

# **ANNEXURE C**

# Report of the auditor-general to the Gauteng Provincial Legislature and the council of the City of Ekurhuleni Metropolitan Municipality on Germiston Phase II Housing Company (SOC) Ltd trading as Ekurhuleni Housing Company

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Germiston Phase II Housing Company (SOC) LTD trading as Ekurhuleni Housing Company set out on pages ... to ....., which comprise statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actuals for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Germiston Phase II Housing Company (SOC) LTD trading as Ekurhuleni Housing Company as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipal entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **Emphasis of matter**

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

## **Material impairments – Consumer Debtors**

7. As disclosed in the note 6 to the financial statements, the consumer debtors balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R11 755 343 (2016-17: R9 907 007) which represents 87.8% (2016-17: 92.6%) of total consumer debtors. The contribution to the provision for debt impairment was R6 254 800 (2016-17: R 2 872 455).

## **Other matter**

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited disclosure notes**

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

## **Responsibilities of the accounting officer for the financial statements**

10. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Companies Act and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
11. In preparing the financial statements, the accounting officer is responsible for assessing Germiston Phase II Housing Company (SOC) Ltd trading as Ekurhuleni Housing Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipal entity or to cease operations, or has no realistic alternative but to do so.

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

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

**Introduction and scope**

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
15. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipal entity. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
16. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objectives presented in the annual performance report of the municipal entity for the year ended 30 June 2018:

Strategic Objectives	Pages in the annual performance report
Strategic Objective (Metro-wide): Ensure financial sustainability	x – x
Strategic Objective 1: Portfolio Expansion & Growth	x – x
Strategic Objective 3: Maintain and improve revenue collections	x – x

17. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

**Strategic Objective 2: Portfolio Expansion & Growth**

19. The strategic objective approved in the business plan was portfolionexpansion and growth. However, the actual achievement for this strategic objective was not reported in the annual performance report.

### **Acquire rental management contract for 3300 public rental units from the EMM**

20. The indicator and/or target approved in the business plan was acquire rental management contract for 3300 public units from EMM. However, the actual achievement was not reported in the annual performance report.

### **Strategic Objective 3: Maintain and improve revenue collections**

#### **Implementation of maintenance plan and review of business process**

21. The indicator and/or target approved in the business plan was implementation of maintenance plan and review of business process. However, the actual achievement was not reported in the annual performance report.

#### **Maintain low vacancy rates**

22. I was unable to obtain sufficient appropriate audit evidence to validate vacancy and occupation performance with regards to the occupation rate and vacancy rate. This was due to the municipal entity not maintaining accurate records of vacancies and occupancies of units. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 93% occupation rate as reported in the annual report.
23. I did not raise any material findings on the usefulness and reliability of the reported performance information for strategic objective (metro-wide): Ensure financial sustainability.

#### **Other matter**

24. I draw attention to the matter below:

#### **Achievement of planned targets**

25. Refer to the annual performance report on pages 2 to 19; 42 to 45 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 19, 20 and 21 of this report.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

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

27. The material findings on compliance with specific matters in key legislations are as follows:

#### Annual financial statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of the Statement of Comparison of Budget and Actuals, and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### Procurement and contract management

29. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

30. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).

31. Some contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding in contravention of SCM regulation 21(b) and 28(1)(a).

#### Expenditure management

32. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R3 160 750 as disclosed in note 31 to the annual financial statements, in contravention of section 95(d) of the MFMA. All of the fruitless and wasteful expenditure related to interest and penalties on to SARS.

33. Reasonable steps were not taken to prevent irregular expenditure amounting to R5 371 171 as disclosed in note 32 to the annual financial statements as required by section 95(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM regulation 21(b) and 28(1)(a).

#### Consequence management

34. Appropriate action was not taken against officials of the municipal entity where investigations proved financial misconduct, as required by section 172(3)(b) of the MFMA and municipal regulations on financial misconduct procedures and criminal proceedings 6(8).

#### Other information

35. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported in this auditor's report.

36. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
37. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
38. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### Internal control deficiencies

39. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual report and the findings on compliance with legislation included in this report.
40. The municipal entity did not have sufficient oversight structures to ensure proper implementation of controls over compliance with laws and regulations, and preventing or detecting material misstatements in the financial statements submitted for audit.
41. Senior management did not implement adequate systems of internal controls over financial reporting and compliance with key legislation.

*A. M. M. - General*

Johannesburg

30 November 2018



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



## **Annexure – Auditor-general’s responsibility for the audit**

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

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipal entity’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting officer.
  - conclude on the appropriateness of the board of directors, which constitutes the accounting officer use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Germiston Phase II Housing Company (SOC) Ltd trading as Ekurhuleni Housing Company ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipal entity to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

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



