

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE ON THE WESTERN CAPE HOUSING DEVELOPMENT FUND

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Western Cape Housing Development Fund, which comprise the statement of financial position as at 31 March 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year ended, a summary of significant accounting policies and other explanatory information, and the accounting authority's report, as set out on pages 1 to 40.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Because of the matters described in the Basis for disclaimer opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. Included in note 8 to the financial statements is Property, plant and equipment to the value of R2,6 billion (2010:R2,3 billion). The following was noted during the audit of property, plant and equipment:
 - Properties were transferred to the legal owners, but the properties were included in the financial statements and consequently the existence of these properties could not be confirmed.
 - Properties where the fund has a vested right i.e. the property has been registered in the name of Western Cape Housing Development Fund, have not been included in the financial statements and the completeness and the rights to the properties could not be confirmed.

- At least 5800 immovable properties were recorded in the financial statements at a zero value for initial recognition of the property; consequently the valuation of properties could not be confirmed.
 - Insufficient and inappropriate evidence was presented to substantiate disposals, deletions, revaluation and impairment of proper, consequently completeness of disposals, deletions, revaluation and impairment of property could not be confirmed.
5. The Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment, paragraph 17.38* requires that subsequent to initial recognition at cost, an item of property, plant and equipment should be carried at cost less accumulated depreciation and accumulated impairment losses. As indicated in note 8 to the financial statements, property, plant and equipment was not depreciated during the current or preceding financial years. In addition paragraph 17.61 requires the entity to review the residual values and useful lives of buildings at each reporting date. The disclosure requirements of paragraph 17.82 were not complied with as well.
 6. As a result of the findings noted with the property register as stated above and the inability to separate the cost of the land from the buildings, I was unable to confirm, or verify by alternative means, the value of the misstatement as a result of the entity not complying with GRAP 17.
 7. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and right of ownership of the land and buildings of R2,6 billion, as disclosed in note 8 of the financial statements.

Profit on disposals of properties

8. Included in the Statement of Financial Performance is an amount of R2 997 000 (2010: R3 454 000) relating to profit on disposals of properties. There was no system of control over the recording of profit on disposal of properties which I could rely on. The entity's records did not permit alternative audit procedures. Consequently, I was unable to verify the occurrence and completeness of the profit on disposal of properties.

Loss on disposal of properties

9. Included in the Statement of Financial Performance is an amount of R7 880 000 (2010: R257 111 000) relating to loss on disposals of properties. There was no system of control over the recording of loss on disposal of properties which I could rely on. The entity's records did not permit alternative audit procedures. Consequently, I was unable to verify the occurrence and completeness of the loss on disposal of properties.

Accounts Receivable

10. Included in receivable and prepayment, as disclosed in note 9 to the financial statements is an amount of R384 953 000 (2010: R407 909 000) relating to provision for doubtful debts, An impairment loss has not been recognised in accordance with SA Standards of GRAP, IAS 39 (AC 133), *Financial instruments:*

Recognition and measurement based on the past payment history of the specific debtors. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation of the provision for doubtful debts. The entity's records did not permit alternative audit procedures.

11. The accounting policy of the Western Cape Housing Development Fund on arrangements that met the requirements for finance leases were not in line with GRAP 13 *Leases* (measurement and presentation requirements). Consequently I could not obtain sufficient audit evidence necessary to satisfy myself as to the valuation of suspensive sale debtors amounting to R385 million (2010: R405 million) as disclosed in note 8 of the financial statements.

Cash flow statement

12. Presentation of the cash flow statement, summarising the entity's operating, investing and financing activities, is required by Standard of Generally Recognised Accounting Practice, GRAP 2, *Cash flow statements*. The net cash flow from operating activities in Note 15 is not disclosed in the cash flow statement (net cash flows from operating activities) for the amount of R43 432 000 (2010: R44 713 000).

Accounts payable

13. Included in trade and other payable, as disclosed in note 11 to the financial statements is an amount of R3 971 000 (2010: R7 894 000) relating to advance payments received from debtors. Sufficient appropriate audit evidence could not be obtained to satisfy myself as to the existence, obligation and valuation of the payments received in advance as disclosed in the financial statements.

Revaluation Reserve

14. Included in revaluation reserve is a reversal amounting to R2,2 billion as disclosed in Note 12 of the financial statements. Sufficient appropriate audit evidence could not be provided for the reversal. Consequently, I was unable to verify the valuation and completeness of revaluation reserve. The entity's records did not permit alternative audit procedures.

Disclaimer of opinion

15. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matters

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

Restatement of corresponding figures

17. As disclosed in note 12.2 to the financial statements, the corresponding figures for 31 March 2010 have been restated as a result of the first time implementation of GRAP during the current financial year.

Going concern

18. As disclosed in note 24 a national decision was taken to de-establish the housing funds in the provinces. However, the legislative changes to the National Housing Act, 1997 (Act no. 107 of 1997) have not yet been enacted to allow de-establishment of the funds. The Fund aims to finalise the sanitization of the properties and the phasing out of debtors book by promoting ownership by March 2014.

Material losses/ Impairments

19. As disclosed in note 8 to the financial statements, provision for doubtful debts amounting to R384 953 000 was recognised as a result of the non payments of debtors in the prior year.

Additional matter

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

Material inconsistencies in other information included in the annual report

21. No material inconsistencies between the draft annual report and financial statements were identified. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

Financial reporting framework

22. The entity's basis of accounting changed from entity specific in the prior year to SA Standards of GRAP in the current year.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

23. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on material non-compliance with laws and regulations applicable to the public entity.

Compliance with laws and regulations

Late submission of financial statements

24. The annual financial statements were not submitted within two months after the end of the financial year as required by section 55(1)(c) of the PFMA.

Financial statements

25. The financial statements submitted for audit did not comply with section 55(1) (a) to (b) of the PFMA as material misstatements were identified during the audit and was not corrected by management.

Procurement and contract management

26. Awards were made to suppliers who did not submit a declaration of past supply chain practices such as fraud, abuse and non-performance as per the requirements of Treasury regulation 16A9.1(a) and Practice Note 4 of 2006.

INTERNAL CONTROL

27. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, and the findings on compliance with laws and regulations included in this report.

Leadership

28. The accounting authority did not adequately exercise oversight responsibility throughout the financial year to ensure accurate and complete financial information and financial statements. This is evident by the extent of sufficient appropriate evidence that could not be timeously presented for audit purposes and the material misstatements included in the financial statements.

Financial and performance management

29. Pertinent information was not identified and captured in a form and timeframe to support financial reporting. Adequate processes were not implemented by management for the first time adoption of the GRAP reporting framework. Furthermore the Fund financial records were maintained using BAS (which supports the cash basis of accounting) which resulted in material misstatements.

Cape Town

31 August 2011



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