

Report of the auditor-general to Limpopo provincial legislation and the council on the Polokwane Housing Association

Report on the audit of the separate financial statements

Opinion

1. I have audited the financial statements of the Polokwane Housing Association set out on pages 4 to 8 which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Polokwane housing association as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standard of GRAP), the requirements of Municipal Finance Management Act, 2003 (Act no. 56 of 2003) (MFMA), the Companies Act, 2008 (Act no. 71 of 2008) and the Division of Revenue Act, 2018 (Act No. 1 of 2018) (DoRA).
3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

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

Restatement of corresponding figures

7. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error in the financial statements of the municipal entity at and for the year end 30 June 2019.

Material impairment

8. As disclosed in note 3 to the financial statement, material losses to the amount of R8 732 291 were incurred as a result of provision for impairment of trade debtors.

Other matters

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

Unaudited disclosure notes

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

Responsibilities of the financial statements

11. The board of directors, which constitutes the accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA, DoRA and the Companies Act, 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.
12. In preparing the financial statements, the accounting officer is responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality entity or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

13. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives

presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipal entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipal entity for the year ended 30 June 2019:

Objectives	Pages in the annual performance report
KPA 1: Basic service delivery	4
KPA 2: Financial Viability	5

18. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not raise any material findings in respect of the usefulness and reliability of the reported performance information for the following objectives:
- KPA 1: Basic service delivery
 - KPA 2: Financial Viability

Other matter

20. I draw attention to the matter below.

Achievement of planned targets

21. Refer to the annual performance report on pages 4 to 6 for information on the achievement of planned targets for the year.

Introduction and scope

22. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipal entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
23. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

24. The financial statement submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

Material misstatement of property plant and equipment (Valuation of building and work in progress), Revaluation surplus ,Grant income and trade payables and disclosure items identified by auditors in the submitted financial statement were subsequently corrected and the supporting records were submitted subsequently, resulting in financial statement receiving unqualified audit opinion.

Expenditure management

25. Reasonable steps were not taken to prevent irregular expenditure, as required by section 95 (d) of the MFMA. Irregular expenditure amounting to R117 481 was incurred during the financial year.
26. Money owed by the municipality was not always paid within 30 days, as required by section 99(2)(b) of MFMA.

Revenue management

27. An effective system of internal control for revenue was not in place, as required by section 97(e) of the MFMA. Some of the lease agreements with tenants has expired, and some of the tenants did not meet the qualifying criteria to become tenants.

Procurement and contract management

28. Some of the awards were made to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order, as required by Supply Chain Management (SCM) regulation 13(b) and 43.
29. Some of the quotations were accepted from bidders who did not submit a declaration of interest to confirm that they are not employed by the state nor are they connected to any person employed by the stated as required by SCM regulation 13(c).
30. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as Bid Documents for some of the awards were not submitted for audit.

Consequences management

31. Fruitless and wasteful expenditure incurred by municipal entity was not investigated to determine if any person is liable for the expenditure, as required by the municipal budget and reporting regulations 75(1). The fruitless and wasteful expenditure was incurred interest charged due to the late payment of audit fees.
32. Irregular expenditure incurred by municipal entity was not investigated to determine if any person is liable for the expenditure, as required by municipal budget and reporting regulation 75(1). The irregular expenditure was incurred due to the contravention of section 27(3) of the municipal supply chain management regulation act. The entity did not have a bid specification committee to compile and draft specifications for the procurement process

Other information

33. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act . The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
34. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
35. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

36. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on compliance with legislation included in this report. I did identify significant deficiencies in internal control .which include Lack of review and monitoring of compliance with internal policies and Proper financial statements review processes were not implemented timeously.
37. The accounting officer did not adequately exercise oversight responsibility regarding financial management and compliance as well as internal controls. As a result the financial statements had a number of material misstatements that were identified during the audit.
38. The accounting officer did not implement proper record keeping in a timely manner to ensure regular, accurate, and complete financial statements that are supported and evidenced by reliable information.

AUDITOR GENERAL

Polokwane

30 November 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the Municipal entity’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the separate financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit 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 Municipal entity’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [board of directors, which constitutes the accounting officer.
 - conclude on the appropriateness of the board of directors, which constitutes the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Polokwane housing association’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a Polokwane housing association to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
 - [obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion



Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

E