The Accounting Officer
Thabatshweu Housing Company (Pty) Ltd
P.O. Box 1157
Ladanna
0704

30 November 2010

Reference:60762REG09/10

Dear Madam

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Thabatshweu Housing Company (PTY) LTD Trading as Polokwane Housing Association for the year ended 30 June 2010

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).

2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.

3. In terms of section 121(4) of the MFMA you are required to include the audit report in the entity’s annual report to be tabled.

4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.

5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
   - Submit the final printer’s proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
   - The signature Auditor-General in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa’s logo, should appear at the end of the report, as in...
the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

[Signature]

Senior Manager: Limpopo

Enquiries: Gerhard Odendaal
Telephone: (015) 299 4421
Fax: (015) 299 4766
AUDITOR’S REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON THABATSHWEU HOUSING COMPANY (PTY) LTD TRADING AS POLOKWANE HOUSING ASSOCIATION

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REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Thabatshweu Housing Company (Pty) Ltd trading as Polokwane Housing Association, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information and the director’s report, as set out on pages xx to xx.

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 South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa, 1973 (Act No. 61 of 1973) (Companies Act). 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-General’s responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1570 of 2009 Issued in Government Gazette 32758 of 27 November 2009. 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.

5. 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.

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

Investment property

7. The Standards of Generally Recognised Accounting Practice, GRAP 16, Investment Property states that an entity that has chosen the fair value model for subsequent recognition for all of its investment properties, should ensure that the fair value of investment property reflects market conditions at the reporting date. As indicated in note three to the financial statements, the fair value of the investment property was not determined for the year under review. I was unable to confirm whether the investment property was recorded at the correct amount.

Irregular expenditure

8. Section 99(2)(h) of the MFMA requires that the accounting officer must take all reasonable steps to ensure that the entity has and implements a supply chain management (SCM) policy in accordance with section 111 in a way that is fair, equitable, transparent and cost-effective. The accounting officer did not implement a SCM policy and payments totalling R559 600 were made in contravention of the SCM regulations.

9. Contrary to the requirements of section 125(2)(d) of the MFMA, irregular expenditure of R559 600 was not disclosed in note 15 to the financial statements.

Qualified opinion

10. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Thabethewwe Housing Company (Pty) Ltd, trading as Polokwane Housing Association for the year ended 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with the SA standards of GRAP and in the manner required by the MFMA and the Companies Act.

Emphasis of matters

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

Restatement of corresponding figures

12. As disclosed in note 11 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered during 2010 in the financial statements of the Thabethewwe Housing Company (Pty) Ltd, trading as Polokwane Housing Association at, and for the year ended, 30 June 2009.

Going concern

13. Thabethewwe Housing Company (Pty) Ltd incurred a net loss of R368 073 during the year ended 30 June 2010 and, as of that date, the entity’s current liabilities exceeded its current assets by R6.7 million. These conditions, along with other matters as set forth in the note 18 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the entity’s ability to operate as a going concern.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. As required by the PAA and in terms of General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009, I include below my findings on the
report on predetermined objectives, compliance with the following key laws and regulations and financial management (internal control).

**Predetermined objectives**
15. Material findings on predetermined objectives are reported below:

**Non-compliance with regulatory requirements**

**No service delivery agreement**
16. The municipal entity did not enter into a service delivery agreement with the Polokwane Municipality for the provision of the housing services, as required in terms of section 76 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and regulation 9(2) of the Municipal Planning and Performance Management Regulations, 2001.

**No reporting against predetermined objectives**
17. The municipal entity did not prepare and include an assessment by the entity’s accounting officer of the entity’s performance against any measurable performance objectives set, as required by section 121(4)(d) of the MFMA

**Compliance with laws and regulations**

**MFMA**

**The accounting officer did not adhere to his statutory responsibilities**
18. Contrary to the requirements of section 95(c)(i) of the MFMA, the accounting officer did not ensure that the entity has and maintains a risk management system, as a risk assessment was not conducted and a risk assessment policy adopted.

**The audit committee was not functioning properly**
19. Contrary to the requirements of section 166(2)(a), the shared audit committee did not advise the board of directors on matters relating to -

- internal financial control and internal audit;
- risk management;
- accounting policies;
- the adequacy, reliability and accuracy of financial reporting and information;
- performance management;
- effective governance;
- compliance with the MFMA, the Co and MSA; and
- performance evaluation.

**The internal audit unit was not functioning properly**
20. Contrary to the requirements of section 165(2) of the MFMA, the shared internal audit unit of the municipal entity did not, as required by section 165(2) of the MFMA -

- prepare a risk-based audit plan and an internal audit program for the year; and
- advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters outlined in subsection (i) to (vii).

**Supply Chain Management (SCM) legislative requirements were not adhered to**
21. Contrary to the requirements of section 116(1)(a)(i) of the MFMA, goods and services were supplied by a service provider and payment made to the service provider without a written signed contract.
22. Contrary to the requirements of section 111 of the MFMA, no SCM policy was implemented for the procurement of goods and services.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

23. Expenditure was not incurred in accordance with the requirements of SCM regulations 2, resulting in incurring irregular expenditure, as set out in section 1 of the definition of "irregular expenditure" of the MFMA.

Companies Act

Register of interests in contracts of directors not adequately maintained

24. Contrary to the requirements of section 240 of the Companies Act, a director did not declare his interest in contracts with the entity in the register of directors and officers.

INTERNAL CONTROL

25. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and Companies Act, but not for the purpose of expressing an opinion on the effectiveness of internal control.

26. The matters reported below are limited to the significant deficiencies regarding the basis for qualified opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**
  
  **Oversight responsibility**
  
  The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations, resulting in several non-compliance matters and that an agreement was not yet concluded with the parent municipality.

  **Tone at the top**
  
  Integrity and ethical values are not maintained and do not set the standard for sound corporate governance, as a director did not declare its interest in companies.

  In not establishing a SCM policy and adhering to SCM regulations, management's philosophy and operating style does not promote effective control and accountability to the public.

  The performance of the entity could not be measured, as a service level agreement for the housing service was not yet concluded despite reporting on it in the prior year's audit report.

  **Action to mitigate risk**
  
  Prior year’s external audit finding was not in instances followed up and addressed.

- **Financial and performance management**
  
  **Quality, reliable annual financial statements**
  
  The entity does not have competent (also refer to the knowledge of the controls and processes) individuals who understand the financial reporting framework and performance management requirements.
The financial statements are not reviewed for completeness and accuracy prior to submission for audit. As a result the financial statements were subject to material amendments resulting from the audit.

- **Governance**
  
  **Risk identification**
  
  The entity does not have a formal risk assessment process and the risk of material misstatement due to fraud is not considered.

  **Internal audit**
  
  The shared internal audit unit did not conduct audits at the municipal entity.

  **Audit Committee**
  
  The shared audit committee was not fully involved in monitoring the entity's activities and effectively reviewing the financial statements.

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*Auditor-General*

Polokwane

30 November 2010

*Auditor-General South Africa*

Auditing to build public confidence