

# 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 the statement of financial position as at 30 June 2020, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts (appropriation statement) 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 2020, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and 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 [consolidated and separate] financial statements section of this auditor's report.
4. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other 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 matters

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



## Material impairment

7. As disclosed in note 5 to the financial statements, customer debtors balance has been significantly impaired. The allowance for impairment amounts to R 42 435 008 (2018-19: R 16 350 638) which represents 93% (2018-19 68%) of total customer debtors. The contribution to the allowance for impairment was R 27 274 234 (2018-19: R 10 081 910).

## Material loss - Consumer debtors

8. As disclosed in note 24 to the financial statements, material losses amounting to R1 189 864 were incurred as a result of a write-off of irrecoverable consumer debtors

## Restatement of corresponding figures

9. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the entity at, and for the year ended, 30 June 2020.

## Covid 19 impact on the financial viability of the entity

10. I draw attention to note 41 in the financial statements, which deals with the effects of Covid-19 on municipal entity's collection of revenue and going concern assumption.

## Responsibilities of the accounting officer for the financial statements

11. 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 the Companies Act and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
12. In preparing the financial statements, the accounting officer is responsible for assessing the entity'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 entity or to cease operations, or has no realistic alternative but to do so.

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

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



## Report on the audit of the annual performance report

### Introduction and scope

15. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected strategic objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
16. My procedures address the usefulness and reliability of the reported performance information, which must be based on the entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the entity enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objective presented in the entity's annual performance report for the year ended 30 June 2020:

Strategic objectives	Pages in the annual performance report
Strategic objective 2 – To maintain quality and safe living environments for all the inhabitants in the EHC owned and managed stock	x – x

18. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not identify any material findings on the usefulness and reliability of the reported performance information for this strategic objective:
- Strategic objective 2 – To maintain quality and safe living environments for all the inhabitants in the EHC owned and managed stock

### Other matter

20. I draw attention to the matter below.



## Achievement of planned targets

21. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and explanations provided for the under / over achievement of targets.

## Report on the audit of compliance with legislation

### Introduction and scope

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

### Procurement and contract management

23. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). This non-compliance was identified in the procurement process for the security services at all EHC complexes.

## Other information

24. 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 71 of 2008 (Companies Act). The other information does not include the financial statements, the auditor's report and those selected strategic objective presented in the annual performance report that have been specifically reported in this auditor's report.
25. 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 on it.
26. 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 strategic objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
27. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.



## Internal control deficiencies

28. 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 findings on compliance with legislation included in this report.
29. The accounting officer did not exercise adequate oversight responsibility over internal controls relating to compliance with key laws and regulations. This resulted in a material non-compliance with legislation.
30. Senior management did not always ensure that adequate controls were designed, implemented and monitored relating to compliance with laws and regulations resulting in a material non-compliance with laws and regulations.

*Auditor General*

Johannesburg

28 February 2021



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 strategic objectives and on the 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 entity’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Brakpan Bus Company SOC Limited’s 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 my 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 an entity to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine 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, the actions taken to eliminate threats or the safeguards applied.