

**MINUTES**  
**EKURHULENI METROPOLITAN MUNICIPALITY**  
**1<sup>ST</sup> ORDINARY COUNCIL MEETING (2010)**

2010.01.28

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**Item A-F (01-2010)      FINANCE DEPARTMENT: ANNUAL REPORT, ANNUAL FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR-GENERAL FOR THE 2008/09 FINANCIAL YEAR FOR THE EKURHULENI METROPOLITAN MUNICIPALITY AS WELL AS ITS ENTITIES**

Mr S Vilakazi from the Office of the Auditor-General addressed the Council on the Financial Statements of the Ekurhuleni Metropolitan Municipality for the 2008/09 financial year.

**RESOLVED:**

1. **That** the contents of the report regarding the Annual Report, the Annual Financial Statements and the Report of the Auditor-General for the 2008/09 financial year for both the Ekurhuleni Metropolitan Municipality and the municipal entities, **BE NOTED**.
2. **That** the Chief Audit Executive **BE REQUESTED** to submit progress reports in respect of the investigations reported on to Council on a quarterly basis until the conclusion of the investigations.
3. **That** the reports of the Auditor-General on the financial statements of the Ekurhuleni Metropolitan Municipality as well as those of the municipal entities **BE REFERRED** to the Municipal Public Accounts Committee (MPAC) for oversight purposes as contemplated in section 129 of the MFMA.
4. **That** the Annual Report of the EMM and its entities **BE MADE PUBLIC** in accordance with section 21A of the Municipal Systems Act.

**MINUTES**  
**EKURHULENI METROPOLITAN MUNICIPALITY**  
**1<sup>ST</sup> ORDINARY COUNCIL MEETING (2010)**

2010.01.28

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**Item A-F (02-2010)      FINANCE DEPARTMENT: MID-YEAR REVIEW OF FINANCIAL AND PERFORMANCE RESULTS AND FIRST ADJUSTMENTS BUDGET FOR THE 2009/10 FINANCIAL YEAR**

Clr L M Mtshali, seconded by Clr A Nxumalo, proposed the addition of the following Recommendation **10** and the re-numbering of the existing Recommendations **10**, **11** & **12** to **11**, **12** & **13** respectively:

**"10.    That prior to commencement with a process of issuing EMM Bonds, a workshop BE ARRANGED for all Councillors."**

Council accepted the above proposal.

The Executive Mayor, in terms of section 11(6)(b) of the Council's Standing Orders, added the following Recommendation **14**:

**"14.    That a separate report BE SUBMITTED in respect of the twenty (20) companies in Ekurhuleni with the highest arrear services accounts and that continuous reports in this regard BE SUBMITTED afterwards."**

**RESOLVED:**

1.    **That** the report of the Chief Financial Officer on the mid-year review of the financial and performance results as well as to recommend on the first adjustments budget for the 2009/10 financial year as required by section 72 of the Municipal Finance Management Act **BE NOTED**.
2.    **That** the financial results for the first six months of the financial year **BE NOTED**.
3.    **That** the actual performance of departments as measured against the SDBIP for the first six months of the financial year **BE NOTED**.
4.    **That** the performance results in **3** above as well as the requested amendments to the SDBIP **BE REFERRED** to the respective Portfolio Committees for discussion and consideration.
5.    **That** the recommendations of the Portfolio Committees in respect of **4** above **BE SUBMITTED** to Council for consideration at the February 2010 Council meeting.
6.    **That** the 2009/10 Operating Budget **BE ADJUSTED** as follows:
  - a.    Budget adjustments totalling **R50 000 000** with a zero net effect on the budget implemented to address sanitation to informal settlements as per Council Item A-F (48-2009) as detailed in **Annexure C1-A**.

# REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF EKURHULENI METROPOLITAN MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying group financial statements of the Ekurhuleni Metropolitan Municipality which comprise the consolidated and separate statement of financial position as at 30 June 2009, and the consolidated and separate statement of financial performance, the consolidated and separate statement of changes in net assets and the consolidated and separate cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 1 to 78.

### The 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 Generally Recognised Accounting Practice (GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 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.

### The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 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 the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. 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. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Ekurhuleni Metropolitan Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

8. In my opinion the financial statements present fairly, in all material respects, the consolidated and separate financial position of the Ekurhuleni Metropolitan Municipality as at 30 June 2009 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended, in accordance with GRAP and in the manner required by the MFMA.

### **Emphasis of matter**

Without qualifying my opinion, I draw attention to the following matters:

#### **Irregular expenditure**

9. As disclosed in note 54 to the group financial statements, irregular expenditure to the amount of R 288 718 000 was incurred due to non-compliance with the supply chain management regulations.

#### **Restatement of corresponding figures**

10. As disclosed in note 2 to the group financial statements, the corresponding figures for 30 June 2008 were restated as a result of the implementation of the new accounting policies and changes to existing accounting policies which were effective for the current financial year.

### **Other matters**

11. Without qualifying my opinion I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

#### **Unaudited supplementary schedules**

12. The supplementary information set out on pages 80 to 98 does not form part of the group financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## Governance framework

13. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

## Key governance responsibilities

14. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).	✓	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	✓	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The municipality had an audit committee in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its</li> </ul>	✓	



No.	Matter	Y	N
	responsibilities for the year, as set out in section 166(2) of the MFMA.		
7.	Internal audit		
	<ul style="list-style-type: none"> <li>• The municipality had an internal audit function in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>• The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.	✓	
12.	Powers and duties assigned are in place, as set out in section 79 of the MFMA.	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	MPAC resolutions have been substantially implemented.	✓	
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Ekurhuleni Metropolitan Municipality against its mandate, predetermined objectives, outputs, indicators and targets.	✓	

No.	Matter	Y	N
	(Section 68 of the MFMA)		
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

## Investigations

15. As reported in the financial year ended 30 June 2008, an investigation on land transactions was concluded during the year under review.
16. The municipality commissioned an investigation in the previous financial year on potential fruitless and wasteful expenditure relating to the procurement of defective goods amounting to R 1 024 000 and possible deviation from supply chain regulations. The investigation was finalised and Council is in the process of recovering the loss.
17. The municipality awarded an IT contract to a service provider during the financial year ended 30 June 2007. An investigation by internal audit into alleged shortcomings in the tender process was commissioned. The investigation confirmed instances of non-compliance with the Supply Chain Management Policy. This has resulted in the municipality disclosing irregular expenditure of R 250 000 000 in the financial year ended 30 June 2009.
18. An investigation into alleged irregular expenditure amounting to R 10 000 000 involving the maintenance and upgrading of facilities was initiated. The audit revealed supply chain regulations were not followed. This has resulted in the municipality disclosing irregular expenditure of R 10 000 000 in the financial year ended 30 June 2009.
19. As reported in the previous year, the municipality incurred a financial loss of approximately R 500 000 in the 2007 financial year as a result of fraudulent payments to unknown beneficiaries. An investigation was commissioned however it was not conclusive in terms of identifying the responsible perpetrators of these illegal transactions. In 2009 and 2010 financial years, similar fraudulent payments amounting to R 3 900 000 and R 5 600 000 respectively were processed and the investigation into these transactions is in progress.
20. An investigation was conducted into the purchase of prepaid electricity as a result of possible theft and losses or misallocation of payments to the amount of R 29 667 000.
21. An investigation was initiated into allegations of non-compliance with supply chain regulations as well as value for money principles with regard to the purchase of 515 vehicles. The investigation is still in progress however, at the date of this report the municipality had identified and disclosed irregular expenditure of R 15 400 000 for the year ended 30 June 2009.

22. The municipality initiated 33 forensic investigations during the current financial year including those reports above, of which 12 were finalised at year end.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Report on performance information**

23. I have reviewed the performance information as set out on pages 64 to 145 of the annual report.

### **The accounting officer's responsibility for the performance information**

24. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### **The Auditor-General's responsibility**

25. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
26. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
27. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my audit.



## APPRECIATION

28. The assistance rendered by the staff of the Ekurhuleni Metropolitan Municipality during the audit is sincerely appreciated.

Johannesburg

22 December 2009



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF BRAKPAN BUS COMPANY (PTY) LTD FOR THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Brakpan Bus Company (Pty) Ltd which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages xx to xx.

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 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 the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. 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. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Brakpan Bus Company (Pty) Ltd in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Brakpan Bus Company (Pty) Ltd as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the applicable basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA and the Companies Act of South Africa.

### **Emphasis of matters**

9. Without qualifying my opinion, I draw attention to the following matters:

#### **Basis of accounting**

10. The municipal entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

#### **Going concern**

11. Note 18 to the financial statements indicate that the Brakpan Bus Company (Pty) Ltd operates on an interim contract with the Department of Transport for the provision of passenger transport services, which is being extended on a month to month basis. This condition indicates the existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

#### **Restatement of corresponding figures**

12. As disclosed in note 23 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of an error discovered during 30 June 2009 in the financial statements of the Brakpan Bus Company (Pty) Ltd at, and for the year ended, 30 June 2008.

## **OTHER MATTERS**

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

### **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. Accordingly, I do not express an opinion thereon.

### **Material non-compliance with applicable legislation**

14. Municipal Finance Management Act

- The notes to the annual financial statements of the municipal entity did not disclose particulars of non-compliance with the MFMA, section 95(c)(i) as required by the MFMA, section 125(2)(e).

### **Governance framework**

15. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

### **Key governance responsibilities**

16. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which we have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).	✓	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	✓	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The municipal entity had an audit committee in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	✓	
7.	Internal audit	✓	
	<ul style="list-style-type: none"> <li>The municipal entity had an internal audit function in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 95(c)(i) of the MFMA.		✓
12.	Powers and duties assigned are in place, as set out in section 106 of the MFMA.	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	✓	

No.	Matter	Y	N
14.	MPAC resolutions have been substantially addressed	✓	
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Brakpan Bus Company (Pty) Ltd against its mandate, predetermined objectives, outputs, indicators and targets (section 87 of the MFMA).	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on performance information

17. I have reviewed the performance information as set out on pages xx to xx.

### The accounting officer's responsibility for the performance information

18. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

### The Auditor-General's responsibility

19. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

20. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

21. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.



## APPRECIATION

22. The assistance rendered by the staff of the Brakpan Bus Company (Pty) Ltd during the audit is sincerely appreciated.

Johannesburg

30 November 2009



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF EKURHULENI DEVELOPMENT COMPANY (PTY) LTD FOR THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Ekurhuleni Development Company (Pty) Ltd, which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages x to x.

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa 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.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 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 the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. 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. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Ekurhuleni Development Company (Pty) Ltd in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Ekurhuleni Development Company (Pty) Ltd as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1, and in the manner required by the MFMA and the Companies Act of South Africa.

### **Emphasis of matters**

Without qualifying my opinion, I draw attention to the following matters:

### **Basis of accounting**

9. The municipal entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

### **Going concern**

10. Note 28 to the financial statements indicates the entity's ability to continue as a going concern is dependant on the viability of Pharoe Park Housing Company (Pty) Ltd and Phase 2 Housing Company (Pty) Ltd. This condition indicates the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

### **Irregular expenditure**

11. As disclosed in note 29 to the financial statements, irregular expenditure to the amount of R43 496 was incurred, as the Supply Chain Management regulation was not followed.

### **Restatement of corresponding figures**

12. As disclosed in note 25 to the financial statements, the corresponding figures for 30 June 2008 were restated as an error discovered during 30 June 2009 in the financial statements of the Ekurhuleni Development Company (Pty) Ltd at, and for the year ended, 30 June 2008.

### Other matters

Without qualifying my opinion, I draw attention to the following matters that relates to my responsibilities in the audit of the financial statements:

### Unaudited supplementary schedules

13. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion thereon.

### Non-compliance with applicable legislation

#### Municipal Finance Management Act

14. The accounting officer did not pay money owed by the municipal entity within 30 days of receiving the relevant invoice or statement, as required by section 99(2)(b) of the MFMA.

### Governance framework

15. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

### Key governance responsibilities

16. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).	✓	

No.	Matter	Y	N
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.		✓
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>• The Ekurhuleni Development Company (Pty) Ltd had an audit committee in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>• The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	✓	
7.	Internal audit		
	<ul style="list-style-type: none"> <li>• The municipal entity had an internal audit function in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>• The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 95(c)(i) of the MFMA.	✓	
12.	Powers and duties assigned are in place, as set out in section 106 of the MFMA.	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.		✓
14.	MPAC resolutions have been substantially implemented.	✓	

No.	Matter	Y	N
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Ekurhuleni Development Company (Pty) Ltd against its mandate, predetermined objectives, outputs, indicators and targets (section 87 of the MFMA.)	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on performance information

17. I have reviewed the performance information as set out on pages x to x.

### The accounting officer's responsibility for the performance information

18. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives, set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

### The Auditor-General's responsibility

19. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

20. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

21. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.



## **Findings on performance information**

### **Non-compliance with regulatory requirements**

#### **Lack of adoption or implementation of a performance management system**

22. The Ekurhuleni Development Company (Pty) Ltd did not adopt or implement a framework that describes and represents how the municipal entity's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players.

#### **Usefulness and reliability of reported performance information**

23. The following criteria were used to assess the usefulness and reliability of the information on the municipal entity's performance with respect to the objectives in its integrated development plan:

- **Consistency:** Has the municipal entity reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- **Relevance:** Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- **Reliability:** Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

#### **Inconsistently reported performance information**

24. The Ekurhuleni Development Company (Pty) Ltd reported on the objective, indicator and target of managing the service level agreement, which were not as per the approved integrated development plan and was not included in the adjusted budgets or was not approved subsequent to the strategic planning process.

25. The Ekurhuleni Development Company (Pty) Ltd has not reported on its performance target of collecting R5 731 120 in management fees for 2008/2009 financial year as per the approved integrated development plan.

### **Reported performance information not relevant**

26. The target of the objective to manage other companies were not:

- Specific in clearly identifying the nature and the required level of performance
- Measurable in identifying the required performance
- Time bound in specifying the time period or deadline for delivery

### **APPRECIATION**

27. The assistance rendered by the staff of the Ekurhuleni Development Company (Pty) Ltd during the audit is sincerely appreciated.

Johannesburg

30 November 2009



**A U D I T O R - G E N E R A L**  
**S O U T H   A F R I C A**

*Auditing to build public confidence*

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE EAST RAND WATER CARE COMPANY (AN ASSOCIATION INCORPORATED IN TERMS OF SECTION 21 OF THE COMPANIES ACT) FOR THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the East Rand Water Care Company (ERWAT) which comprise the statement of financial position as at 30 June 2009, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies, directors report and other explanatory notes, as set out on pages xx to xx.

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 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 the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. 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. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by ERWAT in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

8. In my opinion the financial statements present fairly, in all material respects, the financial position of ERWAT as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting as set out in accounting policy note 1 and in the manner required by the MFMA and the Companies Act of South Africa.

### **Emphasis of matters**

9. Without qualifying my opinion, I draw attention to the following matters:

### **Basis of accounting**

10. The municipal entity's policy is to prepare financial statements on the basis of accounting determined by National Treasury, as set out in accounting policy note 1.

### **Irregular expenditure**

11. As disclosed in note 31 to the financial statements, irregular expenditure to the amount of R 677 433 was incurred, as the Supply Chain Management regulation was not followed.

### Restatement of corresponding figures

12. As disclosed in note 29 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of prior period errors discovered during the year ended 30 June 2009 in the financial statements of ERWAT at, and for the year ended, 30 June 2008.

### Other matters

13. Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements.

### Unaudited supplementary schedules

14. The supplementary information set out on pages xx to xx do 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.

### Governance framework

15. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

### Key governance responsibilities

16. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which we have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).	✓	

No.	Matter	Y	N
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	✓	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The municipal entity had an audit committee in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA</li> </ul>	✓	
7.	Internal audit		
	<ul style="list-style-type: none"> <li>The municipal entity had an internal audit function in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 95(c)(i) of the MFMA.	✓	
12.	Powers and duties assigned are in place, as set out in section 106 of the MFMA.	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	MPAC resolutions have been substantially implemented.	✓	
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		✓
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓



No.	Matter	Y	N
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by ERWAT against its mandate, predetermined objectives, outputs, indicators and targets (section 87 of the MFMA).	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on performance information

17. I have reviewed the performance information as set out on pages xx to xx.

### The accounting officer's responsibility for the performance information

18. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives, set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

### The Auditor-General's responsibility

19. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

20. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

21. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

## **Findings on performance information**

### **Non – compliance with regulatory requirements**

#### **Lack of adoption or implementation of a performance management system**

22. ERWAT did not adopt or implement a framework that describes and represents how the municipal entity's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players.

#### **Usefulness and reliability of reported performance information**

23. The following criteria were used to assess the usefulness and reliability of the information on the municipal entity's performance with respect to the objectives in its integrated development plan:

- Consistency: Has the municipal entity reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

#### **Reported performance information not relevant**

24. The following performance indicators and targets were not:

- specific in clearly identifying the nature and the required level of performance
- measurable in identifying the required performance
- time bound in specifying the time period or deadline for delivery.

Objective	Key performance indicator	Target for 2008/2009
To practice good corporate governance	Reduced number of audit findings	Continuous
	No material transgressions reported	Continuous
Identify and successfully implement internal business processes by the 2008 financial year-end that will support the business by conforming to all applicable legislation.	An implemented (efficient & effective) IT system	Integration of system
	Acceptable quality standards – report on findings	Establish quality standards
Structure internal processes to support and grow business development nationally	No. of established partnerships	Ongoing
	Increased market share	(No target reported)
	R&D cost benefit analysis	Forums and research projects
Expand our market share through the provision of new services to existing clients and the development of new national clients	% increase in profits (external)	Marginal increase
	Implementation of business plans. Restructure the business	Annually
	To set up a new business unit to drive the initiative.	Annually
Identify and develop the best employees Succession planning & transformation	Absenteeism & abuse of leave (reduces)	Mechanism put in place to monitor

## APPRECIATION

25. The assistance rendered by the staff of ERWAT during the audit is sincerely appreciated.

Johannesburg

30 November 2009



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF GERMISTON PHASE 2 HOUSING COMPANY (PTY) LTD FOR THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Germiston Phase 2 Housing Company (Pty) Ltd, which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages x to x.

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa 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.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 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 the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. 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. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Phase 2 Housing Company (Pty) Ltd in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Germiston Phase 2 Housing Company (Pty) Ltd as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA and the Companies Act of South Africa.

### **Emphasis of matters**

Without qualifying my opinion, I draw attention to the following matters:

### **Basis of accounting**

9. The municipal entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

### **Going concern**

10. Note 26 to the financial statements, indicates that the municipal entity's inability to collect rental income from its debtors had a negative impact on the company's cash flow and its ability to fund operating costs. This condition indicates the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

### **Irregular expenditure**

11. As disclosed in note 27 to the financial statements, irregular expenditure to the amount of R743 796 was incurred, as the Supply Chain Management regulation was not followed.

### **Other matters**

12. Without qualifying my opinion, I draw attention to the following matters that relates to my responsibilities in the audit of the financial statements:

### Unaudited supplementary schedules

13. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion thereon.

### Non-compliance with applicable legislation

#### Municipal Finance Management Act

14. The accounting officer did not pay money owed by the municipal entity within 30 days of receiving the relevant invoice or statement, as required by section 99(2)(b) of the MFMA.

### Governance framework

15. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

### Key governance responsibilities

16. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).	✓	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.		✓

No.	Matter	Y	N
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The Germiston Phase 2 Housing Company (Pty) Ltd had an audit committee in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	✓	
7.	Internal audit		
	<ul style="list-style-type: none"> <li>The municipal entity had an internal audit function in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 95(c)(i) of the MFMA.	✓	
12.	Powers and duties assigned are in place, as set out in section 106 of the MFMA.	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	MPAC resolutions have been substantially implemented.	✓	
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓

No.	Matter	Y	N
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Germiston Phase 2 Housing Company (Pty) Ltd against its mandate, predetermined objectives, outputs, indicators and targets (section 87 of the MFMA).	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on performance information

17. I have reviewed the performance information as set out on pages x to x.

### The accounting officer's responsibility for the performance information

18. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives, set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

### The Auditor-General's responsibility

19. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

20. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

21. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.



## **Findings on performance information**

### **Non-compliance with regulatory requirements**

#### **Lack of adoption or implementation of a performance management system**

22. The Germiston Phase 2 Housing Company (Pty) Ltd did not adopt or implement a framework that describes and represents how the municipal entity's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players.

#### **Usefulness and reliability of reported performance information**

23. The following criteria were used to assess the usefulness and reliability of the information on the municipal entity's performance with respect to the objectives in its integrated development plan:

- **Consistency:** Has the municipal entity reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- **Relevance:** Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- **Reliability:** Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

#### **Inconsistently reported performance information**

24. The Germiston Phase 2 Housing Company (Pty) Ltd target for occupancy level was amended from 99% in the approved IDP to 95% in the final report on performance information. No evidence that these changes were approved could be provided.

25. The municipal entity did not report on its performance indicators in the approved Integrated Development Plan for the following:

- Debtors outstanding less than 60 days;
- Increase/maintain rental collection rate; and
- Tenants debit orders

## Reported performance information not reliable

26. The source information or evidence provided to support the reported performance information with regard to the maintenance expenditure and level of occupancy did not adequately support the accuracy and completeness of the facts as follows:

Table indicating maintenance expenditure:

Description	Amount in rand
Amount per general ledger	667 809
Amount per performance information	548 744
<b>Difference</b>	<b>119 065</b>

Table indicating level of occupancy:

Quarters	% per annual report	% per tenancy schedule
Quarter 1	98	100
Quarter 2	98	100
Quarter 3	98	100
Quarter 4	97	100

## APPRECIATION

27. The assistance rendered by the staff of the Germiston Phase 2 Housing Company (Pty) Ltd during the audit is sincerely appreciated.

Johannesburg

30 November 2009



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF LETHABONG HOUSING INSTITUTE (PTY) LTD FOR THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Lethabong Housing Institute (Pty) Ltd, which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages x to x.

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa 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.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 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 the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. 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. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Lethabong Housing Institute in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Lethabong Housing Institute (Pty) Ltd as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1, and in the manner required by the MFMA and the Companies Act of South Africa.

### **Emphasis of matters**

9. Without qualifying my opinion, I draw attention to the following matters:

### **Basis of accounting**

10. The municipal entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

### **Going concern**

11. As disclosed in note 20 to the financial statements, Ekurhuleni Metropolitan Municipality together with the Gauteng Partnership Fund commissioned a due diligence report on the sustainability of the company due to monthly cash flow challenges being experienced arising from several factors and the continued support from the parent municipality. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

### **Restatement of corresponding figures**

12. As disclosed in note 18 to the financial statements, the corresponding figures for the 30 June 2008 were restated as a result of an error discovered during 30 June 2009 in the financial statements of the Lethabong Housing Institute (Pty) Ltd at, and for the year ended, 30 June 2008.

### Other matters

Without qualifying my opinion, I draw attention to the following matters that relates to my responsibilities in the audit of the financial statements:

### Unaudited supplementary schedules

13. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion thereon.

### Non-compliance with applicable legislation

#### Municipal Finance Management Act

14. The accounting officer did not pay money owed by the municipal entity within 30 days of receiving the relevant invoice or statement, as required by section 99(2)(b) of the MFMA.

### Governance framework

15. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

### Key governance responsibilities

16. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).	✓	
<b>Availability of key officials during audit</b>			

No.	Matter	Y	N
5.	Key officials were available throughout the audit process.		✓
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The Lethabong Housing Institute had an audit committee in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	✓	
7.	Internal audit		
	<ul style="list-style-type: none"> <li>The municipal entity had an internal audit function in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 95(c)(i) of the MFMA.	✓	
12.	Powers and duties assigned are in place, as set out in section 106 of the MFMA.	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	MPAC resolutions have been substantially implemented.	✓	
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in	✓	

No.	Matter	Y	N
	relation to the budget and delivery by the Lethabong Housing Institute against its mandate, predetermined objectives, outputs, indicators and targets (section 87 of the MFMA).		
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on performance information

17. I have reviewed the performance information as set out on pages x to x.

### The accounting officer's responsibility for the performance information

18. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives, set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

### The Auditor-General's responsibility

19. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

20. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

21. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

## **Findings on performance information**

### **Non-compliance with regulatory requirements**

#### **Lack of adoption or implementation of a performance management system**

22. The Lethabong Housing Institute did not adopt or implement a framework that describes and represents how the municipal entity's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players.

#### **Usefulness and reliability of reported performance information**

23. The following criteria were used to assess the usefulness and reliability of the information on the municipal entity's performance with respect to the objectives in its integrated development plan:

- Consistency: Has the municipal entity reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

#### **Inconsistently reported performance information**

24. The Lethabong Housing Institute (Pty) Ltd reported on the objective, indicator and target of the development of Stanford gardens and Bedfordview tennis courts, which were as per the approved integrated development plan and not included in the adjusted budgets or were not approved subsequent to the strategic planning process.

#### **Reported performance information not relevant**

25. The targets to develop Stanford Gardens and Bedfordview tennis courts were not:

- Specific in clearly identifying the nature and the required level of performance.
- Measurable in identifying the required performance.
- Time bound in specifying the time period or deadline for delivery.



## APPRECIATION

26. The assistance rendered by the staff of the Lethabong Housing Institute (Pty) Ltd during the audit is sincerely appreciated.

Johannesburg

30 November 2009



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE  
AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE  
INFORMATION OF PHAROE PARK HOUSING COMPANY (PTY) LTD FOR THE YEAR  
ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Pharoe Park Housing Company (Pty) Ltd, which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages x to x.

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa 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.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 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 the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. 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. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance

with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Pharoe Park Housing Company (Pty) Ltd in this respect will be limited to reporting on non-compliance with this disclosure requirement.

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

### **Opinion**

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Pharoe Park Housing Company (Pty) Ltd as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA and the Companies Act of South Africa.

### **Emphasis of matters**

Without qualifying my opinion, I draw attention to the following matters:

#### **Basis of accounting**

9. The municipal entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

#### **Going concern**

10. Note 30 to the financial statements, indicates that the municipal entity's inability to collect rental income from its debtors had a negative impact on the company's cash flow and its ability to fund operating costs. This condition indicates the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

#### **Irregular expenditure**

11. As disclosed in note 31 to the financial statements, irregular expenditure to the amount of R553 518 was incurred, as the Supply Chain Management regulation was not followed.

#### **Restatement of corresponding figures**

12. As disclosed in note 25 to the financial statements, the corresponding figures for 30 June 2008, have been restated as a result of an error discovered during 30 June 2009 in the financial statements of the Pharoe Park Housing Company (Pty) Ltd at, and for the year ended, 30 June 2008.

### Other matters

Without qualifying my opinion, I draw attention to the following matters that relates to my responsibilities in the audit of the financial statements:

### Unaudited supplementary schedules

13. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion thereon.

### Non-compliance with applicable legislation

#### Municipal Finance Management Act

14. The accounting officer did not pay money owed by the municipal entity within 30 days of receiving the relevant invoice or statement, as required by section 99(2)(b) of the MFMA.

### Governance framework

15. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

### Key governance responsibilities

16. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).	✓	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.		✓

No.	Matter	Y	N
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The Pharoeh Park Housing Company (Pty) Ltd had an audit committee in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	✓	
7.	Internal audit		
	<ul style="list-style-type: none"> <li>The municipal entity had an internal audit function in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 95(c)(i) of the MFMA.	✓	
12.	Powers and duties assigned are in place, as set out in section 106 of the MFMA.	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	MPAC resolutions have been substantially implemented.	✓	
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in	✓	

No.	Matter	Y	N
	relation to the budget and delivery by the Pharo Park Housing Company (Pty) Ltd against its mandate, predetermined objectives, outputs, indicators and targets (section 87 of the MFMA).		
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on performance information

17. I have reviewed the performance information as set out on pages x to x.

### The accounting officer's responsibility for the performance information

18. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives, set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

### The Auditor-General's responsibility

19. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

20. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

21. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

## **Findings on performance information**

### **Non-compliance with regulatory requirements**

#### **Lack of adoption or implementation of a performance management system**

22. The Pharoeh Park Housing Company (Pty) Ltd did not adopt or implement a framework that describes and represents how the municipal entity's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players.

#### **Usefulness and reliability of reported performance information**

23. The following criteria were used to assess the usefulness and reliability of the information on the municipal entity's performance with respect to the objectives in its integrated development plan:

- Consistency: Has the municipal entity reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

#### **Inconsistently reported performance information**

24. The following change to the indicators in the approved Integrated Development Plan (IDP) was not authorized:

- The target for occupancy levels was 99% per the IDP and it was changed to 95% in the final report on performance information

25. The municipal entity has not reported throughout on its performance with regard to its indicators as per the approved Integrated Development Plan:

- Debtors outstanding less than 60 days;
- Increase/maintain rental collection rate; and
- Tenants debit orders

## Reported performance information not reliable

26. The source information or evidence provided to support the reported performance information with regard to the maintenance expenditure and level of occupancy did not adequately support the accuracy and completeness of the facts. Inconsistencies were noted for the following:

Table indicating maintenance expenditure:

Description	Amount in rand
Amount per general ledger	449 768
Amount per performance information	420 669
<b>Difference</b>	<b>29 099</b>

Table indicating level of occupancy:

Quarters	% per annual report	% per tenancy schedule
Quarters 1	98.00	99.50
Quarters 2	98.00	99.50
Quarters 3	98.00	99.31
Quarters 4	99.00	98.37

## APPRECIATION

27. The assistance rendered by the staff of the Pharoer Park Housing Company (Pty) Ltd during the audit is sincerely appreciated.

Johannesburg

30 November 2009



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*