

**PART FOUR**

Annual Financial Statements

**ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2003**

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The Annual Report of the Western Cape Housing Development Board and the Financial Statements of the Western Cape Housing Development Fund will be tabled separately.

**MANAGEMENT REPORT**  
**For the year ended 31 March 2003**

Report by the Accounting Officer to the Members of the Provincial Parliament of the Western Cape.

**1. General review of the state of financial affairs**

Due to the departmentalisation a new Department of Housing was established on 1 August 2002. This meant a total restructuring of the support services function. The new establishment for the finance, human resource management and logistical services was approved by the Premier on 31 January 2003. As part of the departmentalisation model, the Department of Housing entered into a free agency service agreement with the new Department of Local Government for rendering the support services.

Flowing from the departmentalisation, all unspent budgets as on 31 July 2002 in respect of Local Government and Development Planning were shifted via the Adjustments Estimate for the 2002/03 financial year to the respective new departments. The expenditure figures for these functions are thus only for the period 1 April 2002 to 31 July 2002.

Although the full conditional grant of R378,860m for housing subsidies was transferred to the Western Cape Housing Development Fund, the Department did not spend the entire housing conditional grant for the first time since 1995/96. As at the 31 March 2003, 92% of the grant was spent. The main reasons for the underspending were (i) the introduction of the procurement policy for municipalities and housing developers, (ii) the financial contribution of R2 479 by beneficiaries to qualify for subsidies (iii) the enrolment of projects by the National Home Builders Registration Council (NHBRC).

The Department also embarked on a total restructuring of the Department to be in line with the new financial programme structures that were implemented on 1 April 2003 and the demands of a changing housing environment. The new financial structure was developed in conjunction with national and other provincial departments of housing and National Treasury to bring uniformity in the housing sector.

Although business plans for the full Human Settlement Redevelopment Programme grant of R13,250m were submitted timeously to the national Department of Housing in April 2002, it was only approved in November 2002. This again resulted in the Department not reaching the outcomes of this programme as stipulated in the

strategic plan for the year under review.

- Excluded from the financial statements is R22m that was spent from the iSLP fund administered by the Department. This programme is in its final stages and will be finalised by 31 March 2005.

## 1.1 General view

### Budget allocation

	<b>R'000</b>
<b>Total</b>	<b>483881</b>
Administration	18698
Housing	441297
Development Planning	4674
Local Government services	8880
Restructuring	10332
Special functions: Authorised losses	

### Underspending

	<b>R'000</b>
<b>Total</b>	<b>25703</b>
Administration	1425
Housing	23612
Development Planning	
Local Government services	1
Restructuring	665

## 1.2 Spending trends

Because of the departmentalised on 1 August 2002 and the shifting of two programmes to other departments, comparative trends in spending are not available.

All programmes and subprogrammes remained within their approved budgets. Application was made to the Provincial Treasury for the rollover of all unspent conditional grants.

## 2. Services rendered by the department

### 2.1 Tariff policy

### Subsidised motor transport

Tariffs are determined by the national Department of Transport. This income derived from the repayments of loans i.r.o. the old subsidised motor transport scheme is being phased out.

### Parking fees

All tariffs are revised annually by the Department of Public Works and approved by the Provincial Treasury in terms of National Treasury Regulation 7.3.1. These tariffs are applicable to all officials, consultants or persons who utilise official parking bays. These bays are also allocated by the said department.

## 2.2 Free Services

The Department renders a free agency service i.r.o. support services to the Department of Local Government resulting from the departmentalisation on 1 August 2002. All direct costs are however claimed from the said Department.

## 3. **Programme performance**

Detail of the performances of the respective programmes against targets set are given in Part 2: Programme Performance of the Annual Report.

### **Underspending**

Reasons for underspending

#### **Programme 1: Administration**

Saving due to the non-filling of posts because of departmentalisation and processes of Resolution 7/2002 and the subsequent non-buying of equipment (computers, etc.) for these posts.

#### **Programme 2: Housing**

Saving due to the non-filling of posts because of departmentalisation and processes of Resolution 7/2002 and the subsequent non-buying of equipment (computers, etc.) for these posts, late approval of business plans for the Human Settlement Redevelopment Programme, as well as capacity building courses not finalised before year end.

#### **Programme 5: Restructuring**

The saving is due to the phasing out of supernumeraries.

### **Impact on programmes and service delivery**

#### Human Settlement Redevelopment Programme

- Hampering of the goals/outcomes of the Human Settlement Redevelopment Programme. Targets as set in the business plans cannot be met and the legacy of dysfunctionality in human settlements cannot be addressed.

The under-collection of monies due to the Housing Fund in respect of Housing Board properties have a negative impact on serviced delivery.

#### **Action taken or planned to avoid recurrence**

The new establishment for the support services of the Department was only approved on 30 January 2003. After following the process of matching and placing of the personnel of the previous Department of Planning, Local Government and Housing, the Department tried to fill the posts in accordance of Resolution 7/2002. As no supernumeraries could be taken up, all posts had to be job evaluated before they could be advertised for filling from outside. The results were only received in mid July 2003 and the advertising of these posts will be done soonest.

Closer co-operation and communication with national departments will ensure that business plans in respect of national conditional grants are approved timeously to enable the Department to spend the full allocations in the financial year.

#### **4. Capacity constraints**

Apart from the capacity constraints i.r.o. the support services mentioned above, the Department is still experiencing capacity problems in the Directorate: Housing Settlement that is responsible for the administration of the Western Cape Housing Development Board properties. To address the problem in the short term, the Department recruited contract workers to perform the function.

These capacity constraints have a negative impact on serviced delivery and the collection of moneys due by debtors i.r.o. properties owned by the Board.

#### **5. Utilisation of donor funds**

No donor funds were received or utilised by the Department.

#### **6. Public entities**

The Western Cape Housing Development Board.

#### **6.1 General**

The Western Cape Housing Development Board is a provincial public entity as listed in terms of Schedule 3 of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (as amended).

**6.2 The Western Cape Housing Development Board (WCHDB).**

**Purpose**

The WCHDB was established in terms of the Western Cape Housing Development Act, 1999 (Act No. 6 of 1999). The duties and functions of the Board are stipulated in Section 7 of the said Act.

**Financial arrangements**

Funds are budgeted as a national conditional grant under the sub-programme Housing Management of the programme Housing of the Department in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (as amended). Transfers are made to the Fund as funds are received from the national Department of Housing. Reporting and other conditions as stipulated in the applicable annual Division of Revenue Act are strictly adhered to.

The accounting authority is the head of the department responsible for housing in the Province and the chief financial officer of the Department is also the chief financial officer of the Board.

The performance and the financial statements of the Western Cape Housing Development Fund will be tabled in a separate report to the Provincial Parliament.

**7. Other organisationstowhomtransferpaymentshavebeenmade**

All transfer payments and the purpose for the payments made are reported in Annexure 1 A of the Notes to the Annual Financial Statements.

Accountability arrangements in place over each transfer payment made is stipulated in the individual agreements to the entities receiving the transfer payments.

**8. Public/private partnerships (PPP)**

The Department had not entered into any PPP during the year under review.

**9. Discontinued activities/activities to be discontinued**

With the departmentalisation on 1 August 2002, the development planning and local government functions were transferred to other departments. No

other activities were discontinued or are to be discontinued.

**10. New/proposed activities**

The Department is rendering the support functions (Finance, Personnel and Logistics services) to the Department of Local Government as from 1 August 2002. It is anticipated that this service will continue till the end of the 2003/04 financial year.

**11. Events after the accounting date**

The Department implemented a new programme structure, in line with national and other provincial housing departments from 1 April 2003. This structure resulted from housing sectorial meetings held throughout 2002 and the beginning of 2003. This new structure incorporates the Western Cape Housing Development Fund in the Strategic Plan for 2003/04.

No conditions/events, both favourable and unfavourable, existed at year-end. There occurred thus no events between 31 March 2003 and the date of approval of the financial statements that necessitated adjusting the financial statements as on 31 March 2003.

All outstanding monies (R102 034 906.20) i.r.o. the transfer of balances from the ex Department 70, including the iSLP fund, were paid to the Department on 11 July 2003. After paying back all funds expended on the iSLP during 2001/02 and 2002/03, a temporary investment was made at the Provincial Treasury.

**12. Progress with financial management improvements**

An awareness campaign with structured information sessions on the PFMA was held during the period under review.

Regular reporting is done to the Provincial Treasury to ensure that the Department is on track with the implementation of the PFMA. The centralised Internal Audit Component of the Provincial Administration also monitors the implementation of the PFMA in the Department.

Financial delegations in terms of part 3 of Chapter 5 of the PFMA, as well as in terms of the NTR's were updated and issued during the financial year.

Financial processes and procedures in respect of the Treasury Instructions and the Exchequer Act have been adapted and issued in terms of the PFMA and NTR's. As the need arises, new procedures are developed and issued in terms of the new legislation and regulations.

The Department has embarked on the assessing of risks to update the

Fraud and Theft Prevention Plan. More emphasis will be placed on the successful incorporation of the Housing Fund in the books of the Department.

**Approval**

The annual financial statements set out on pages 48 to 80 have been approved by the Accounting Officer.



**(JWAFRICA)**

**(ACCOUNTING OFFICER)**

**DATE: 30 May 2003**

**REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL PARLIAMENT OF  
THE WESTERN CAPE ON THE FINANCIAL STATEMENTS OF THE  
DEPARTMENT OF HOUSING (VOTE 8) FOR THE YEAR ENDED 31 MARCH 2003**

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**REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL PARLIAMENT OF  
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FOR THE YEAR ENDED 31 MARCH 2003**

**1. AUDIT ASSIGNMENT**

The financial statements set out on pages 48 to 80, for the year ended 31 March 2003, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

**2. NATURE AND SCOPE**

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

**3. AUDIT OPINION**

In my opinion, the financial statements fairly present, in all material respects, the financial position of the department at 31 March 2003 and the results of its operations and cash flows for the year then ended in accordance with prescribed accounting practice and in the manner required by the relevant act.

#### **4. EMPHASIS OF MATTER**

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

##### **4.1 Matters affecting the financial statements**

###### **4.1.1 Payables – current, R106,2 million: Note 15 to the financial statements**

Included in the above is an amount of approximately R28,8 million in respect of the Integrated Serviced Land Project (ISLP), which the department administered on an agency service basis. The total allocation of approximately R125,3 for the project consisted of a balance transferred to the department from the former Department 70 on 1 March 2001 of approximately R123,9 million and cash received of approximately R1,4 million. However, the balance of R123,9 million was never received by the department in cash, which resulted in the department incurring expenditure by utilising surplus voted funds for the project. Furthermore, during the year under review, the forensic audit division of the Western Cape Provincial Administration undertook a forensic audit at the department. The forensic audit covered the provision of low cost housing, consolidation subsidies, the ISLP and facilitation grant payments. As a result of this investigation, supporting documentation amounting to approximately R3,4 million to verify the total expenditure of approximately R96,5 million (R74,4 million for 2001/2002 and R22,1 million for 2002/2003) in respect of the ISLP, could not be submitted during the audit. At the time of compiling this report the forensic audit report had not yet been issued.

###### **4.1.2 Suspense accounts**

Suspense accounts with debit balances of R25558361 and a credit balance of R25 314 305 as disclosed in notes 11 and 15.1 to the financial statements were not cleared at year-end.

The accounting officer indicated that all suspense balances have subsequently been cleared in the 2003/2004 financial year and indicated that none of the balances had any effect on the expenditure as stated in the financial statements. The clearing of the suspense accounts after year-end was verified by audit.

##### **4.2 Matters not affecting the financial statements**

#### **4.2.1 Contingent liabilities, R746000: Note 19 to the financial statements**

Included in the above is an amount of approximately R671000 in respect of housing loan guarantees. The report drawn from PERSAL to support the amount as disclosed did not in all cases agree to the information obtained from the financial institutions.

The accounting officer indicated that the amounts of guarantees are being followed up and that the necessary corrections would be made. He furthermore indicated that all guarantees implemented on PERSAL would be entered into the manual register.

#### **4.2.2 Inventories on hand, R219000: Note 4.2 to the financial statements**

The amount disclosed for inventories on hand at year-end was based on the quantities of physical stock as per the LOGIS system at 31 March 2003. The following unsatisfactory aspects were, however, brought to the attention of the accounting officer by way of informal queries and a management letter:

- No physical stock count was performed on inventories at year-end;
- Adjustments of stock balances were not authorised in all the cases tested; and
- The recipient of the goods did not sign issue vouchers in all the cases tested.

The accounting officer replied that the shortcomings are being addressed and indicated various corrective measures already implemented which will be reviewed during the next audit.

#### **4.2.3 Loss control account**

Cases in respect of thefts and losses amounting to R112792 have been unresolved for a period of twelve months or longer.

The accounting officer indicated that the delay in the finalisation of loss cases was mainly due to a severe personnel shortage during the financial year under review but confirmed that notwithstanding this fact, other urgent cases did receive the necessary attention. The personnel shortages were mainly due to the departmentalisation process on 1 August 2002. The new establishment for the Department of Housing was only approved on 31 January 2003 and the process of matching, placing and consulting with affected personnel was performed. The list of supernumerary personnel in the province in respect of Resolution 7/2002 that was implemented in June 2002 was also only made available in November 2002. He furthermore indicated that it was not unusual for cases to be older than twelve months and that it was envisaged that more attention would be paid on finalising outstanding cases with the filling of vacant posts in the new financial year.

#### **4.2.4 Transferring of assets**

The process to transfer assets as part of the departmentalisation of the former Department of Planning, Local Government and Housing, has not yet been finalised at year-end and as a result the documents as prescribed in terms of section 42 of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), were also not signed.

The accounting officer indicated that a submission was drafted for the signatures of both Head of Departments but indicated that the Chief Directorate Planning did not want to certify the transfer documents due to the incorrect asset register. He furthermore stated that the formal transferring of assets would be finalised by the Office of the Chief Finance Officer of the department.

#### **4.2.5 Financial management**

##### **(a) Internal audit**

During the year under review, internal audit did not perform any audits at this department.

A query in this regard was addressed to the accounting officer of Vote 1 – Premier, Director-General and Corporate Services, the department within which internal audit is a component. In response it was indicated that, although the component was fully funded, the internal audit directorate could not perform audits at the Department of Housing due to a lack of capacity. Vacant posts were advertised during March 2002, but due to restructuring, a moratorium was imposed by cabinet on the filling of vacant posts. As a result, internal audit's efforts were focussed mainly on the departments of Social Services and Poverty Alleviation, Education and Health, being the three high risk departments. This decision was based on a financial risk assessment which indicated that 80% of the provincial budget for the 2002-03 financial year was allocated to the aforementioned departments. All available personnel resources were therefore allocated to the internal audits of those departments to provide maximum coverage.

It was further indicated that, with effect from 1 August 2003, the internal audit component would be transferred to the Provincial Treasury and that steps were underway to ensure that a functional internal audit service will be rendered during the course of the 2003-04 financial year.

##### **(b) Audit committee**

- (i) On 4 May 2000, the provincial Minister of Finance, in accordance with the powers assigned to him in terms of sections 17(2) and 77(c) of the PFMA established a centralised audit committee for the Western Cape Province for a period of two years. The audit committee charter required that the audit committee meet not less than four times per calendar year to address internal audit issues. However, with effect from September 2001, the audit committee has not been operational due to an inability to appoint qualified members.

- (ii) At a cabinet meeting held on 30 April 2003, a shared audit committee consisting of five members, was appointed for the period from 1 April 2003 to 31 March 2005. The shared audit committee would also perform all its assigned functions in terms of the national treasury regulations for all departments retrospectively from 1 April 2002 to 31 March 2003. Thereafter the departments of Social Services and Poverty Alleviation, Education and Health would each have to appoint their own audit committee as previously resolved by cabinet. The shared audit committee's functions would continue for the remainder of the departments of the Western Cape Province.

(c) **Risk assessment and fraud prevention plan**

In terms of the Western Cape Provincial Treasury Instructions and read in conjunction with National Treasury Regulations, the accounting officer must ensure that a risk assessment is conducted at the department to identify any emerging risks. A risk management strategy, including a fraud prevention plan, must furthermore be used to direct internal audit effort and priority, and to determine the skills required of managers and staff to improve controls and to manage these risks. For the period under review, the department has only prepared a risk framework and a generic fraud prevention plan.

The accounting officer indicated that the department is currently conducting a review of the risk assessment in order to update the fraud prevention plan.

**4.2.6 Internal checking and control**

Various control weaknesses and deficiencies were brought to the attention of the accounting officer by way of informal queries and a management letter. In reply to the management letter the accounting officer indicated corrective measures to be implemented which will be reviewed during the next audit.

**5. APPRECIATION**

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

A handwritten signature in black ink, appearing to read 'Itheron', written in a cursive style.

*I THERON*  
**for Auditor-General**

**Bellville**  
**30 July 2003**