 2013.

## **Material impairments**

9. As disclosed in note 7 to the financial statements, the entity had accounts receivables amounting to R11 669 878 at 30 June 2014, of which R8 315 276 were provided for as doubtful.

## **Irregular expenditure**

10. As disclosed in note 31, the entity incurred irregular expenditure of R10 976 177 due to the contravention of supply chain management regulations.

## **Going concern**

11. Note 29 to the financial statements indicate that Thabatshweu Housing Company (Pty) Ltd is currently experiencing financial challenges which have necessitated a recovery strategy by the Board. These financial challenges placed pressure on the entity's liquidity ratios and financial sustainability. These conditions, along with other matters as set forth in note 30, indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

## **Additional matters**

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA the, municipal entity is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon

## Report on other legal and regulatory requirements

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objectives presented in the annual performance report of the entity for the year ended 30 June 2014
- Basic service delivery on pages xx to xx
  - Governance and transformation on pages xx to xx
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

## Basic service delivery

## Usefulness of reported performance information

## Measurability of indicators and targets

19. The FMPPI requires that performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 25% of the indicators were not well defined.

20. The FMPPI requires the period or deadline for delivery of targets must be specified. A total of 25% of the targets were not time bound.

## **Additional matters**

21. I draw attention to the following matters:

## **Achievement of planned targets**

22. Refer to the annual performance report on page(s) xx to xx and xx to xx for information on the achievement of the planned targets for the year.

## **Adjustment of material misstatements**

23. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for governance and transformation. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## **Unaudited supplementary information**

24. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited this schedule and, accordingly, I do not report thereon.

## **Compliance with legislation**

25. I performed procedures to obtain evidence that the entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Annual financial statements, performance and annual reports**

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
27. Material misstatements of non-current and current liabilities identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

## **Procurement and contract management**

28. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
29. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

## **Investments**

30. The municipal entity did not establish an investment policy that was adopted by board as required by section 13(2) of the MFMA.

## **Asset and liability management**

31. The management, accounting and information system which accounts for assets and liabilities was not effective, as required by section 96(2)(a) of the MFMA.
32. An effective system of internal control for assets and liabilities was not in place, as required by section 96(2)(b) of the MFMA.

## **Internal control**

33. I considered internal control relevant to our audit of the financial statements, Annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that were identified, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

## **Leadership**

34. The accounting officer did not adequately review the financial statements prior to their submission for audit and thus a number of material misstatements were identified.

## **Financial and performance management**

35. The entity did not implement controls over daily and monthly processing and reconciling of transactions.
36. There was no adequate review and monitoring of compliance with applicable laws and regulations.

## Other reports

### Investigations

37. The entity conducted an investigation into allegations of fraud by an employee. The investigation could not be concluded as the employee under investigation passed away.

*Auditor - General*

Polokwane

28 November 2014



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*