

**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 x to xx, which comprise the statement of financial position as at 30 June 2013, 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 Division of Revenue Act, 2012 (Act No. 5 of 2012) (DoRA), 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.

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 2013, its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

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 12 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 2013 in the financial statements of the entity at and for the year ended 30 June 2012.

Material impairments

9. As disclosed in note 3 to the financial statements, the municipal entity made material impairments to the amount of R4 584 207 for receivables from exchange transactions, as a result of inadequate collection practices.

Irregular expenditure

10. As disclosed in note 16, the entity incurred irregular expenditure of R9 927 786 due to the contravention of supply chain management regulations.

Going concern

11. Note 25 to the financial statements indicates 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 the note 25, 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 supplementary schedules

13. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules 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 relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on page 1 to 4 of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is

consistent with the planned development priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPP)*.

The reliability of the information in respect of the all development priorities or objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

17. The material findings are as follows:

Usefulness of information

Measurability

Performance targets not time bound

18. The National Treasury *FMPP* requires that the time period or deadline for delivery be specified. A total of 21% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was not aware of the requirements of the *FMPP*

Reliability of information

Reported information not reliable

19. The National Treasury *FMPP* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Significantly important target with respect to good governance objective and organisational transformation is materially misstated.

This was due to the lack of monitoring and review on reported performance.

Achievement of planned targets

20. Of the total number of 14 targets planned for the year, three of targets were not achieved during the year under review. This represents 21% of total planned targets that were not achieved during the year under review.

This was due to the lack of monitoring and review on reported performance.

Compliance with laws and regulations

21. We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. Our findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

22. The entity did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 95(c)(i) of the MFMA.

Annual financial statements, performance and annual reports

23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act.
24. 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.

Expenditure management

25. The accounting authority did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.
26. Money owing by the municipal entity was not always paid within 30 days or an agreed period, as required by section 99(2)(b) of the MFMA.

Asset management and liability management

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

Consequence management

29. Irregular expenditure incurred by the municipal entity was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 102(1) of the MFMA.

Internal control

30. We 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

31. Management has not been able to turn around the entity towards clean audit administration due to inadequate follow up in findings reported by internal and external auditors.
32. 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

33. The entity did not implement controls over daily and monthly processing and reconciling of transactions.
34. The entity did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

35. There was no adequate review and monitoring of compliance with applicable laws and regulations

Governance

36. The audit committee and internal audit did not adequately review the annual financial statements and performance information of the entity before they were submitted for audit.

OTHER REPORTS

Investigations

37. An investigation was conducted by the Special Investigations Unit (SIU) to probe into allegations of improper use of conditional grants for the development of social housing. The report of the SIU indicated that the funds were spent for the intended purposes as per the agreement entered into between the entity and the Department of Cooperative Governance, Human Settlements and Traditional Affairs (CoGHSTA).

Auditor-General
Polokwane

20 December 2013



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence