



AUDITOR-GENERAL
SOUTH AFRICA

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FINAL MANAGEMENT REPORT

WESTERN CAPE HOUSING DEVELOPMENT FUND (WCHDF)

31 March 2011

MANAGEMENT REPORT

WESTERN CAPE HOUSING DEVELOPMENT FUND (WCHDF)

31/03/2011

CONTENT

Introduction	3
The Auditor-General's responsibilities	3
The accounting officer responsibilities	4
Matters relating to the auditor's report	6
Conclusion on reporting on predetermined objectives	13
Specific focus areas	14
Significant deficiencies in internal control	15
Ratings of detailed audit findings	21
Conclusions	22
Summary of detailed audit findings	23
Detailed audit findings contained in annexures A – C	26

FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE WESTERN CAPE HOUSING DEVELOPMENT FUND (WCHDF) FOR THE YEAR ENDED 31 MARCH 2011

INTRODUCTION

1. This management report is provided to facilitate consideration and correction of the audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations that have come to our attention to date. A final management report will be provided after the completion of the audit.
2. The management report consists of an executive summary and detailed audit findings which are contained in annexures A, B and C.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and Western Cape Housing Development Act (Act No.6 of 1999) our responsibility is to express an opinion on the financial statements and to report on findings relating to our audit of the report on predetermined objectives and compliance with material matters in laws and regulations applicable to the entity. Our engagement letter sets out our responsibilities in detail. These include the following:
 - Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and compliance with laws and regulations applicable to the entity. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, the report on predetermined objectives and material non-compliance with laws and regulations.
 - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements and compliance with laws and regulations.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
 - Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial statements and compliance with laws and regulations.
4. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or compliance with all applicable laws and regulations.

5. Having formed an opinion on the financial statements, we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion.

These may include:

- an emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the financial statements which is of such importance that it is fundamental to their understanding of the financial statements.
- an additional matter paragraph to draw users' attention to any matter, other than those presented or disclosed in the financial statements, that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

THE ACCOUNTING OFFICER'S RESPONSIBILITIES

6. The accounting office responsibilities are set out in detail in the engagement letter. These include the following:

- The preparation and fair presentation of the financial statements in accordance with Generally Recognised Accounting Practices (GRAP) and Public Finance Management Act (Act no. 1 of 1999) as amended by the Public Finance Management Amendment Act (Act no. 29 of 1999)
 - Review and monitoring of compliance with laws and regulations and disclosing known instances of non-compliance or suspected non-compliance with laws and regulations.
 - Designing, implementing and maintaining proper record keeping and internal controls necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error, and compliance with laws and regulations.
 - Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
 - Implementing appropriate risk management activities to ensure that regular risk assessments are conducted.
 - Disclosing all matters concerning any risk, allegation or instance of fraud.
 - Accounting for and disclosing related-party relationships and transactions.
 - Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records and documents.
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EXECUTIVE SUMMARY

SECTION 1: Meetings with oversight bodies and those charged with governance

7. During the audit cycle we met with key stakeholders to communicate matters relating to the audit outcomes of the Western Cape Housing Development Fund and emerging risks. Insight was provided on the key controls that impact these audit outcomes to enable corrective action to be taken.
8. Meetings were conducted as follows:
 - Executive authority: 11 May 2010; 17 May 2011 and 25 May 2011
 - Accounting officer: 14 February 2011; 25 May 2011
 - Audit committee: 6 August 2010, 2 September 2010, 5 November 2010, 25 February 2011, 14 April 2011, 8 June 2011
9. At these meetings with management commitments were made to address improvements in the internal control environment with the objective of achieving clean administration. Progress made on these commitments is discussed later in this report.

SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS

10. Material misstatements in the financial statements were identified during the audit. These misstatements were not prevented or detected by the Western Cape Housing Development Fund's system of internal control. These material misstatements also constitute non-compliance with the PFMA. The misstatements not corrected form the basis for the disclaimed opinion on the financial statements.

Material misstatements		Impact	Internal control deficiency
Financial statement item	Finding (brief description of misstatements as per findings and audit report)	R	
Material misstatements not corrected			
Profit and loss on disposal (COMAF no. 16)	Profit on Disposal - Ownership has not been transferred to the purchaser and property is not registered to the WCHDF nor the purchaser, even though the sale has been processed, yet the profit/loss on disposal has been recognised.	R18 837 913,55	<u>Financial and Performance management</u> Review and monitor compliance with applicable laws and regulations.
Trade and other receivable (COMAF no. 17)	No application of GRAP 13 on suspensive sales - No lease payments for the rentals were disclosed in the annual financial statements (AFS) to meet the requirement of GRAP 13.	R384 469 860,00	<u>Financial and Performance management</u> Review and monitor compliance with applicable laws and regulations. There was no review of financial statements against applicable GRAP standards prior to submission for audit.
Property, plant and equipment – No title Deeds (COMAF no. 20)	Identification of 349 properties that have no title deeds with a value of R11 093 124,27.	(R11 093 124,27)	<u>Financial and performance management</u> Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
Property, plant and	Properties with no values - There were	(R887 578 904,04)	<u>Financial and performance management</u>

Material misstatements		Impact R	Internal control deficiency
Financial statement item	Finding (brief description of misstatements as per findings and audit report)		
equipment (COMAF no. 23)	5 886 assets identified on the asset register that had no balances. The value of these assets should have been debited to the cost of the assets and not to the revaluation reserve.		Implement controls over daily and monthly processing and reconciling of transactions
Property, plant and equipment (COMAF no.27)	Properties not in the name of the fund- The title deeds are not in the name of the WCHDF, yet the properties are still included in the property register.	(R12 554 033.16)	<u>Financial and performance management</u> Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Controls were not adequately implemented to ensure that title deeds are in the name of the WCHDF and controlled with the property register.
Trade and other payable (COMAF no. 28)	Overstatement of Accounts Payable: Current year - no actual payments were received from debtors and therefore the accounts payable amount refundable to debtors is not valid.	R3 970 000,00	<u>Financial and performance management</u> Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
	Overstatement of Accounts Payable: Prior year no actual payments were received from debtors and therefore the accounts payable amount refundable to debtors is not valid.	R7 894 000,00	Controls were not implemented to ensure that refunds due to debtors are valid transactions.
Property, plant and equipment (COMAF no. 31)	Inadequate Information provided for revaluations - There was inappropriate audit evidence to	R1 325 163 489,21	<u>Financial and performance management</u>

Material misstatements		Impact R	Internal control deficiency
Financial statement item	Finding (brief description of misstatements as per findings and audit report)		
	substantiate the revaluations value , i.e. independent valuation certificate		Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting Controls were not implemented to ensure that adequate supporting documents exist to substantiate revaluations.
Loss on disposal of properties (COMAF no. 32)	Profit/loss on sale: limitation of scope prior year- the sale contracts /files were not presented for audit purposes. The test to confirm the accuracy/valuation assertion could not be performed ,	R253 113683.28	<u>Financial and performance management</u> Review and monitor compliance with applicable Controls were not implemented to ensure that information is properly filed for easy reference.
Loss on disposal of properties (COMAF no. 33)	Profit/loss on sale: prior year - transfer of ownership did not take place, and the property is still in the name of the Housing Fund	(R3 801 725,14)	<u>Financial and performance management</u> Review and monitor compliance with applicable laws and regulations.
Property, plant and equipment (COMAF no. 36)	Items not appearing on the fixed asset register - assets that should have been included in the asset register, as they had not been disposed of, but were omitted.	R28 254 641,53	<u>Financial and performance management</u> Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Material misstatements		Impact R	Internal control deficiency
Financial statement item	Finding (brief description of misstatements as per findings and audit report)		
			Controls were not implemented to ensure that pertinent information had been captured to support the AFS.
Property, plant and equipment (COMAF no. 37)	Properties information not provided – The validity and existence of these properties could thus not be verified.	(R46 239 852,30)	<u>Financial and Performance management</u> Review and monitor compliance with applicable laws and regulations Controls were not implemented to ensure that there is proper record keeping of the documents.
Property, plant and equipment (COMAF No.39)	Impairment of Assets - a debit balance in the impairment account of R43 908 000 was identified.	R43 908 000,00	<u>Financial and performance management</u> Management does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. There are inadequate controls in place to review and authorize journal transactions.
Expenditure (COMAF No.41)	Transactions incorrectly classified as impairments- Assets transferred to municipalities were classified as impairments when they were disposals.	(R7 215 971,00)	<u>Financial and performance management</u> Management does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and

Material misstatements		Impact R	Internal control deficiency
Financial statement item	Finding (brief description of misstatements as per findings and audit report)		
			<p>performance reporting.</p> <p>Inadequate oversight by management over the preparation of the financial statements to ensure correct classification of amounts.</p>
Revaluation Reserve (COMAF No.42)	Reversal of Impairment -assets taken off the asset register in the prior financial period and brought onto the asset register in the current financial period as an impairment reversal. These assets were incorrectly classified as impairment reversals instead of additions	(R1 309 354,00)	<p><u>Financial and performance management</u></p> <p>Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting</p> <p>Inadequate oversight and monitoring of assets.</p>
Trade and other receivables (COMAF No.18)	Provision for Doubtful Debts: Current Year	R384 953 000,00	<p><u>Financial and Performance management</u></p> <p>Review and monitor compliance with applicable laws and regulations</p> <p>There was no review of financial statements against applicable GRAP standards prior to submission for audit</p>
	Provision for Doubtful Debts: Prior Year Assessment of impairment of suspensive sale debtors (lease debtors) and rental debtors was not performed. Hence it could not be determined whether debtors were impaired or not.	R407 909 000,00	
Assets (COMAF No.3, 4, 5,	Assets misstated: The WCHDF used three	R2 593 662 000,00	<u>Financial and Performance management</u>

Material misstatements		Impact R	Internal control deficiency
Financial statement item	Finding (brief description of misstatements as per findings and audit report)		
6, 22, 23)	different bases of revaluation for a particular class of property during the year under review. In addition the valuation applied in the prior year was used for the current year. Depreciation was not accounted for and Land and Buildings was not split.		Review and monitor compliance with applicable laws and regulations There was no review of financial statements against applicable GRAP standards prior to submission for audit
Material misstatements corrected			
Expenditure (COMAF no. 1)	Completeness of expenditure : Current Year	R2 419 811,05	<u>Financial and performance management</u> Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
	Completeness of expenditure : Prior Year - payments were not taken into consideration for the preparation of the financial statements.	R896 977,72	
Financial statement errors (COMAF no. 9)	Occurrence of expenditure Amounts were incorrectly calculated.	R804 000.00	<u>Financial and performance management</u> Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Controls were not implemented to verify the accuracy of the financial statements

Material misstatements		Impact R	Internal control deficiency
Financial statement item	Finding (brief description of misstatements as per findings and audit report)		
Trade and other receivables (COMAF no. 21)	Non compliance in terms of presentation of annual financial statements: Profit on sale of property has been offset and the net amount has been presented and disclosed	R 2 997 909,81	<u>Financial and Performance management</u> Review and monitor compliance with applicable laws and regulations. Management has exercised inadequate controls to ensure that presentation and disclosure of financial statements is fair and that GRAP standards are complied with.
	Loss on sale of property has been offset and the net amount has been presented and disclosed	(R 7 879 909,81)	
Expenditure (COMAF No.15)	Rental Adjustment - This relates to rental adjustments for 2009 that were initially raised as rental income but due to transfer from rental to sale, the amount had been reversed. The amounts were however not reversed in the accumulated surplus.	R11 279 000,00	<u>Financial and performance management</u> Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Controls were not implemented to ensure the adjustments in respect of prior periods are correctly recorded.

PART B – MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS

EMPHASIS OF MATTER PARAGRAPHS

An emphasis of matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

Restatement of corresponding figures

11. 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

12. 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

13. 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 PARAGRAPHS

An additional matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

Material inconsistencies in other information included in the annual report

14. No material inconsistencies between the draft annual report and the financial statements were identified. The final printer's proof of the annual report will be reviewed and where material inconsistencies are identified, it 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

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

**PART C – REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS
FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS**

Included below are findings on material non-compliance with laws and regulations applicable to the entity.

Annual financial statements

16. The financial statements submitted for audit did not comply with section 55(1)(a) and (b) of the PFMA. Material misstatements were identified during the audit, majority of these were not corrected by management and have been included in the basis for disclaimer of opinion paragraphs.
17. 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.

Procurement and contract management

18. Awards were made to suppliers who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as per the requirements of Treasury regulation 16 A8.3 and Practice Note 7 of 2009/10.

INTERNAL CONTROL

Achievement of internal control objectives

19. Significant deficiencies that resulted in the basis for the disclaimed opinion and findings on compliance with laws and regulations are summarised below. Detailed information on significant internal control deficiencies is provided in section 5 of this report.

- Leadership

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, the material misstatements included in the financial statements and the non compliance relating to SCM regulations..

- Financial and performance management

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.

PART D – OTHER REPORTS

INVESTIGATIONS

20. Investigations

There were no investigations during the year.

SECTION 3: CONCLUSION ON THE REPORT ON PREDETERMINED OBJECTIVES

21. Predetermined objectives has been included as part of the audit of the Western Cape Department of Human Settlements.

SECTION 4: SPECIFIC FOCUS AREAS

PART A – SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT

22. The audit included an assessment of procurement processes, contract management and controls of Parliament, which should ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism and unfair and irregular practices. The assessment has indicated the following deficiency:

Procurement processes and contract management

23. Transactions to the value of R1 632 050.18 was procured from suppliers without declarations of interest being obtained for awards between R10 000 and R200 000.

Internal control deficiency

24. There was insufficient monitoring control by the supply chain unit to ensure that declarations of interest were submitted for awards made to suppliers.

SECTION 5: SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

PART A – ASSESSMENT OF THE ACHIEVEMENT OF CONTROL OBJECTIVES

25. The achievement of the objectives of internal control is demonstrated by the implementation of key controls. The assessment below is based on significant deficiencies relating to the fair presentation of the financial statements, material misstatements corrected as a result of the audit, findings on predetermined objectives and findings on non-compliance with laws and regulations. Significant deficiencies occur when internal controls either do not exist or are not appropriately designed to address the risk or are not implemented and which either had or could cause the financial statements or report on predetermined objectives to be materially misstated and material non-compliance with laws and regulations to occur. The key controls are assessed as follows:

	A significant deficiency is not applicable.
	The deficiency still exists but significant progress had been made to address it.
	Urgent attention to the matter is required.

26. Part B gives additional information on the deficiencies that should be addressed. Other deficiencies in internal control, which require the attention of management, are included in the detailed findings attached to this report.

3 Audit dimensions Fundamentals of internal control	Financial	Performance objectives	Compliance with laws and regulations
	Assessment		
Leadership			
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity		N/A	
• Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls		N/A	
• Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored		N/A	
• Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities		N/A	
• Develop and monitor the implementation of action plans to address internal control deficiencies		N/A	
• Establish an IT governance framework that supports and enables the business, delivers value and improves performance		N/A	N/A
Financial and performance management			
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting		N/A	
• Implement controls over daily and monthly processing and reconciling of transactions		N/A	
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information		N/A	
• Review and monitor compliance with applicable laws and regulations		N/A	
• Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information		N/A	N/A
Governance			
• Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored		N/A	
• Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively		N/A	
• Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations		N/A	

PART B – DETAILS CONCERNING THE ACHIEVEMENT OF INTERNAL CONTROL OBJECTIVES

LEADERSHIP

Oversight responsibility regarding reporting and compliance

27. The accounting officer did not review the financial statements for accuracy and completeness prior to the submission for audit purposes and thus the following matters were not identified and corrected:

- Non compliance with GRAP standards as communicated to management
- Misstatements as communicated per findings

Implementation of policies and procedures

28. The Fund does not have documented and approved internal policies and procedures to address planning, implementation, monitoring and reporting processes.. The Fund relies on the system of the Western Cape Department of Human Settlements.

FINANCIAL AND PERFORMANCE MANAGEMENT

Availability of expected information

29. Significant difficulties encountered during the audit include:

- The Fund did not have its own accounting system. The fund utilised the system of the Western Cape Department of Human Settlements for which completeness / cut-off findings were raised. The departments accounting system supports a cash basis of accounting whereas the Fund was on an accrual basis for the current year.

Adequacy of IT systems for the preparation of the financial statements

30. The Fund did not have its own IT system to maintain data. Furthermore the existing method of recording information did not support its applicable financial reporting framework

Controls over daily and monthly processing and reconciling of transactions

31. The Western Cape Housing Development Fund's accounting is maintained on a cash basis (using BAS), while the financial statements are prepared on an accrual basis. The entity's manual and/or automated controls and processes were not adequate during the year under review to ensure accurate and complete financial reporting when converting information from a cash basis to an accrual basis of accounting for financial reporting purposes.

Monitoring of compliance with laws and regulations

32. Management did not institute sufficient review and monitoring to ensure compliance with laws and regulations. Declarations of interest were not obtained from suppliers.

Adoption of accounting policies/ accounting estimates

33. The Fund has not consistently applied the applicable reporting framework. Material reported items relate to:

- Property Plant and equipment
- Accounts receivable
- Impairment of debtor
- Revenue
- Expenditure

34. Going concern assessment was not performed. Management is required make judgement whether the Western Cape Housing Development Fund is a going concern in the next financial period and beyond.

Use of consultants for financial statement preparation

35. The Western Cape Housing Development Fund employed consultants for accounting related services, including the preparation of the financial statements submitted for auditing to supplement the capacity and skills of the finance unit.

Accuracy and completeness of financial statements

36. As indicated in section 1, **part A of this report**, the financial statements contained numerous misstatements that were substantially not corrected due to lack of sufficient appropriate evidence supporting the financial statement balances. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework.

GOVERNANCE

37. Internal audit performed two audits for the period under review. The draft follow up report was issued in February 2011 and the Land and Asset management report in March 2011. Therefore there was not sufficient time to implement the recommendations.

Risk management

38. Going concern assessment was not performed. Management is required make a judgement as to whether the Western Cape Housing Development Fund is a going concern in the next financial period and beyond.

PART C – ACTIONS TAKEN TO ADDRESS MATTERS PREVIOUSLY REPORTED

Accounting officer

39. Management has commenced with an action plan to address identified weaknesses. The programme had not been implemented during the year under review.

PART D – EMERGING RISKS

Accounting and compliance matters

40. *Conversion from cash basis of accounting to accrual basis of accounting:* At year end the entity embarked on a complicated exercise to convert cash basis of accounting to accrual basis of accounting to prepare GRAP compliant financial statements

41. *Procurement and Contract Management:* The entity does not have adequate processes in place to address the onerous reporting requirements that may be required by the new Western Cape legislation regarding Procurement (Business Interest of Employees) Act, 2010 (Act No 8 of 2010), as published in the Provincial Gazette Extraordinary 6832 of 10 December 2010.

The following Standards of Generally Recognised Accounting Practice (GRAP) Standards have been issued and will be effective 1 April 2012. It is important that the entity ensure that these standards are implemented:

GRAP 21 – Impairment of non-cash generating assets

GRAP 23 – Revenue from non-exchange transactions

GRAP 24 – Presentation of Budget Information in Financial Statements

GRAP 26 – Impairment of cash generating assets

GRAP 103 – Heritage Assets

Standards approved but not yet effective:

GRAP 25 – Employee Benefits

GRAP 104 – Financial Instruments

Management should assess the impact that the above standards will have on the financial statements of the WCHDF. In the event that the impact is material, timely measures should be put in place to ensure compliance with the requirements of the standards.

SECTION 6: RATINGS OF DETAILED AUDIT FINDINGS

42. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report - These matters should be addressed as a matter of urgency.
- Other important matters – These matters should be addressed to achieve clean administration.
- Administrative matters – These matters are unlikely to affect the decisions of the users of the financial statements or performance information and should be addressed at the discretion of the entity.

SECTION 7: CONCLUSION

43. The matters communicated throughout this report relate to the three fundamentals of internal control which should be addressed to achieve sustained clean administration. The AGSA staff remain committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Thandeka Zondi
Deputy Business Executive

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SUMMARY OF DETAILED AUDIT FINDINGS												
Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
100	Financial statement errors - COMAF no. 9	✓						✓				
102	WCHDF does not have an accounting system - COMAF 12				✓			✓				
28	Non-compliance in terms of presentation of Annual Financial Statements - COMAF no. 21	✓					✓					
103	No assessment of Going Concern and Disclosure - COMAF 14				✓			✓				
Accounts payable												
97	Overstatement of Accounts Payable (Debtor's refund) – COMAF 28	✓					✓					
Cash and cash equivalents												
104	No bank account for the WCHDF - COMAF 13				✓			✓				
Immovable assets												
33	Revaluation Method not in accordance with GRAP 17 - COMAF no. 3	✓					✓					
35	Revaluations have not been frequently performed - COMAF no. 4	✓					✓					
38	No depreciation has been accounted for - COMAF no. 5	✓					✓					

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
40	Land & Buildings not separately disclosed - COMAF no. 6	✓					✓					
42	Loss on disposal COMAF 16	✓					✓					
45	Profit/loss on disposal - COMAF 22	✓					✓					
47	No title deeds - COMAF 20	✓					✓					
62	Assets with nil Balance - COMAF no. 23	✓					✓					
68	Properties not in name of the Housing Fund – COMAF no. 27				✓			✓				
106	Non compliance to GRAP 17 - COMAF 24				✓			✓				
72	Inadequate supporting documents provided for revaluations – COMAF 31	✓					✓					
78	Profit/loss - Limitation: prior year – COMAF 32	✓					✓					
80	Profit/loss on sale :prior year – COMAF 33	✓					✓					
82	Items not appearing on the fixed assets register – COMAF 36	✓					✓					
86	Items for which no information had been provided – COMAF 37	✓					✓					
109	Property transfer before 1 April 1990 – COMAF 38	✓						✓				

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
84	Impairment of assets – COMAF 39	✓					✓					
89	Impairment of Assets – COMAF 41	✓					✓					
91	Reversal of impairment – COMAF 42	✓					✓					
Operating expenditure												
115	Expenditure: Completeness - COMAF no. 1	✓					✓					
110	Expenditure - Rates and taxes: Rates paid for property not owned – COMAF 40				✓			✓				
Provisions												
93	Provision bases- COMAF 18	✓					✓					
Receivables												
120	Existence of Accounts Receivables : Rent - COMAF no. 7	✓					✓					
114	Accounts Receivables : Property with two debtor numbers linked to it - COMAF no. 8	✓						✓				
123	Debt Collection Policy not adhered to – COMAF no. 29				✓			✓				
125	Evidence not provided for audit purposes - COMAF 10	✓						✓				
131	Instalments received amount not disclosed in the AFS – COMAF 26	✓					✓					

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
38	Debtor File provided does not contain debtor agreement – COMAF 34	✓					✓					
95	Receivables: Non compliance to GRAP 13 COMAF 17	✓					✓					
Revenue												
128	Administration fee levied is not according to standard rates - COMAF no. 19	✓					✓					
126	Recognition of Interest Raised - COMAF 11				✓			✓				
130	Rental adjustment (Comparative) COMAF 15	✓					✓					

DETAILED AUDIT FINDINGS

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

1. Non-compliance in terms of presentation of annual financial statements

Audit finding

According to paragraph 42 of GRAP 1:

“Assets and Liabilities’ and ‘Revenue and Expenses’ shall not be offset unless required or permitted by a standard of GRAP.”

According to paragraph 36 of the Framework for Preparation and Presentation of Financial Statements:

“The financial statements also contain notes, supplementary schedules, and other information. For example, they may contain additional information that is relevant to the needs of users about the items in the statement of financial position and statement of financial performance.”

According to paragraph 8 of GRAP 2:

“The cash flow statement shall report cash flows during the period classified by operating, investing and financing activities.”

According to paragraph 42 of GRAP 3:

“an entity shall disclose the nature of the prior period error.”

During the audit of the Western Cape Housing Development Fund (WCHDF), the following issues were identified in the annual financial statements (AFS).

1. Statement of Financial Performance

The profit on sale of property and loss on sale of property has been offset and the net amount has been presented and disclosed in the Statement of Financial Performance in the AFS.

These are the details:

The Profit on sale	R 2 997 909.81
The Loss on sale	R 7 879 909.81
Net amount presented on the annual financial statements	<u>R 4 881 944.68</u>

2. Notes to the financial statements

The following notes are disclosed although the WCHDF has not recognised any of the line items in the Statement of Financial Position and Statement of Financial Performance:

Notes to the AFS	Detail of the note	Reasons
1.7.1	Leases – Lessee Accounting	The WCHDF does not hold any assets under finance

Notes to the AFS	Detail of the note	Reasons
		lease or operating leases.
1.8	Borrowing Costs	The WCHDF does not have borrowing costs capitalized or any other borrowing costs.
1.11	Contingent Assets and liabilities	The WCHDF does not have contingent assets and liabilities
1.15	Unutilised Conditional Grants	The WCHDF does not have unutilised conditional grants
1.17	Investment Property	The WCHDF does not have investment properties.
1.18	Intangible Assets	The WCHDF does not have intangible assets
1.19	Non-Current Assets Held for Sale	The WCHDF does not have non-current assets held for sale
1.21	Inventories	The WCHDF does not have inventories
1.23	Cash and Cash Equivalents	The WCHDF does not have cash and cash equivalents as it does not manage any bank accounts as all income and expenditure is managed by the Department of Human Settlements.

3. Cash Flow Statements

The Cash Flows from Financing Activities section is not included in the cash flow statements. The "Net cash outflows from operating activities" balance on the face of the cash flow statement is zero, but the note 13 indicates a "Net cash outflows from operating activities" balance of R39 163 (2011) and R42 355 (2010).

4. Prior Period Error

The description of the nature of the prior period error disclosed in note 12 to the financial statements is not sufficient and appropriate as the following details are not included:

- the date in which the devolution and deletion of properties took place,
- a short reason for the devolution and deletion of properties.

This results in non-compliance with GRAP 1, 2 and 3 and the Framework for Preparation and Presentation of Financial Statements.

Internal control deficiency

Financial and Performance management

Review and monitor compliance with applicable laws and regulations.

Management has exercised inadequate controls to ensure that presentation and disclosure of financial statements is fair and that GRAP standards are complied with.

Recommendation

Management should ensure that all the GRAP standards applicable to the WCHDF are complied with and that the financial statements and its notes are presented and disclosed fairly.

Management response

Your correspondence with reference Communication No. 21 dated 19 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communication.

1 STATEMENT OF FINANCIAL PERFORMANCE

The Statement of Financial Performance will be adjusted accordingly to present and disclosed the Profit and Loss on Sale separately in the Statement of Financial Performance.

2 NOTES TO THE FINANCIAL STATEMENTS

Your finding has been noted and the Accounting policies to the Financials Statements will be adjusted accordingly.

3 CASH FLOW STATEMENTS

Your finding has been noted and the Cash Flows from Financing Activities cannot be included, because the Fund is sharing the Bank Account with the Department of Human Settlements.

4 PRIOR PERIOD YEAR

Your finding has been noted and it is not practical because the properties are deleted and devolved throughout the financial year, for example 840 properties were deleted and three were devolved. Furthermore to the above for 2010 an exercise was done to take all assets with revalued amounts and perform a reconciliation/verification thereof.

Furthermore to the above, cognisance is taken of the Internal Control deficiencies and also the recommendation.

We trust that you will find this in order.

Name:

Position: ACCOUNTING OFFICER

Date: 22 August 2011

Auditor's conclusion

For query 1, 2 and 3.1 management's response is noted and accepted. Inspected the adjusted financial statements, and verified that the changes have been made.

3.2 Cash Flow Statements

Management has not responded to the query. Inspected the adjusted financial statements and identified that "Net cash outflows from operating activities" balance on the face of the cash flow statement is zero for both 2011 and 2010, but the note¹⁵ indicates a "Net cash outflows from operating activities" balance of R43 432 million(2011) and R44 713(2010).

4. Prior Period Error

Management's response is noted but not accepted. The Prior Period Error note to the financial statements should be adjusted to include details such as how many properties were deleted or devolved throughout the year and a short reason thereof. Inspected the adjusted financial statements note¹³, and no description of the nature of the deletion and devolution of properties, number of properties deleted or devolved is included in the note.

These two abovementioned matters will be included in the audit report.

2. No assessment of going concern and disclosure

Audit finding

GRAP 1 (Presentation of Financial Statements) paragraph 27 states:

“When preparing financial statements an assessment of an entity’s ability to continue as a going concern shall be made. This assessment shall be made by management. Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity’s ability to continue as a going concern, those uncertainties shall be disclosed. When the financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.”

During the audit of the Western Cape Housing Development Fund (WCHDF), the following was noted that may indicate that the WCHDF is not able to continue as a going concern:

1. An executive decision was taken to de-establish the WCHDF in 2005. The WC Housing Development Act No.6 of 1999 states that the Western Cape Housing Development Board is abolished.
2. Expenses relating to the WCHDF are paid from funds allocated from WC Department of Human Settlements (e.g. property rates, property maintenance, etc).
3. The WCHDF no longer receives funds from the National Department of Human Settlements.
4. Revenue collection rate is significantly low.

From a review of the annual financial statements of the WCHDF, it was noted that uncertainties relating to the going concern were not disclosed. Management did not perform a going concern assessment.

Management has not assessed the reliability of the financial statements in terms of the disclosure requirements of GRAP 1.

This result in non-compliance with GRAP 1 and the users of the financial statements are misled. The financial statements may not be appropriately presented and described and disclosures may not be clearly expressed in terms of the accounting framework used.

Internal control deficiency

Leadership

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

Management had not assessed the reliability of the financial statements in terms of the disclosure requirements of GRAP 1

Recommendation

Management should provide evidence that assessment of going concern was conducted and make necessary disclosure in the financial statements to ensure compliance with GRAP 1.

Management response

Your correspondence with reference Communication No. 14 dated 18 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communication.

Management has assessed the Fund's ability to continue as a going concern.

Furthermore there are no factors that are contrary to our evaluation. There is no intention for the Fund to be liquidated or to cease operating.

There is no significant doubt that the Fund will continue to exist at this stage. The Statement of Financial Performance continues to reflect a positive net asset current ratio and the Property Portfolio of the Fund amounting to R 2.5 billion.

There is no legislation that the Fund will not continue.

Furthermore to the above, cognisance is taken of the Internal Control deficiencies and also the recommendation.

The Financial Statements will be adjusted in order to make the necessary disclosure to ensure compliance with GRAP 1.

We trust that you will find this in order.

Name:

Position: ACCOUNTING OFFICER

Date: 22 August 2011

Auditor's conclusion

Management's response is noted but not accepted as no formal going concern assessment was submitted to the auditors, and inspected the adjusted financial statements and verified that uncertainties relating to the going concern assumption are not disclosed in the financial statements. The matter will be included in the audit report.

3. Revaluation method not in accordance with GRAP 17

Audit finding

According to GRAP 17, paragraph 40, "the fair values of items of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers" and paragraph 46 "if an item of property, plant & equipment is revalued the entire class of property, plant and equipment to which that asset belongs shall be revalued".

While performing the audit of the Western Cape Housing Development Fund (WCHDF), it was noted that the application of the revaluation model was not in accordance to the requirements of GRAP 17. The WCHDF used three different bases of revaluation for a particular class of property during the year under review. The following bases for revaluation were used: Directors' Valuation; Municipal Valuations and R1 Values.

This non-compliance to GRAP represents a material misstatement of the annual financial statements (AFS).

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable laws and regulations.

There was no review of financial statements against GRAP standards prior to submission for audit.

Controls were not implemented to ensure compliance with the GRAP 17

Recommendation

A single basis should be applied for the revaluation model to ensure compliance with GRAP 17.

Management response

COMMUNICATION 3 OF 2011 w.r.t GRAP 17, paragraph 40:

1. Your memorandum H3/2/1/2/2010-2011 dated 10 August 2011, refers.
2. The Department takes cognizance of the statements in the above-mentioned Memorandum and wishes to draw your attention to paragraph 16.1 (Property, Plant and Equipment) of The Statement of Accounting Policies (attached herewith).
3. The property portfolio is held to provide social services not considered investment property as such.
4. Subsequent to the above, it should be noted that management considers municipal values to be representative of fair market value for the purposes of the WCHDF. Municipal values are arrived at through a market driven process and reconsidered on an annual basis. The said municipal values are universally applied to the properties in the portfolio.
5. In some instances, municipal values are not available, in which case Director's Values are calculated on the basis of market related data provided by professionally qualified valuers.
6. In terms of the Departmental disposal policy and practice, individual market values are to be obtained when properties are disposed of. Exceptions are only made when, in the opinion of senior management the income potential does not justify the expense required to

appoint a consultant.

7. Some properties are temporarily carried at R1.00 in cases where no further direct economic benefits or services potential are expected from the use of the asset. Examples include the following:
 - Public Open Spaces and Street Remainders not yet certified in the name of the applicable Local Authorities;
 - Properties incorrectly certified in the name of the Department of Human Settlements and not yet certified correctly;
 - Rural Areas (Act 9 of 1987) properties incorrectly in the name of the Department of Human Settlements and not yet certified correctly;
 - Properties that must still be vested with municipalities in terms of the Abolishment of Development Bodies Act 75 of 1986 properties;
 - Individual unregistered erven in Land Availability Agreements which do not carry a value by itself;

8. According to the National Debtor System Policy different Property Numbers (entries) are created for instances where more than one rental debtor is linked to one property (for example a block of flats, or more than one house situated on one erf). In these cases the individual debtors (not carrying the Property Value) have to be kept at a Nominal Value of R1 in order not to overstate the Property Portfolio Value.

Name: LCP ESTERHUIZEN

Position: DIRECTOR: LAND AND ASSET MANAGEMENT

Date: 12 AUGUST 2011

Auditor's conclusion

Management's response is noted. GRAP 17 states that if an item of property, plant & equipment is revalued the entire class of property, plant and equipment to which that asset belongs shall be revalued using the same revaluation method, and the Fund has not complied with GRAP 17 in terms of the above mentioned. The matter will be included in the audit report.

4. Revaluations have not been frequently performed

Audit Finding

According to GRAP 17, paragraph 39, "revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at reporting date".

The following is a sample of assets with R1 carrying value that were identified in the asset register:

Number	Property No	Property Type	Amount
1	103956	LET	R1,00
2	108683	LET	R1,00
3	100976	LET	R1,00
4	101207	LET	R1,00
5	101208	LET	R1,00
6	101209	LET	R1,00
7	101210	LET	R1,00
8	101211	LET	R1,00
9	101212	LET	R1,00
10	101213	LET	R1,00
11	101214	LET	R1,00
12	101215	LET	R1,00
13	101216	LET	R1,00
14	101217	LET	R1,00
15	101218	LET	R1,00
16	130843	NOTU	R1,00
17	130844	NOTU	R1,00
18	130845	NOTU	R1,00
19	130846	NOTU	R1,00
20	165198	NOTU	R1,00
21	165712	NOTU	R1,00
22	187709	NOTU	R1,00
23	187710	NOTU	R1,00
24	187711	NOTU	R1,00
25	187712	NOTU	R1,00
26	187713	NOTU	R1,00
27	187863	NOTU	R1,00
28	187864	NOTU	R1,00
29	100223	NOTU	R1,00
30	102729	NOTU	R1,00

While performing the audit of the Western Cape Housing Development Fund (WCHDF), it was identified that the WCHDF applied a valuation that was made in a prior year (i.e. an old valuation) for properties. This is contrary to the requirements of GRAP 17.

This is the first year of GRAP implementation and there may have been uncertainty concerning its application.

This non-compliance to GRAP represents a material misstatement of the annual financial statements (AFS).

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable laws and regulations.

There was no review of financial statements against applicable GRAP standards prior to submission for audit.

Controls were not implemented to ensure compliance with the GRAP 17

Recommendation

Properties should be revalued on a regular basis. In the event that no revaluation is made, documentary records must be maintained to indicate that consideration was given to the revaluation of properties.

Management response

COMMUNICATION 4 OF 2011 w.r.t. GRAP 17, paragraph 39.

1. Your memorandum H3/2/1/2/2010-2011 dated 10 August 2011, refers.
2. The Department take cognizance of the statements in the above-mentioned Memorandum and wishes to draw your attention to paragraph 1.16 (Property, Plant and Equipment) of The Statement of Accounting Policies (attached herewith).
3. Subsequent to initial recognition properties are shown at fair value, based on periodic valuations by external independent valuers. The Department deemed it sufficient to use Municipal Values which are arrived at by a Market Value Related process by Professional Valuers. The cost and the time span to obtain individual Professional Property Valuation Certificates is considered too time-consuming and costly.
4. GRAP prescribes that properties have to be revalued regularly and if a revaluation takes place all properties should be revalued. The point of departure is that the Department works in terms of the official Property Register Policy which states that properties are reviewed every five years (with base year 1988), and is based on Municipal Values as the general basis. This is subject thereto that a revaluation would be done if there should be a large movement in the Property Value.

The Department is not aware of grounds indicating that there were significant changes in Property, Plant and Equipment that necessitated a revaluation in 2010/11. The Department therefore did not consider it necessary to follow the formal revaluation process in the 2010/11 financial year.

5. The Audit Sample and other examples from the 2010/11 Financial Year where a movement in the Property Portfolio value took place, are the result of transfers to individuals or devolvments to Local Authorities where the Property Registration statuses of these erven were amended not to show in the name of the Department anymore. These cases then stopped counting to the Property Portfolio value. Other examples are related to the 2010/11 Control and Evaluation Action Plan (where the Property Portfolio value changed) where a few errors in the values of individual properties were found and where values were

adjusted in a process of editing/correction, but which does not equal a formal revaluation process.

Name: LCP ESTERHUIZEN

Position: DIRECTOR: LAND AND ASSET MANAGEMENT

Date: 12 AUGUST 2011

Auditor's conclusion

Management's response is noted. GRAP 17 states that if an item of property, plant & equipment is revalued the entire class of property, plant and equipment to which that asset belongs shall be revalued using the same revaluation method, and the Fund has not complied with GRAP 17 in terms of the abovementioned. The matter will be included in the audit report.

5. No depreciation has been accounted for

Audit finding

According to GRAP 17, paragraph 53 "Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

During the audit of the Western Cape Housing Development Fund (WCHDF), it was identified that the WCHDF does not account for depreciation in its accounting records.

In addition the accounting policy for depreciation is inappropriate as it states that the property portfolio is purely residential by nature and is not depreciated. This is not in accordance to GRAP 17.

This is the first year of GRAP implementation and may have been uncertainty concerning its application.

This non-compliance to GRAP represents a materially misstatement of the annual financial statements (AFS).

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable laws and regulations

Controls were not implemented to ensure compliance with the GRAP 17

Recommendation

The depreciation policy should be adjusted to account for depreciation on property. Additionally, a depreciation charge for the year must be calculated and included in the annual financial statements.

Management response

COMMUNICATION 5 OF 2011 w.r.t. GRAP 17, paragraph 53

1. Your memorandum H3/2/1/2/2010-2011 dated 10 August 2011, refers.
2. The Department take cognizance of the statements in the above-mentioned Memorandum and wishes to draw your attention to paragraph 1.16 (Property, Plant and Equipment) of The Statement of Accounting Policies (attached herewith).
3. The property portfolio is held to provide social services and is not considered investment property as such.
4. Subsequent to the above it should be further be noted that the bulk of the value of the property portfolio of the Department consists of vacant land which is not depreciated as it is deemed to have an indefinite useful life. Where the portfolio replaces parts of an asset, it derecognizes the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

5. The property portfolio primarily consists of land earmarked for human settlement (read housing) purposes is not depreciated but is evaluated on an annual basis to determine any impairment that should be recognised.
6. In order to apply depreciation on the buildings in its portfolio, the Department will need to separate the valuation of land and buildings. However, the Department recognize and relies upon municipal valuation which rarely reflects the said distinction.
7. The annual depreciation rate for all residential Land and Buildings are rated at a zero.

Name: LCP ESTERHUIZEN

Position: DIRECTOR: LAND AND ASSET MANAGEMENT

Date: 12 AUGUST 2011

Auditor's conclusion

Management's response is noted. Land & Building should be disclosed separately, and depreciation should be provided for on buildings. Inspected the adjusted financial statements and verified that depreciation is not provided for. This is not in compliance with GRAP 17. The matter will be included in the audit report.

6. Land & Buildings not separately disclosed

Audit finding

According to GRAP 17, paragraph 68, "Land and Building are separable assets and are accounted separately, even when they are accounted together".

While performing the audit of the Western Cape Housing Development Fund (WCHDF), it was identified that the WCHDF does not disclose Land and Buildings separately.

This is the first year of GRAP implementation and there may have been uncertainty concerning its application.

This non-compliance to GRAP 17 represents a material misstatement of the annual financial statements (AFS).

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable laws and regulations

Controls were not implemented to ensure compliance with the GRAP 17

Recommendation

The financial statements should be adjusted to reflect the disclosure of land and buildings as separate classes of property, plant and equipment.

Management response

COMMUNICATION 6 OF 2011: GRAP 17, paragraph 68.

1. Your memorandum H3/2/1/2/2010-2011 dated 10 August 2011, refers.
2. The Department take cognizance of the statements in the above-mentioned Memorandum and wishes to draw your attention to paragraph 1.16 (Property, Plant and Equipment) of The Statement of Accounting Policies (attached herewith).
3. Subsequent to the above it should be further be noted that the bulk of the value of the property portfolio of the Department consists of vacant land located within the greater City of Cape Town municipal area. In terms of the said Accounting Policies, management considers the latest municipal values reliable as a basis to compare to fair market value. As is the case of the City, about 90 percent of all values received from Municipalities do not make a clear distinction between the top structure and site values. Historically, municipalities used to split land and buildings for taxation purposes, but determining a single market related value has become commonplace. The Department considers obtaining individual valuation certificated as an alternative to be too costly and time consuming.
4. The property portfolio is held to provide social services and is not considered investment property as such.

Name: LCP ESTERHUIZEN

Position: DIRECTOR: LAND AND ASSET MANAGEMENT

Date: 12 AUGUST 2011

Auditor's conclusion

Management's response is noted. Inspected the adjusted financial statements and verified that land and building is not disclosed separately. This is non-compliance with GRAP 17. The matter will be included in the audit report.

7. Profit/Loss on disposal

Audit finding

Paragraph 9 of GRAP 17 states that:

"The gain or loss is recognised in surplus or deficit when the asset is derecognised."

Paragraph 29(a) of GRAP 9 states that :

"Revenue from the sale of goods shall be recognised when the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods"

Table 1 includes ERF numbers from our sample, in which the transfer of ownership has not been transferred to the purchaser. The title deeds are still in the name of the Western Cape Housing Development Fund (WCHDF), yet the profit/loss on disposal has been recognised.

Table 2 includes ERF numbers from our sample, in which the property is not registered to the WCHDF nor the purchaser, even though the sale has been processed, yet the profit/loss on disposal has been recognised.

No.	TABLE 1
1	112386
2	188779
3	109290
4	108711
5	112511
6	95916
7	108778
8	112512
9	104190
10	104467
11	112449
12	122361
13	38111
14	38159
15	30998
16	38219
17	38062
18	30722
19	30334
20	38078
21	38064
22	38133
23	38228
24	38263
25	38093
26	112203
27	30144
28	38056
29	30066

No.	TABLE 2
1	112511
2	38278
3	38085
4	38084
5	38070
6	30666
7	38165
8	30902
9	38138
10	38124
11	38271
12	38279
13	38345
14	38347
15	30448
16	38057
17	38231
18	38368
19	38163

No.	TABLE 1
30	30365
31	110618
32	38103
33	30447
34	30469
35	38050
36	30485
37	31098
38	30118
39	30062
40	30964
41	30440
42	30220
43	31226
44	31230
45	30033
46	156511
47	30197
48	142963
49	188809

No.	TABLE 2
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The projected error is R18 837 913.

Management is exercising inadequate controls to ensure that the transfer of ownership is implemented effectively.

Uncertainty exists about the ownership of the properties

Internal control deficiency

Financial and Performance management

Review and monitor compliance with applicable laws and regulations.

Recommendation

Management should ensure that profit/loss on disposal is disclosed correctly in the annual financial statements in accordance with GRAP 17 and 9 requirements.

Management response

Your correspondence with reference Communication No. 16 dated 19 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communication.

Your recommendation has been noted and the necessary adjustments will be made to the Financial Statements

We trust that you will find this in order.

Name:

Position: ACCOUNTING OFFICER

Date: 22 August 2011

Auditor's conclusion

Management comment noted. This matter will remain to be reported in the audit report.

8. Profit/loss on disposal – Revaluation Reserve

Audit finding

GRAP 17 paragraph 9 states:

"If the asset was carried at revalued amount then the revaluation surplus of the asset disposed is recognised in accumulated surplus or deficit. "

During the execution of assets it was noted that there were assets sold but no reversal had been made to the revaluation surplus account.

The following is an extract of disposals that were made, but no reversals were processed to the revaluation surplus account.

No.	Property Number	Carrying Amount
1	30902	R115 000,00
2	38375	R83 000,00
3	38347	R81 000,00
4	38155	R83 000,00
5	38159	R166 000,00
6	38263	R156 000,00
7	38133	R156 000,00
8	38163	R71 000,00
9	112203	R151 000,00
10	112386	R5 347 400,00
11	30220	R132 000,00
12	38034	R206 000,00
13	38049	R155 000,00
14	31259	R168 000,00
15	108711	R650 000,00
16	38276	R80 000,00
17	30066	R146 000,00
18	30033	R122 000,00
19	38368	R71 000,00
20	38279	R82 000,00
21	38050	R140 000,00
22	95916	R360 000,00
23	188779	R2 900 000,00
24	31226	R130 000,00
25	188809	R94 000,00
26	30485	R139 000,00
27	104190	R279 000,00
28	30197	R107 000,00
29	30448	R76 000,00
30	38345	R81 000,00
31	38138	R84 000,00
TOTAL		R2 611 400,00

Management did not comply with GRAP 17 paragraph 9.

This will result in an overstatement of the revaluation reserve.

Internal control deficiency

Financial and Performance Management

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Controls were not implemented to ensure compliance with GRAP 17.

Recommendation

Controls should be implemented to ensure that when assets are sold, a reversal is made to the revaluation surplus account.

Management response

Your correspondence with reference Communication No. 22 dated 19 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communication.

Your recommendation has been noted and the necessary adjustments will be made to the Financial Statements

We trust that you will find this in order.

Name:

Position: ACCOUNTING OFFICER

Date: 22 August 2011

Auditor's conclusion

Management response noted, matter will remain as reported items in the audit report as management did not investigate the entire population to determine the misstatement.

9. No title deeds

Audit finding

During our current year audit, the following findings relating to ownership of properties were made: Inspected the asset register for the year under review and identified that there are 349 properties that have no title deeds with a value of R11 093 124,27. Refer Annexure A

There is a risk that the balance of properties in the financial statements may be misstated as the balance could include properties that is not legally owned by the Western Cape Housing Development Fund (WCHDF).

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Controls were not implemented to ensure adequate monitoring and oversight of the asset register.

Recommendation

All properties listed on the property register should be supported by a title deed in the name of the WCHDF and should be submitted for audit purposes.

ANNEXURE A

Assets with no title deeds

No	Property no.	Prop Reg Status	Description	Amount
1	108683	LET	PTN 1 OF THE	286.42
2	142854	NOTU	PELIKAN PARK	1,077,300.00
3	101207	LET	GREBESTRAAT 2	16.58
4	101214	LET	PIENAARSTRAAT 16 OR 38	409.99
5	112782	NOTU	PINEWOOD 26 WALMER	358,000.00
6	142874	NOTU	PELIKAN PARK	169,200.00
7	108686	LET	PTN 1 OF THE	286.40
8	108687	LET	PTN 1 OF FARM NAAUWLAND	27,391.49
9	143081	NOTU	PELIKAN PARK	129,000.00
10	188271	NOTU	ERF 2545	91,000.00
11	31482	NOTU	BRAIN RD,	61,500.00
12	112545	LET	CAMBRIDGESTR 4	1.00
13	123321	LET		1.00
14	127575	LET	KAAPSTAD	1.00
15	127576	LET		21.00

Management report of Western Cape Housing Development Fund (WCHDF)

16	127577	LET	KAAPSTAD	1.00
17	127578	LET	KAAPSTAD	1.00
18	127579	LET	KAAPSTAD	1.00
19	127581	LET		1.00
20	127595	LET	KAAPSTAD	1.00
21	165114	NOTU	DANIELL STREET 155	82,294.00
22	164876	NOTU	DISA CRESCENT 99	72,474.00
23	164963	NOTU	PROTEA STREET 2	72,474.00
24	152294	LET	BRIDGESTR 1	50,146.54
25	164774	NOTU	DISA CRESCENT 54	56,164.00
26	165056	NOTU	FUCHSIA STREET 16	56,164.00
27	165022	NOTU	PINE STREET 20	45,064.00
28	165043	NOTU	FUCHSIA STREET 5	45,064.00
29	109311	NOTU	ROGGELAND	200,000.00
30	188489	LET	6 BELLSTREET	1.00
31	188811	LET	20 MERCHANT STREET	1.00
32	92650	NOTU	DIOCESE	2,630.00
33	107517	NOTU	MOTORHUIS NO2	2,000.00
34	108682	NOTU	PTN 1 FRM NAAUWLAND	724.36
35	130843	NOTU		1.00
36	130844	NOTU		1.00
37	130845	NOTU		1.00
38	130846	NOTU		1.00
39	165198	NOTU	ERF 8778 GED ERF 625	1.00
40	102729	NOTU	LANGSTRAAT 119A	1.00
41	103062	NOTU	GED 2 VAN PLAAS DIEP	1.00
42	107942	NOTU	ERWE 1209 1212 1214 EN	1.00
43	123319	NOTU	RIVERSDALE	1.00
44	125451	NOTU	FRANSHOEK	1.00
45	125461	NOTU		1.00
46	127574	NOTU	KAAPSTAD	1.00
47	127582	NOTU	KAAPSTAD	1.00
48	127720	NOTU	KAAPSTAD	1.00
49	127721	NOTU	KAAPSTAD	1.00
50	127723	NOTU	KAAPSTAD	1.00
51	127725	NOTU	KAAPSTAD	1.00
52	127727	NOTU	KAAPSTAD	1.00
53	127728	NOTU	KAAPSTAD	1.00
54	127729	NOTU	KAAPSTAD	1.00
55	188821	NOTU	21 BELL STREET	1.00
56	219155	NOTU	ERF 7230	1.00
57	95211	LET	TAURUSSTRAAT 106	1.00
58	128359	NOTU	BELHA	1.00
59	128567	NOTU	ERF 136	1.00
60	130814	NOTU		1.00

Management report of Western Cape Housing Development Fund (WCHDF)

61	130815	NOTU		1.00
62	130842	NOTU		1.00
63	131119	NOTU	KAAPSTAD	1.00
64	131120	NOTU	KAAPSTAD	1.00
65	131122	NOTU	MELKBOSSTRAND	1.00
66	33447	NOTU	ERF 8801	1.00
67	34290	NOTU	PLAAS LANGRUG GED 6 VAN	1.00
68	34844	NOTU	NOORD STRAAT	1.00
69	34947	NOTU	KUILSRIVIER	1.00
70	37828	NOTU	KEURBOOMSTRAAT	1.00
71	37841	NOTU	HUIS	1.00
72	130847	NOTU		1.00
73	105745	NOTU	ERF7472COTSWOLD 22	11,405.41
74	108671	NOTU	AGSGRONDE	1.00
75	123329	NOTU	JKJDFLJDFJDJSJFDSF	1.00
76	127589	NOTU	ONBEKEND	1.00
77	163113	NOTU	PLUTOWEG 153 A	1.00
78	163120	NOTU	EVREMONDEWEG 160 B	1.00
79	164591	NOTU	DISA CRESCENT 6	36,238.00
80	164616	NOTU	DISA CRESCENT 33	28,083.00
81	164972	NOTU	PROTEA STRAAT 6	28,083.00
82	165010	NOTU	PINE STREET 12	22,533.00
83	165044	NOTU	FUCHSIA STREET 6	22,533.00
84	31805	NOTU	PIXIESTRAAT 5	11,701.00
85	37636	NOTU	COLIGNYSTRAT 25	30,798.50
86	37639	NOTU	KWEEKSTRAT 28	29,293.50
87	109304	NOTU	DE GOEDE RUST	3,710.00
88	109432	NOTU	ERF 3406 GED V ERF 3411	2,140,000.00
89	192572	NOTU	ERWE 9350 & 9834	1.00
90	192573	NOTU	ERE 4047 & 4096	1.00
91	192574	NOTU	ERWE 9950; 10127	1.00
92	192575	NOTU	ERF 10327	1.00
93	94649	NOTU	ELSIES RIVER	8,050.00
94	94671	NOTU	12564	1.00
95	94672	NOTU	ELSIES RIVER	1.00
96	94673	NOTU	12569	1.00
97	94770	NOTU	ELSIESRIVIER	1.00
98	142910	LET	2 FLAMINGO WAY	30,001.00
99	122738	LET	KAAPSTAD	12,001.00
100	127442	LET	STILBAAI	86.62
101	127443	LET	KAAPSTAD	360.32
102	127444	LET	KAAPSTAD	

Management report of Western Cape Housing Development Fund (WCHDF)

				69.31
103	127445	LET	KAAPSTAD	41.37
104	127446	LET	KAAPSTAD	80.20
105	127447	LET	KAAPSTAD	101.93
106	127449	LET	KAAPSTAD	80.04
107	31803	LET	PIXIESTRAAT 3	11,701.00
108	144593	LET	PARKING BAY FOR FLAT 2	1.00
109	105624	LET	ALLENDALÉ 6	11,405.41
110	105631	LET	77 BEAUFORT HOUSE, DE WAAL DRIVE	33,127.87
111	105729	LET	HIGHCLIFFHUIS NO.53	11,831.00
112	105734	LET	FAREHAMHUIS NO.46	10,966.00
113	105738	LET	COTSWOLD	29,284.50
114	105746	LET	CORNISTON	11,405.41
115	105751	LET	BURSELDON 13	11,405.41
116	105753	LET	COSHAM02DEWAALWEGWS 26	11,405.41
117	105763	LET	DALTON 31	11,405.41
118	105833	LET	RIEBEECKHUIS	11,945.41
119	105834	LET	RIEBEECKHUIS 86	11,945.41
120	106012	LET	PICKET POST 59	11,945.41
121	107522	LET	MOTORHUIS NO7	1,001.00
122	107527	LET	MOTORHUIS NO14	1,001.00
123	107528	LET	MOTORHUIS NO15	1,001.00
124	107542	LET	MOTORHUIS NO 33	1,001.00
125	107546	LET	MOTORHUIS NO 37	1,001.00
126	163063	LET	ROTHERFIELD RD 135A	1.00
127	163068	LET	RATHERFIELD 135B	1.00
128	163070	LET	PLUTOWEG 136A	1.00
129	163072	LET	PLUTOWEG 136B	1.00
130	163103	LET	EVREMONDEWEG 135 A	26,501.00
131	163104	LET	EVREMONDEWEG 135 B	1.00
132	163105	LET	CHURCHILLWEG 164 A	1.00
133	163107	LET	CHURCHILLWEG 164 B	1.00
134	163112	LET	MILFORDWEG 168 B	1.00
135	163114	LET	PLUTOWEG 153 B	1.00
136	163115	LET	WOODLEYWEG 154 A	1.00
137	163116	LET	WOODLEYWEG 154 B	1.00

Management report of Western Cape Housing Development Fund (WCHDF)

138	163117	LET	MILFORDWEG 165 A	1.00
139	163118	LET	MILFORDWEG 165 B	1.00
140	163119	LET	EVERMONDEWEG 160 A	1.00
141	163121	LET	EVERMONDE 143 A	16,301.00
142	163122	LET	EVREMONDEWEG 143 B	1.00
143	163123	LET	CHURCHILLWEG 172 A	1.00
144	163124	LET	CHURCHILLWEG 172 B	1.00
145	163125	LET	WOODLEYWEG 161 A	1.00
146	163126	LET	WOODLEYWEG 161 B	1.00
147	163127	LET	MILFORDWEG	1.00
148	163128	LET	MILFORDWEG 176 B	1.00
149	163223	LET	DRAGOONWEG 42 A	1.00
150	163224	LET	DRAGOONWEG 42B	1.00
151	163226	LET	DRAGOON 38 B	1.00
152	163227	LET	DRAGOON 34 A	1.00
153	163228	LET	DRAGOON 34 B	1.00
154	163229	LET	TYNEMOUTH 87 A	1.00
155	163230	LET	TYNEMOUTHWEG 87 B	16,001.00
156	163231	LET	TOTNESWEG 86 A	1.00
157	163232	LET	TOTNESWEG 86 B	1.00
158	163233	LET	COOMBEWEG 33A	1.00
159	163234	LET	COOMBEWEG 33 B	1.00
160	163237	LET	CHURCHILL 140 A	1.00
161	163238	LET	CHURCHILLWEG 140 B	1.00
162	163245	LET	EVERMONDE RD 119 A	17,501.00
163	163246	LET	EVERMONDE RD 119 B	17,501.00
164	163247	LET	CHURCHILLWEG 148 A	1.00
165	163248	LET	CHURCHILLWEG 148 B	1.00
166	163249	LET	WOODLEYWEG 137 A	22,501.00
167	163250	LET	WOODLEYWEG 137 B	1.00
168	163251	LET	MILFORDWEG 152 A	1.00
169	163252	LET	MILFORDWEG 152 B	801.00
170	164378	LET	DISA CRESCENT 1	36,238.00
171	164482	LET	DISA CRESENT 2	36,238.00
172	164487	LET	DISA CRESENT 3	36,238.00
173	164589	LET	DISA CRESCENT 4	36,238.00
174	164590	LET	DISA CRESCENT 5	36,238.00
175	164592	LET	DISA CRESCENT 7	36,238.00
176	164593	LET	DISA CRESCENT 8	36,238.00
177	164594	LET	DISA CRESCENT 9	36,238.00
178	164595	LET	DISA CRESCENT 10	36,238.00
179	164596	LET	DISA CRESCENT 11	41,148.00

Management report of Western Cape Housing Development Fund (WCHDF)

180	164597	LET	DISA CRESCENT 12	36,238.00
181	164598	LET	DISA CRESCENT 13	36,238.00
182	164599	LET	DISA CRESCENT 15	36,238.00
183	164600	LET	DISA CRESCENT 17	36,238.00
184	164601	LET	DISA CRESCENT 18	36,238.00
185	164602	LET	DISA CRESCENT 19	36,238.00
186	164603	LET	DISA CRESCENT 20	36,238.00
187	164604	LET	DISA CRESCENT 21	36,238.00
188	164605	LET	DISA CRESCENT 22	36,238.00
189	164606	LET	DISA CRESCENT 23	36,238.00
190	164607	LET	DISA CRESCENT 24	36,238.00
191	164608	LET	DISA CRESCENT 25	36,238.00
192	164609	LET	DISA CRESCENT 26	36,238.00
193	164610	LET	DISA CRESCENT 27	36,238.00
194	164611	LET	DISA CRESCENT 28	36,238.00
195	164612	LET	DISA CRESCENT 29	28,083.00
196	164613	LET	DISA CRESCENT 30	28,083.00
197	164614	LET	DISA CRESCENT 31	28,083.00
198	164615	LET	DISA CRESCENT 32	28,083.00
199	164617	LET	DISA CRESCENT 35	41,148.00
200	164619	LET	DISA CRESCENT 37	36,238.00
201	164620	LET	DISA CRESCENT 39	36,238.00
202	164622	LET	DISA CRESCENT 41	36,238.00
203	164628	LET	DISA CRESCENT 43	36,238.00
204	164630	LET	DISA CRESCENT 44	36,238.00
205	164635	LET	DISA CRESCENT 45	36,238.00
206	164638	LET	DISA CRESCENT 46	36,238.00
207	164640	LET	DISA CRESENT 47	36,238.00
208	164682	LET	DISA CRESCENT 48	36,238.00
209	164684	LET	DISA CRESCENT 49	36,238.00
210	164770	LET	DISA CRESCENT 50	

Management report of Western Cape Housing Development Fund (WCHDF)

				36,238.00
211	164771	LET	DISA CRESCENT 51	36,238.00
212	164772	LET	DISA CRESCENT 52	36,238.00
213	164773	LET	DISA CRESCENT 53	41,148.00
214	164775	LET	DISA CRESCENT 55	28,083.00
215	164777	LET	DISA CRESCENT 56	28,083.00
216	164778	LET	DISA CRESCENT 57	28,083.00
217	164779	LET	DISA CRESCENT 58	36,238.00
218	164780	LET	DISA CRESCENT 59	27,238.00
219	164792	LET	DISA CRESCENT 60	36,490.80
220	164793	LET	DISA CRESCENT 61	41,148.00
221	164794	LET	DISA CRESCENT 62	36,238.00
222	164795	LET	DISA CRESCENT 63	28,083.00
223	164796	LET	DISA CRESCENT 64	36,238.00
224	164797	LET	DISA CRESCENT 65	36,238.00
225	164798	LET	DISA CRESCENT 66	36,238.00
226	164799	LET	DISA CRESCENT 67	41,148.00
227	164801	LET	DISA CRESCENT 69	41,148.00
228	164802	LET	DISA CRESCENT 71	41,148.00
229	164803	LET	DISA CRESCENT 73	41,148.00
230	164805	LET	DISA CRESCENT 74	28,083.00
231	164806	LET	DISA CRESCENT 75	41,148.00
232	164808	LET	DISA CRESCENT 76	28,083.00
233	164809	LET	DISA CRESCENT 77	41,148.00
234	164811	LET	DISA CRESCENT 79	41,148.00
235	164812	LET	DISA CRESCENT 83	41,148.00
236	164814	LET	DISA CRESCENT 85	28,083.00
237	164833	LET	DISA CRESCENT 87	36,238.00
238	164834	LET	DISA CRESCENT 89	36,238.00
239	164835	LET	DISA CRESCENT 91	36,238.00
240	164873	LET	DISA CRESCENT 93	41,148.00

Management report of Western Cape Housing Development Fund (WCHDF)

241	164874	LET	DISA CRESCENT 95	36,238.00
242	164875	LET	DISA CRESCENT 97	28,083.00
243	164880	LET	DISA CRESCENT 101	41,148.00
244	164881	LET	DISA CRESCENT 103	41,148.00
245	164882	LET	DISA CRESCENT 105	41,148.00
246	164893	LET	PROTEA STREET 1	36,238.00
247	164965	LET	PROTEA STREET 3	36,238.00
248	164968	LET	PROTEA STREET 4	28,083.00
249	164970	LET	PROTEA STRAAT 5	36,238.00
250	164975	LET	PROTEA STRAAT 7	28,083.00
251	164978	LET	PROTEA STRAAT 8	28,083.00
252	164979	LET	KEURBOOMSTRAAT 3	28,083.00
253	164980	LET	KEURBOOMSTRAAT 4	28,083.00
254	164985	LET	KEURBOOMSTRAAT 6	28,083.00
255	164992	LET	KEURBOOMSTRAAT 7	28,083.00
256	164994	LET	KEURBOOMSTRAAT 8	28,083.00
257	164996	LET	KEURBOOMSTRAAT 9	36,238.00
258	164998	LET	KEURBOOMSTRAAT 10	36,238.00
259	165000	LET	PINE STREET 2	41,148.00
260	165002	LET	PINE STREET 6	28,083.00
261	165003	LET	PINE STREET 8	36,238.00
262	165005	LET	PINE STREET 9	28,083.00
263	165006	LET	PINE STREET 10	28,083.00
264	165008	LET	PINE STREET 11	28,083.00
265	165012	LET	PINE STREET 13	36,238.00
266	165014	LET	PINE STREET 14	45,064.00
267	165016	LET	PINE STREET 16	28,083.00
268	165018	LET	PINE STREET 18	28,083.00
269	165020	LET	PINE STREET 20	22,533.00
270	128459	NOTU	RETREAT	-
271	165024	LET	FUCHSIA STREET 1	28,083.00

Management report of Western Cape Housing Development Fund (WCHDF)

272	165041	LET	FUCHSIA STREET 3	56,164.00
273	165042	LET	FUCHIA STREET 4	22,533.00
274	128461	NOTU	RETREAT	-
275	128547	NOTU	DELFT	-
276	165045	LET	FUCHSIA STREET 7	45,064.00
277	165046	LET	FUCHSIA STREET 8	28,083.00
278	165047	LET	FUCHSIA STREET 9	28,083.00
279	165048	LET	FUCHSIA STREET 10	28,083.00
280	165049	LET	FUCHSIA STREET 11	28,083.00
281	165050	LET	FUCHSIA STREET 12	22,533.00
282	165052	LET	FUCHSIA STREET 14	22,533.00
283	165053	LET	FUCHSIA STREET 15	22,533.00
284	128552	NOTU	DELFT	-
285	165061	LET	FUCHSIA STREET 18	28,083.00
286	165063	LET	LOBELIA STREET 3	22,533.00
287	165067	LET	LOBELIA STREET 5	22,533.00
288	165069	LET	LOBELIA STREET 7	28,083.00
289	165071	LET	LOBELIA STREET 9	22,533.00
290	165073	LET	LOBELIA STREET 11	22,533.00
291	165075	LET	LOBELIA STREET 13	22,533.00
292	165081	LET	LOBELIA STREET 15	28,083.00
293	165082	LET	LOBELIA STREET 17	28,083.00
294	165084	LET	MAPLE STREET 2	36,238.00
295	165086	LET	MAPLE STREET 6	36,238.00
296	165087	LET	MAPLE STREET 8	36,238.00
297	165088	LET	MAPLE STREET 14	36,238.00
298	165090	LET	MAPLE STREET 16	36,238.00
299	165092	LET	SHAYELE ROAD 11	41,148.00
300	165094	LET	SHAYELE ROAD 13	41,148.00
301	165103	LET	SHAYELE ROAD 15	41,148.00
302	165104	LET	SHAYLE ROAD 17	41,148.00
303	165105	LET	SHAYELE ROAD 19	41,148.00

Management report of Western Cape Housing Development Fund (WCHDF)

304	165106	LET	DANIELL STREET 137	28,083.00
305	165107	LET	DANIELL STREET 139	41,148.00
306	165108	LET	DANIELL STREET 141	41,148.00
307	165109	LET	DANIELL STREET 143	41,148.00
308	165110	LET	DANIELL STREET 145	41,148.00
309	165111	LET	DANIELL STREET 147	36,238.00
310	165112	LET	DANIELL STREET 151	41,148.00
311	165113	LET	DANIELL STREET 153	41,148.00
312	165115	LET	DANIELL STREET 157	41,148.00
313	165116	LET	DANIELL STREET 159	41,148.00
314	165117	LET	DANIELL STREET 161	41,148.00
315	165118	LET	DANIELL STREET 165	41,148.00
316	165119	LET	DANIELL STREET 167	41,148.00
317	165120	LET	DANIELL STREET 169	41,148.00
318	187670	LET	CAUVIN ROAD	1.00
319	31800	LET	GANNETSTRAAT 3	64,915.59
320	31801	LET	IMPALASTRAAT 10	64,688.50
321	31802	LET	IMPALASTRAAT 12	11,521.00
322	31804	LET	GANNETSTRAAT 6	14,638.42
323	31806	LET	GANNETSTRAAT 4	11,701.00
324	31807	LET	HUSSARSTRAAT 5	11,653.50
325	31808	LET	PIXIESTRAAT 2	11,653.50
326	31809	LET	HUSSARSTRAAT 3	14,579.29
327	31810	LET	PIXIESTRAAT 4	11,653.50
328	31811	LET	HUSSARSTRAAT 9	15,075.43
329	31812	LET	HUSSARSTRAAT 7	12,018.50
330	31813	LET	PIXIESTRAAT 8	12,018.50
331	31814	LET	GANNETSTRAAT 12	64,688.50
332	31815	LET	GLUCKMANLAAN 16	10,111.00
333	31816	LET	GLUCKMANLAAN 14	12,690.13
334	31817	LET	GANNETSTRAAT 10	10,111.00

335	31818	LET	GANNETSTRAAT 1	85,542.98
336	31819	LET	PIXIESTRAAT 6	12,018.50
337	31870	LET	EVREMONDEWEG 162	12,978.50
338	31913	LET	EVREMONDEWEG 160	39,988.50
339	31923	LET	CHURCHILLWEG 172	12,553.50
340	31941	LET	MILFORDWEG 165	39,988.50
341	31959	LET	CASSINOWEG 29	13,588.50
342	37635	LET	COLIGNYSTRAAT 23	30,798.50
343	37638	LET	COLIGNYSTRAAT 35	29,293.50
344	37640	LET	KWEEKSTRAAT 30	29,293.50
345	37646	LET	KWEEKSTRAAT 18	30,293.50
346	37649	LET	NAVARRESTRAAT 6	30,633.50
347	38984	LET	TOBRUKPARK 7	25,001.00
348	109267	NOTU	STANFORD	37,175.00
349	35531	NOTU	CR.VANVREDE + ELBRECHT,	-

11,093,124.27

Management response

COMMUNICATION 20 of 2011: MISSING TITLE DEEDS

1. Your memorandum H3/2/1/2/2010-2011 dated 19 August 2011, refers.
2. It is correct that the properties indicated in Communication 20 do not have Title Deed Nos written in at the Title Deed No. Field on the Property Section of the NDS. However, it is not correct that all property inscriptions must have Title Deed Nos. There are for example cases like unregistered erven put on the NDS for administrative purposes where according to the Property Register Policy the property details, property value and therefore also the correct Title Deed No will be carried at another applicable Property Number. [Examples are entries on the NDS for attaching a debtor relationship, or instances of more than one property entry for more than one debtor pertaining to one erf (for example a flat complex or more than one house on one Erf)].
3. The following comments are rendered

Sanddrift

The instances below from Communication 20 relates to the Sanddrift Township where the whole of the development is unsubdivided and resides on one big erf, Erf 105393, Cape Town. It means that the streets, public open spaces and houses are on one erf. The NDS does not allow more than one debtor relation to be added to one Property Number. Consequently there is a property entry/Property Number for each of the rental cases. (Previously held at administrative non-real erf nos and in the 2010/11 Bookyear most of the rental cases has been rectified to read the correct Erf No and to have an extra inscription at Portion and/or Unit to identify the different instances of the

Property.) According to the Property Register Policy if there are more than one Debtor relation to one Erf, there will be a separate NOTU entry for the Erf which carries the property entry and the correct property information (i.e. also the Title Deed No.). [The correct Property Entry counting to the Property Portfolio Value is 153544.]. This means that the instances on the NDS in the sample relates to entries only for attaching the Debtor and not to the singular main entry. It is therefore not applicable for these entries to have a Title Deed No and should they preferably not have a Title Deed (no inscription at Title Deed No) because they do not technically have a Title Deed No.

21, 22, 23, 25, 26, 27, 28, 79, 80, 81, 82, 83, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 271, 272, 273, 276, 277, 278, 279, 280, 281, 282, 283, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317,

SS De Waal Flats and SS Cauvin Flats

Here counts the same basic explanation as above. The instances from Communication 20 (below) relates to individual rental units (or garages) in the block of flats situated in De Waal Drive. Sectional Schemes have been registered for these block of flats in 1994, respectively SS De Waal Flats and SS Cauvin Flats, which are situated on Erven 10030, 10031 and other Cape Town erven. According to the Property Register Policy when there exists a Sectional Title, then because the Municipal Values are done per Sectional Title; there will be two entries for an Erf on the NDS, the original one (which is an administrative entry where a Title Deed No is not applicable) and the Sectional Title Entries, which will therefore carry the correct Property Information (including Title Deed Nos). The instances in the Audit Sample are thus the extra entry which does not carry the value and applicable Sectional Title Property information, but which is only administrative entries for attaching the debtor and is the Title Deed No in this entries not applicable.

De Waal

33, 73, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125,
Cauvin
318

Naruna

These are also individual administrative entries for the purposes of carrying the Debtor relationship, and is the Title Deed Number also not applicable. Some of the Naruna Flats (flat complexes in South Field and Plumstead) have Sectional Title Entries which carries the value and correct property information like for example Title Deed No., and some are not sectionalized and carries the property information in the applicable correct NOTU entry.

77, 78, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 337, 338, 339, 340, 341

Paarl Flats

Also individual administrative entries for the purposes of carrying the Debtor relationships, and is the Title Deed Number also not applicable. Some of the Paarl Flats have Sectional Title Entries which carries the value and correct property information like for example Title Deed No., and some are not sectionalized and carries the property information in the applicable correct NOTU entry.

85, 86, 342, 343, 344, 345. 346

Rugby Flats

Also individual administrative entries for the purposes of carrying the Debtor relationships, and is the Title Deed Number also not applicable. The Rugby Flats have Sectional Title Entries which carries the value and correct property information like for example Title Deed No.

84, 107, 319 to 336

Grebe Street (6085, Paarl)

No. 3 of the Audit Sample relate to Erf 6085, Paarl which is an example of a unsubdivided erf on which are a few rental houses. No. 3 is an example of the administrative entry for the rental housing unit, and there is also here a separate correct official NOTU entry for Erf 6085, Paarl which carries the value and the correct property information. The individual administrative entry (meant under 3) does not need to have a Title Deed No.

Pienaar Street (6211, Paarl)

No. 4 of the Audit Sample relate to Erf 6211, Paarl which is an example of a unsubdivided erf on which are a few rental houses. No. 4 is an example of the administrative entry for the rental housing unit, and there is also here a separate correct official NOTU entry for Erf 6211, Paarl which carries the value and the correct property information. The individual administrative entry (meant under 3) does not need to have a Title Deed No.

Eastern Cape Province

The entries below from Communication 20 relate to properties of the Eastern Cape Provincial Government which are not kept up to date by the PGWC and which wrongly shows on the NDS as falling under the PGWC. Actions will follow via a Systems Communication Network to have it marked under Eastern Cape Provincial Government by the National Department of Human Settlements.

14, 15, 16, 17, 18, 19

Northern Cape Province

Entry No. 75 from Communication 20 relate to a property of the Northern Cape Provincial Government which are not kept up to date by the PGWC and which wrongly shows on the NDS as falling under the PGWC. Actions will follow via a Systems Communication Network to have it marked under Northern Cape Provincial Government by the National Department of Human Settlements.

Rentals for Administrative Purposes in the Ptn 1 of Farm Naauwland No 911, Stellenbosch RD Land Availability Agreement.

There is an existing Land Availability Agreement on the Remaining Extent of Ptn 1 of Farm Naauwland No 911, Stellenbosch RD. According to the Property Register Policy the individual erven covered by an new LAA are not put onto the NDS (and also not the individual erven of an old LAA) since there only needs to be an entry on the NDS for the erf on which the LAA is situated and on which the LAA Sales Agreement is carried, and which carries applicable value and property information for example the Title Deed No. The instances below from Communication 20 refer to 4 rental units in this LAA. It is something that does not ordinarily happen that there are rental units in a LAA, but it is related to the specific circumstances currently prevailing with this LAA. It is an old LAA but the last phase has never been proceeded with since it the land was overtaken by informal settlers. Scattered within the informal dwellings is a few houses with Rental Agreements where people are housed that would have been taken up in this phase of the LAA Development. I.e. these rental entries are for administrative purposes and does not relate to the big Erf , the Title Deed No or the nett value of the LAA selling price.

1, 7, 8, 34

Plettenberg LAA
Erf 7230

Subdivisions of Erf 51, Klapmuts

With reference to the undermentioned entries in Communication 20 it has before been orally explained to the Auditor. These instances are unregistered subdivisions of Erf 51, Klapmuts and there are or sale or rental agreements linked to these unregistered subdivisions. These entries for administrative purposes cannot carry a Title Deed Number because it does not relate to real erven existing in the Deeds Office. There is a correct official NOTU entry for Erf 51, Klapmuts which carries the property information, value and therefore also the Title Deed Number.

30, 31, 55

Mandarin Court

With reference to the entry no 108 in Communication 20, this is an individual entry for a let debtor. The Title Deed No is therefore not applicable. Since the property on which the block of flats is laid out on is not in the name of the Department Human Settlements but in the name of the (Provincial) Department of Transport and Public Works there is no extra entry with the correct property number or Title Deed Number. [The block of flats is administered by the Department of Human Settlements on behalf of the Department Transport and Public Works.

SS Dahlia

No. 12 of the Audit Sample relate to an individual Debtor for administrative purposes on the NDS, and is actually in the block of flats for which a Sectional Title Scheme (SS Dahlia has been registered). It is the entries on the NDS for these Sectional Titles Units that carry the values and have the correct property information including Title Deed Numbers.

Unclear Property Information or Must be Deleted

There are cases where there are unclear property information, for example absent Erf No, absent Title Deed Number and absent erf particulars which means that the correct information of the property (for example Title Deed Number) cannot be established, or properties not belonging to the Department. There are in most cases old, but active, rental relations to these erven and therefore they cannot be deleted and is this and other matters is still receiving attention pertaining to the investigation of the validity of the Rental Contracts and/or the erven. Examples of these from Communication 20 are as underneath, and the Title Deed Number can in most cases not be rectified before the time that it is duly marked as not part of the properties of the Department. These properties might have to be deleted in future.

11, 13, 20, 24, 29, 32, 35, 36, 37, 38, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 57, 58, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 87, 100, 101, 102, 103, 104, 105, 106, 270, 274, 275, 284, 348, 349

4. Which leaves 20 cases where the Title Deed Number should actually have been present and is wrongly lacking, however of these 7 are the Abolishment of Development Bodies Act, Act 1975 of 1986 properties which is in the process of being certified back to the applicable local authority entities, in which case there will be Certificates of Consolidated Title drawn up to facilitate the transfer processes and is the Title Deed Number thus about to change in the near future.

2, 5, 6, 9, 10, 25, 39, 56, 59, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98 (the focus was not on 92 to 98 as they are Act 75 of 1986 properties that is in the process of being certified back to

the applicable Local Authorities), 347.

Name: P Crous

Position: DIRECTOR: LAND AND ASSET MANAGEMENT

Date: 23 Augustus 2011

Auditor's conclusion

Management response is noted. All properties in the asset register should have title deeds in order to obtain sufficient appropriate audit evidence on the existence and rights of the property. Matter will be reported in the audit report.

10. Assets with nil balance

Audit finding

According to GRAP 17 paragraph 11 (the recognition criteria) it states the following:

"The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity, and*
- (b) the cost or fair value of the item can be measured reliably."*

Finding 1 (Current year):

GRAP 17 paragraph 21 and paragraph 22 states the following:

"An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost. Where an asset is acquired at no cost, or for a nominal cost, its cost shall be measured at its fair value as at the date of acquisition.

The asset register was inspected and it was identified that there were 52 properties for the year under review that had no values attached to it.

No	Property no	Description	Amount
1	106	QUEENSTR	-
2	885	ERF 4097	-
3	1051	SECTION 1 OF SECTIONAL SCHEME	-
4	1052	SECTION 2 OF SECTIONAL SCHEME	-
5	1053	SECTION 2 OF SECTIONAL SCHEME	-
6	1054	SECTION 1 OF SECTIONAL SCHEME	-
7	1055	SECTION 2 OF SECTIONAL SCHEME	-
8	1056	SECTION 3 OF SECTIONAL SCHEME	-
9	1057	SECTION 4 OF SECTIONAL SCHEME	-
10	1058	SECTION 4 OF SECTIONAL SCHEME	-
11	1059	SECTION 4 OF SECTIONAL TITLE	-
12	1060	SECTION 4 OF SECTIONAL SCHEME	-
13	1061	RIVERSDAL ROAD	-
14	1062	RIVERSDAL ROAD	-
15	1063	RIVERSDAL ROAD	-
16	1064	RIVERSDAL ROAD	-
17	13755	ERF 1667	-
18	23933	ERF 126020 (UNREGISTERED PTN OF 15197)	-
19	23942	ERF 2887 R/E	-
20	24936	ERF 10044	-
21	25053	SECTION 1 OF SECTIONAL SCHEME	-
22	25054	SECTION 2 OF SECTIONAL SCHEME	-
23	25055	SECTION 3 OF SECTIONAL SCHEME	-
24	25056	SECTION 4 OF SECTIONAL SCHEME	-
25	27313	ERF 17839	-
26	27321	ERF 17862	-
27	27344	ERF 18087	-
28	27365	ERF 18112	-

No	Property no	Description	Amount
29	27370	ERF 18119	-
30	27373	ERF 18125 PTN ERF 14959	-
31	27377	ERF 18124	-
32	27445	ERF 15048	-
33	27506	ERF 8542	-
34	28809		-
35	28940		-
36	34367		-
37	42318	ERF 14505	-
38	34570		-
39	34646		-
40	34648	RICK TURNER 8 CRESCENT	-
41	34680	ZWELIBANZI NYANDA 5A CRESCENT	-
42	34684	SITHEMBELE MATISO 31A STREET	-
43	34685	LILLIAN NGOYI 173A DRIVE	-
44	34687	JEFF MASEMOLA 28A STREET	-
45	34696	TRUSTFEED 2A ROAD	-
46	37050	RETREAT	-
47	37052	RETREAT	-
48	37117	DELFT	-
49	37121	DELFT	-
50	37165	40 ENSOR STREET	-
51	37216	P.O.BOX 17	-
52	52238	CR.VANVREDE + ELBRECHT,	-

Finding 2 (Prior period error):

GRAP 17 paragraph 22 states the following:

"Where an asset is acquired at no cost, or for a nominal cost, its cost shall be measured at its fair value as at the date of acquisition."

There were 5 886 assets identified on the asset register that had no balances. The value of these assets should have been debited to the cost of the assets and not to the revaluation reserve. Therefore the revaluation reserve is overstated by R887 578 904,04. (Refer to annexure 2 attached).

There were 5 886 assets identified on the asset register that had no balances. This annexure was provided with the issuing of the Communication of audit findings.

There is inadequate monitoring and oversight of the asset register.

The cost of the assets could be understated and the revaluation reserve could be overstated.

Internal control deficiency

Financial and performance management

Implement controls over daily and monthly processing and reconciling of transactions

Controls were not implemented to ensure compliance with GRAP 17.

Recommendation

Management should implement controls to ensure that values are attached to assets in compliance with GRAP 17.

Management response

COMMUNICATION 23 OF 2011

1. Communication 23 of 2011 refers.
2. Finding 1

AGSA states: "The asset register was inspected and it was identified that there were 52 properties for the year under review that had no values attached to it."

The Department do not agree with the whole finding and comments as follows:

- 2.1 The following nos. from Communication 23 of 2011 (Finding 1) do not have zero balances as indicated by the Auditor, as they were part of the 2010/11 Amending Journal where the values were corrected (and the values are correctly on the NDS and validatable from applicable Valuation Evidences). So the values are correct.

Communication Nos. mentioned under 2.1:
2 – 12, 21-45,

- 2.2 The following instances from Communication 23 of 2011 (Finding 1) do indeed have zero balances and the Department agrees that they are errors, but explain the occurrences as follows:

1 This entry of 12194 (Prop No. 112807) is an administrative entry used for attaching a rental debtor. There is currently no Debtor relation attached, and should the value be R1 (that for a property with a rental debtor attached, and not wrongly R0. [According to the Property Register Policy where more than one rental unit is one one erf (which is the case with Erf 12194, Cape Town) there will be a separate NOTU erf being the official entry for the erf and carrying the value. Property Number 112644 is the official entry for this Erf and carries the value correctly.

13, 14, 15, 16 It is correct that these cases wrongly do not have a value. The reason for this relates to the 4 Riversdale properties only being registered in the Deeds Office on 10 March 2011, and the office having only received the Notification from the State Attorney's office just before Bookyear Closure whereby it was not possible to obtain a value for it from the applicable Local Authority (Hessequa Municipality) in time.

17 It is so that there is a zero value for this Erf. It will be corrected by Deleting this property since it is a wrong duplicate of the correct entry Property Number 156781 (the latter carries the value).

18 It is so that there is a zero value for this Erf. This is an example of an unregistered property that normally is not put onto the NDS, but which was according to the Property Register Policy put on for administrative purposes for the purpose to attach a Debtor. (The Debtor registration is still receiving attention.) Therefore in terms of the said Policy property that should not count to the Property Portfolio Value (for example this unregistered Erf) is allocated a nominal Value of R1.

19. Also has a zero balance, and a Municipal Valuation is not available. It should therefore have a Director's Value to the amount of R8400 (42 m² x R200/m² Grassy Park).

20. Erf 10044, Grassy Park does not belong to the Department Human Settlements but to the (Provincial) Department of Transport and Public Works and is therefore wrongly NOTU. The property will be Deleted.

46-52 These instances are examples where there is a wrong/unclear erf no attached to the Property Number entry (Property Number and Erf No wrongly the same). These 4 instances will be deleted.

Audit No	Prop No	Property Description	Ownership	The Value must be
1	112807	Erf 12194, Cape Town	PGWC, DLGH	R1
13	219434	Erf 5719, Riversdale	PGWC, DLGH	Value Amount not available yet
14	219435	Erf 5720, Riversdale	PGWC, DLGH	Value Amount not available yet
15	219436	Erf 5721, Riversdale	PGWC, DLGH	Value Amount not available yet
15	219437	Erf 5874, Riversdale	PGWC, DLGH	Value Amount not available yet
17	156781	Erf 1667, Blue Downs	PGWC, DLHG	Not applicable R0 (will be deleted)
18	188913	Erf 126020, Cape Town	Not registered (ptn of Erf 15197))	R1
19	189000	Erf 2887, Grassy Park	PGWC, DLHG	R8400
20	219290	Erf 10044, Grassy Park		Not applicable R0 (will be deleted)
46	128459	Unclear Erf No.	Ownership not detectable	Not applicable R0 (will be deleted)
47	128461	Unclear Erf No.	Ownership not detectable	Not applicable R0 (will be deleted)
48	128547	Unclear Erf No.	Ownership not detectable	Not applicable R0 (will be deleted)
49	128552	Unclear Erf No.	Ownership not detectable	Not applicable R0 (will be deleted)
50	134575	Unclear Erf No	Ownership not detectable	Not applicable R0 (will be deleted)
51	138210	Not a correct Erf No.	Ownership not detectable	Not applicable R0 (will be deleted)
52	35531	Unclear Erf No	Ownership not detectable	Not applicable R0 (will be deleted)
Possible misstatement				R8402?

3. Finding 2

The Department concurs that the examples* under Finding 2 of Communication 23 do not have Basic Cost entries in the Basic Cost Field, i.e. there are no Acquisition Costs. There are different reasons why this happened. Firstly the properties that are administered by the Department Human Settlements came down from many previous Government institutions and from earlier years (For example the government institution ownership of many properties originates in the 1960's from the then Development Boards and Government institutions thereafter like the Own Affairs Dispensations, the National Housing Boards etc. Also some of the properties originates from the Province of the Western Cape history line from as far back as 1912. It is thus simply impossible to know or ascertain what where the prices these previous old government dispensations acquired it for. Secondly there is also the history about where the electronic information on the NDS comes from. In 1990 there was an amalgamation of the old Own Affairs computer systems into the New National Debtor System. In previous control and evaluation exercises and also through previous Audit Engagements it was explained that it is a fact that some information was evidently lost and some information wrongly brought over from these previous systems. It is therefore possible that some Acquisition Values were wrongly not brought over. Today it is not possible to know who the people were at that stage who worked on the actual transformation process and neither is it known what quality standards they upheld. Thirdly the acquisition costs for properties might therefor also be in or old government files already destroyed (i.e. the value cannot be traced), or it is in old file system files in the Provincial Archives that are difficult to find the correct documents, if any.

*Do take cognizance of the fact that the finding pertaining to the properties mentioned in Annexure 2 of Finding 2 of Communication 23 could presumably not be applied to the whole sample of 5886 cases, since it also includes 537 Deleted properties, 7 Transfer Prior to Conversion Process Properties, 1 TRAN property, and 1 Devolved property that is presumed not part of the discussion since they are not anymore active properties. Then there is a further 12 SOLD and 13 PAID properties which can be included or excluded depending on how the finding relates to these properties.

4. Another supplementary comment relating to your Finding 2 of Communication 23 will still be addressed to you.

Name: P Crous

Position: DIRECTOR: LAND AND ASSET MANAGEMENT

Date: 25 August 2011

Auditor's conclusion

Management response noted: The finding will remain in the management letter , as the department did not comply with GRAP 17 paragraph 11, that assets should be valued at cost or fair value , if no consideration at fair value. Matter will be reported in the audit report.

11. Properties not in name of the Housing Fund

Audit finding

The Western Cape Housing Development Fund (WCHDF) Property Register Policy states that:
"From the 2010/11 financial year, on a six monthly basis, co-inciding with the first and third quarters of the financial year, a Bulk Download or other Property Information derivative will be obtained from the Registrar of Deeds which can be used to substantially audit and verify the properties in the name of the DLGH, as well as execute any corrections on the National Debtor System which might become evident through this exercise."

The title deeds for the properties in Annexure 1 were inspected. The title deeds are not in the name of the WCHDF, yet the properties are still included in the property register.

No	Erf no.	Property no	Title deed number	Amount
1	23378	30325	T13184/1982	R17 067,84
2	23603	30325	T13184/1982	R17 067,84
3	38072	42979	T22646/1977	R0,00
4	1558	93411	T13882/1985	R0,00
5	18085	99137	T24020/1982	R573 745,00
6	6211	101207	Title deed number not in asset register	R16,58
7	480	108740	T2145/1976	R293 495,00
8	19427	110855	T25001/1987	R193 888,41
9	14954	111820	T31757/1971	R1,00
10	1378	125319	T13882/1985	R0,00
11	12771	127719	T8182/2001	R1,00
12	989	143072	T58293/	R15 400,00
13	1275	145349	T56687/1990	R0,00
14	1433	145574	T56687/1990	R0,00
15	5482	148083	T65917/1990	R35 000,00
16	1227	148543	13193/89	R10 000,00
17	3811	154820	T44100/1988	R31 954,80
18	2816	155579	T38457/1988	R26 539,00
19	2360	156586	T60723/1988	R33 060,00
20	7818	156985	T25413/1990	R146 046,65
21	5640	157568	T68220/1991	R1 500,00
22	1237	158268	T67838/1988	R42 541,00
23	7300	167777	T83405/1994	R1,00
24	7673	168141	T83406/1994	R11 329,00
25	7818	168286	T83406/1994	R14 180,00
26	8253	168809	T78274/1996	R1,00
27	8359	168916	T78274/1996	R19 326,00
28	4140	190942	NOT REGISTER	R0,00
29	1238	192305	T67838/1988	R25 000,00
30	13212	192505	T3337/1998	R2 331 400,00
31	22643	212503	T13184/1982	R24 000,00
32	33201	212551	T8746/1994	R307 500,00
33	897	212608	T49591/1987	R95 000,00
34	18005	212651	T106037/2000	R60 000,00
35	18048	212694	T106037/2000	R54 400,00

No	Erf no.	Property no	Title deed number	Amount
36	18093	212737	T106037/2000	R58 800,00
37	18149	212780	T106037/2000	R39 000,00
38	18192	212823	T106037/2000	R40 000,00
39	1962	212918	T73408/1988	R34 000,00
40	4209	213161	T58702/2002	R1,00
41	13504	213221	T3337/1998	R45 000,00
42	13120	213278	T52996/1999	R17 800,00
43	14012	213328	T62394/1998	R104 700,00
44	21034	213632	T12298/1994	R269 000,00
45	20862	213724	T23569/1998	R1,00
46	30491	213772	T23596/1998	R1,00
47	30384	213866	T62423/2006	R1,00
48	24592	213918	T66446/2003	R1,00
49	24666	213963	T66446/2003	R1,00
50	24740	214011	T66446/2003	R1,00
51	33149	214066	T83945/1993	R1,00
52	33260	214111	T865/1996	R1,00
53	24430	214157	T87856/1993	R1,00
54	9075	214202	T9622/1981	R1,00
55	685	214298	T15357/1976	R1,00
56	742	214342	T43366/1988	R1,00
57	1011	214424	T46903/1991	R1,00
58	1162	214467	T68455/1995	R1,00
59	1211	214510	T68455/1995	R1,00
60	1254	214553	T68455/1995	R1,00
61	1301	214596	T68455/1995	R1,00
62	1344	214639	T68455/1995	R1,00
63	1533	214682	T68455/1995	R1,00
64	50631	215265	T65533/2002	R1,00
65	50161	215390	T65534/2002	R1,00
66	50267	215495	T65534/2002	R1,00
67	50407	215635	T65534/2002	R1,00
68	10299	215721	T24511/1973	R1,00
69	8874	215881	T102812/2001	R1,00
70	11712	216115	T103689/2004	R0,00
71	5620	216201	T108658/2003	R1,00
72	8048	216302	T108661/2003	R1,00
73	6696	216403	T108666/2003	R1,00
74	9963	216497	T38689/2001	R1,00
75	6181	216772	T2964/1998	R11 500,00
76	6348	216921	T40293/1997	R1,00
77	6448	217006	T40293/1997	R1,00
78	6151	217068	T47052/2002	R1,00
79	6485	217289	T84133/1998	R31 500,00
80	80	217604	SK971/1994S	R0,00
81	23494	217662	T18926/1998	R40 000,00
82	20495	217706	T35743/1996	R4 000,00

No	Erf no.	Property no	Title deed number	Amount
83	20610	217750	T35743/1996	R116 000,00
84	20674	217793	T35743/1996	R50 000,00
85	20729	217836	T35743/1996	R4 000,00
86	20780	217879	T35743/1996	R5 000,00
87	19720	217924	T95992/1997	R1,00
88	19837	217967	T95992/1997	R1,00
89	19916	218011	T95992/1997	R1,00
90	19976	218054	T95992/1997	R1,00
91	19311	218097	T95993/1997	R1,00
92	19385	218140	T95993/1997	R1,00
93	19514	218183	T95993/1997	R1,00
94	19595	218226	T95993/1997	R1,00
95	20077	218270	T95994/1997	R1,00
96	20157	218313	T95994/1997	R1,00
97	20274	218356	T95994/1997	R1,00
98	20355	218400	T95994/1997	R1,00
99	20447	218445	T95994/1997	R1,00
100	2005	218494	T15249/1995	R1,00
101	9413	218584	T23947/1999	R1,00
102	9687	218674	T23947/1999	R1,00
103	9950	218776	T23947/1999	R1,00
104	5539	218881	T100102/1998	R0,00
105	6790	218946	T41919/1999	R1,00
106	4935	219031	T91073/1996	R3 000,00
107	74	219210	T70768/1966	R88 000,00
108	270	219253	T13279/2000	R82 000,00
109	19167	219297	T82798/1992	R1,00
110	1876	219341	T59886/2002	R21 070,00
111	4872	219385	T19559/1999	R280 630,00
Total				<u>R5 724 513,12</u>

There are no proper monitoring controls and oversight of the asset register.

The amount in the financial statements are overstated by R5 724 513, 12.

The projected error rate for the population is R233 147 451, 30 and therefore the population may be misstated.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Controls were not adequately implemented to ensure that title deeds are in the name of the WCHDF and controlled with the property register.

Recommendation

Management should implement controls to verify that the information according to the bulk download from Registrar of Deeds corresponds with the property register.

Management response

9. Your memorandum H3/2/1/2/2010/2011 dated 23 August 2011, refers.
10. The Department takes cognizance of the statements in the above-mentioned memorandum.
11. The communication states that "*title deeds are not in the name of the WCHDF, yet the properties are still included in the property register*". It is further stated that "*there are no proper monitoring controls and oversight of the asset register*". If this premis is based on the status of the NDS Property Information as at 2010/11 Bookyear closure then the Department disagrees with most of the instances of the finding:

- 3.1 From the sample of 111 cases in Communication 27, 102 cases are not as indicated "not in the name of the WCHDF" but are indeed in the name of the PGWC, Department Human Settlements and they are correctly included in the property register (i.e. are carried at applicable correct Property Registration Statuses counting correctly to the Property Portfolio Value) [See the attached Deedsweb Deeds Office Ownership Evidences and NDS Printscreen Property Enquiry Evidences for these and those cases further-on).

Communication Nos. mentioned under 3.1:
1, 2, 5, 6, 8-9, 12-32, 34-74, 76-79, 81-105, 107-111.

[Note 1: in case of No 1 there is a mismatch between supplied erf number and property number. Erf 23378 correct property number is 112012 which is Erf 23378, Bellville which is in the name of the Department and which is correctly marked on the NDS]

[Note 2: in the case of (in the case of no 40 there is also a mismatch between erf number and property number, Property Number 213191 is not Erf 4209 but Erf 9622, Delft which is correctly in the name of the Department and correctly marked on NDS; there are more than one Erf 4209 option so it cannot be conclusively linked to a town.)]

- 3.2 From the sample of 111 cases a further 4 cases have been transferred or devolved to new owners or municipalities, with their **statuses correct** on the NDS at 31 March 2011.

Communication Nos. mentioned under 3.2:
4, 10, 33, 80

- 3.3 From the sample of 111 cases 1 case supplied by the Auditors (namely no 3) have incorrect information. Neither property number nor the erf number relate to a property on the NDS in the name of the Department Human Settlements.

Communication No mentioned under 3.3:
3

- 3.4 From the 111 cases referred to in Annexure 1, a total of four (4) have been transferred or devolved to new owners or municipalities or the erf stopped existing (because of it being consolidated into another erf or renumbered), but their **statuses have wrongly not yet been updated** (to DELETE) accordingly on the NDS.

Communication Nos. mentioned under 3.4:
7, 11, 75 106

12. In the light of the above (and the attached evidences) the Department agrees that in terms of the sample of Communication 27 there is an error of R156 281, made up as follows:

Audit No	Prop No	Property Description	Ownership	Prop Reg Status	Value
7	108740	Ptn 2 of Farm No 480, Riversdale RD	Property does not exist anymore, because it has been consolidated into Ptn 154 (see Deedsweb)	wrongly NOTU	R141 780
11	127719	Erf 12771, George	George Municipality	wrongly NOTU	R1
75	216772	Erf 6181, Plettenberg Bay	Bitou Municipality	wrongly NOTU	R11 500
106	219031	Erf 4935, Weltevreden Valley	Private Owner	wrongly NOTU	R3000
Misstatement					R156 281

Name: P Crous

Position: DIRECTOR: LAND AND ASSET MANAGEMENT

Date: 25 August 2011

Auditor's conclusion

Management response is noted. The finding will remain in the management letter, as the auditee could not provide enough evidence to substantiate the ownership of the assets. The projected amount after consideration of the response in R12 554 033.16. The finding will remain in light of the finding and the entire population was not considered by management. .

12. Inadequate supporting documents provided for revaluations**Audit finding**

There should be appropriate audit evidence to substantiate the revaluations value, i.e. independent valuation certificate.

Based on our audit work performed, there was insufficient, appropriate audit evidence to validate the revaluation balance.

Property no	Description	Amount
213072	No supporting documents	370,792,442.43
212885	No supporting documents	150,281,600.00
112952	No supporting documents	131,959,000.00
219390	No supporting documents	42,537,780.00
107419	No supporting documents	42,496,500.00
186335	No supporting documents	41,149,999.00
188835	No supporting documents	36,644,800.00
213210	No supporting documents	33,340,200.00
218491	No supporting documents	22,311,940.00
213668	Provincial Housing Development Board-WC	21,052,600.00
112771	Elsies River Daries(PTY) LTD	20,100,331.00
185293	City of Cape Town	19,817,800.00
214736	Housing Development Fund-WC	19,487,490.00
218498	Province of the Western Cape	16,543,660.00
111279	Housing Development Fund-WC	15,983,310.00
190929	City of Cape Town	13,650,600.00
96607	National Housing Board	12,439,530.00
187723	Provincial Government of the Western Cape	12,291,585.00
111142	Housing Development Fund-WC	11,571,500.00
218497	Provincial Government of the Western Cape	11,115,450.00
218495	Provincial Government of the Western Cape	9,071,370.00
122179	Provincial Government of the Western Cape	8,898,975.00
213020	National Housing Board	8,347,057.65
136119	No supporting documents	7,107,885.00
144687	National Housing Board	

Management report of Western Cape Housing Development Fund (WCHDF)

Property no	Description	Amount
		7,074,500.00
213047	Housing Development Fund-WC	7,045,978.32
218983	Province of the Western Cape	6,864,700.00
166810	Provincial Government of the Western Cape	6,613,000.00
219183	Housing Development Fund-WC	6,390,750.00
213046	Housing Development Fund-WC	5,246,567.19
178061	National Housing Board	5,139,450.00
145812	Provincial Housing Development Board-WC	5,027,000.00
158132	No supporting documents	5,006,800.00
144683	National Housing Board	4,768,700.00
144680	National Housing Board	4,764,800.00
218493	No supporting documents	4,662,980.00
219384	Province of the Western Cape	4,360,370.00
213031	National Housing Board	4,295,403.45
190367	National Housing Board	4,282,660.00
184553	Municipality George	4,230,000.00
152939	National Housing Board	4,193,147.20
212919	Provincial Government - Western Cape	4,126,400.00
212887	National Housing Board	4,034,200.00
189397	Provincial Government - Western Cape	4,000,000.00
219272	Provincial Government - Western Cape	3,987,100.00
212963	Provincial Government - Western Cape	3,951,999.00
189298	Municipality George	3,900,000.00
214824	Provincial Government - Western Cape	3,845,595.00
111345	Provincial Government - Western Cape	3,532,900.00
132719	National Housing Board	3,376,900.00
212520	National Housing Board	3,263,250.00
152649	National Housing Board	3,212,000.00
218987	Provincial Government - Western Cape	3,209,700.00
96690	No supporting documents	3,197,000.00

Management report of Western Cape Housing Development Fund (WCHDF)

Property no	Description	Amount
109432	Provincial Government - Western Cape	3,130,700.00
214894	National Housing Board	3,012,900.00
191108	Provincial Government - Western Cape	2,906,905.00
212740	Provincial Government - Western Cape	2,845,200.00
188147	Provincial Government - Western Cape	2,820,000.00
156049	Provincial Government - Western Cape	2,492,200.00
213226	Provincial Government - Western Cape	2,467,100.00
189002	No supporting documents	2,462,600.00
219440	National Housing Board	2,375,000.00
219223	Provincial Government - Western Cape	2,355,275.00
219320	Housing Development Board - Western Cape	2,232,900.00
219443	National Housing Board	2,200,000.00
214862	Housing Development Board - WC	2,160,000.00
219445	National Housing Board	2,160,000.00
39013	National Housing Board	2,159,999.00
219441	National Housing Board	2,145,000.00
109432	Duplicate	2,140,000.00
96692	No supporting documents	2,131,500.00
219439	National Housing Board	2,120,000.00
212872	National Housing Board	2,096,600.00
219444	National Housing Board	2,070,000.00
219438	National Housing Board	2,055,000.00
219442	National Housing Board	2,025,000.00
213024	National Housing Board	2,019,327.12
213615	Administrator of Cape Town	1,965,000.00
147793	Municipality Overstrand	1,933,410.00
219380	Province of the Western Cape	1,909,880.00
212936	National Housing Board	1,886,800.00
214704	Province of the Western Cape	1,861,160.94
151900	Provincial Housing Development Board-WC	1,699,597.41

Management report of Western Cape Housing Development Fund (WCHDF)

Property no	Description	Amount
112957	No supporting documents	1,682,600.00
112561	National Housing Board	1,628,200.00
217269	Provincial Government - Western Cape	1,570,980.00
213045	Housing Development Board - Western Cape	1,570,828.50
213207	Provincial Government - Western Cape	1,554,600.00
31855	National Housing Board	1,466,000.00
100498	National Housing Board	1,442,849.00
214713	Housing Development Board - Western Cape	1,435,500.00
213286	Provincial Government - Western Cape	1,402,900.00
215680	National Housing Board	1,400,000.00
212932	National Housing Board	1,394,200.00
184537	Municipality George	1,390,000.00
148196	Provincial Government - Western Cape	1,286,668.00
215713	Provincial Government - Western Cape	1,283,549.00
213671	National Housing Board	1,257,000.00
132720	National Housing Board	1,206,475.00
102128	No supporting documents	1,196,650.00
219417	National Housing Board	1,195,000.00
219419	National Housing Board	1,195,000.00
37628	No supporting documents	1,185,000.00
219418	National Housing Board	1,140,000.00
219396	Province of the Western Cape	1,125,400.00
215737	Province of the Western Cape	1,116,500.00
212972	Housing Development Board - Western Cape	1,115,000.00
212874	National Housing Board	1,111,400.00
135920	National Housing Board	1,100,000.00
213612	Housing Development Board - Western Cape	1,070,000.00
111993	National Housing Board	1,065,900.00
142854	No supporting documents	1,047,300.00
217639	National Housing Board	1,037,900.00

Property no	Description	Amount
214833	Provincial Government - Western Cape	1,033,780.00
166551	Provincial Government - Western Cape	1,020,000.00
		<u>1,325,163,489.21</u>

The financial statement could be overstated by R 1,325,163,489.21

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

Controls were not implemented to ensure that adequate supporting documents exist to substantiate revaluations.

Recommendation

Management should ensure appropriate audit evidence is provided to substantiate the revaluation balances

Management response

Your correspondence with reference Communication No. 31 dated 24 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communication and concurs with the Audit finding.

Name:

Position: ACCOUNTING OFFICER

Date: 25 August 2011

Auditor's conclusion

Management response is noted. Sufficient appropriate audit evidence could not be provided for the reversal in the revaluation reserve and matter will be reported in the auditor's report.

13. Profit/loss - Limitation: prior year

Audit finding

The Recalculation of the Loss on disposal test could not be performed as the sale contracts /files were not presented for audit purposes. The test to confirm the accuracy/valuation assertion was not performed, and therefore our audit objective has not been met.

TABLE 1			TABLE 2		
No	Property Number	Profit amount (R)		Property number	Loss amount (R)
1	219149	630 000,00	1	134544	1 153 723,51
2	189400	474 496,00	2	93455	590 000,00
3	147075	200 000,00	3	123318	356 000,00
4	108714	94 000,00	4	110967	211,087.50
5	108713	85 000,00	5	107732	173 289,00
6	129378	73 675,00			
7	141833	34 515,10			
8	93451	30 000,00			
9	192561	26 461,50			
10	141327	25 858,46			
11	219147	23 950,00			
12	139111	23 044,56			
13	142104	14 464,07			
14	110578	14 043,00			

Based on the above, it may lead to a limitation of scope and an opinion cannot be expressed on the work performed

The projected misstatement is R253 113 683,28

Internal control deficiency

Review and monitor compliance with applicable

Controls were not implemented to ensure that information is properly filed for easy reference.

Recommendation

Controls should be implemented to ensure that information is readily available for audit purposes

Management response

Your correspondence dated 24 August 2011 refers.

Enclosed the J-Track evidence on the location of the files already referred to Internal Control on the indicated dates.

TABLE 1			
No	Property Nr	Profit amount (R)	J-Track Date to Int Control
1	219149	630 000,00	24 Aug 2011
2	189400	474 496,00	23 Aug 2011
3	147075	200 000,00	24 Aug 2011
4	108714	94 000,00	23 Aug 2011
5	108713	85 000,00	23 Aug 2011
6	129378	73 675,00	23 Aug 2011

TABLE 1			
No	Property Nr	Profit amount (R)	J-Track Date to Int Control
7	141833	34 515,10	23 Aug 2011
8	93451	30 000,00	24 Aug 2011
9	192561	26 461,50	23 Aug 2011
10	141327	25 858,46	24 Aug 2011
11	219147	23 950,00	23 Aug 2011
12	139111	23 044,56	23 Aug 2011
13	142104	14 464,07	23 Aug 2011
14	110578	14 043,00	23 Aug 2011
TABLE 2			
	Property Nr	Loss amount (R)	
1	134544	1 153 723,51	19 Aug 2011
2	93455	590 000,00	19 Aug 2011
3	123318	356 000,00	19 Aug 2011
4	110967	211,087.50	19 Aug 2011
5	107732	173 289,00	19 Aug 2011

Name: Deputy Director

Position: Title Deeds and Asset Administration

Date: 24 August 2011

Auditor's conclusion

Management comment is noted. Files were provided but no contracts were included in the files. Therefore sufficient appropriate audit evidence could not be obtained for the occurrence of the profit/loss on disposal.

14. Profit/loss on sale: Prior year

Audit finding

Paragraph (9) ,GRAP 17 -

" The gain or loss is recognised in surplus or deficit when the asset is derecognised."

Par 29(a) ,GRAP 9 -

" Revenue from the sale of goods shall be recognised when The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods"

According to GRAP 17, if a gain or loss is recognised , then the asset is derecognised (sold) . Ownership should pass to the buyer, when significant risks and rewards have been transferred

Table 1: Properties sold at a profit, but transfer of ownership did not take place, thus the property is still in the name of the Housing Fund

Table 2: Properties sold at a loss, but transfer of ownership did not take place, thus the property is still in the name of the Housing Fund.

TABLE 1			TABLE 2		
No	Property Number	Profit on Disposal	No	Property Number	Loss on disposal amount
1	189342	4 800 000,00	1	190994	146 445 725,87
2	189137	716 583,08	2	192429	5 600 000,00
3	219146	606 000,00	3	134546	1 541 559,89
4	134546	452 673,57	4	112556	1 416 300,00
5	219163	331 400,00	5	112773	1 213 600,00
6	107732	125 711,00	6	112966	870 000,00
7	219152	113 969,00	7	143263	778 433,00
8	192528	73 049,00	8	112527	692 500,00
9	133843	51 950,00	9	139883	610 000,00
10	129405	19 550,00	10	112600	530 000,00
11	112765	16 912,05	11	192429	529 860,21
12	141327	13 359,50	12	192429	289 860,21
13	219146	13 348,50	13	95914	247 900,00
14	190338	12 853,00	14	110519	200 956,25
			15	30934	190 170,00
			16	30898	188 790,00
			17	30701	169 870,00
			18	112705	169 000,00
			19	30822	168 790,00

Profit could be misstated by R2 756 439,81

Loss could be misstated by R232 173 088,62

Internal control deficiency

Review and monitor compliance with applicable laws and regulations.

Controls were not implemented to ensure that properties are derecognized in accordance with **GRAP 17**.

Recommendation

Controls should be implemented to ensure compliance with GRAP 17.

Management response

Your correspondence dated 24 August 2011 refers.

The following properties have been transferred.

Property number 107732 to Look Alive prop dated 26.08.1998

Property number 141327 to Faith Baptist Church of Delft 26.04.1993

Property number 192429 to City of Cape Town dated 24.02.1986

See orange tags.

Recommendation

The recommendation is noted and controls will be implemented to ensure compliance with GRAP 17.

Name: Deputy Director

Position: Title Deeds and Asset Administration

Date:

Auditor's conclusion

Management comment noted. In the three cases indicated above the profit on disposal was recognized in the current year although the sales took place on dates indicated above. In the case of Look Alive and Faith Baptist Church the title deed indicate that the property is not in the name of the fund however no sales agreements were in the files. Furthermore property 192429 is still in the name of the fund. Matter will remain in the audit report.

15. Items not appearing on the fixed assets register

Audit finding

It is good business practice to keep good internal controls over the recording and processing of assets that the entity possesses.

While performing the audit of the Western Cape Housing Development Fund (WCHDF), it was identified that the fixed asset register had not been properly maintained. The following assets per our test should have been included in the asset register, as they had not been disposed of, but were omitted.

No.	Property No.	Amount
1	108339	R 1 990 540,00
2	87475	R 555 000,00
3	217546	R 485 000,00
4	217547	R 485 000,00
5	217564	R 350 000,00
6	217545	R 320 000,00
7	33736	R 162 000,00
8	33801	R 154 000,00

The error in the sample selected amounts to R 4 501 540,00

In addition, it was discovered that the following transactions for deletion did not have any documentation to support its authorization.

No.	Property No.	Amount
1	157576	R 385 000,00
2	219042	R 170 000,00

The error in the sample selected amounts to R 555 000,00

Property, Plant and Equipment in the annual financial statements (AFS) has been understated. The projected understatement amounts to R28 254 641,53.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Controls were not implemented to ensure that pertinent information had been captured to support the AFS.

Recommendation

Management should ensure that the fixed asset register is regularly maintained and the information is readily available to substantiate information.

Management response

COMMUNICATION 36 OF 2011.

13. Communication 36 refers.
14. The Department does not agree with all the findings made in Communication 36 of 2011. It comments as follows:
 - 2.1 The Auditor states: *"While performing the audit of the Western Cape Housing Development Fund (WCHDF), it was identified that the fixed asset register had not been properly maintained. The following assets per our test should have been included in the asset register, as they had not been disposed of, but were omitted."*

Audit Nos. 1 and 2 the Department does not agree. It was in previous communications to the Auditor explained and evidenced. These two are examples where they are wrong extra entries on the NDS for a property that correctly resides elsewhere on the NDS.

Audit No. 1 Property No. 108339 (see attached Printscreen from NDS) relates to Ptn 1 of Farm Laaste Stuiver No 976, Malmesbury RD. It is a duplicate of the correct entry for this Property on the NDS under Property No. 214898 (see the attached Printscreen from the NDS). The asset has indeed not been disposed of, but Ptn 1 of Farm No 796, Malmesbury RD has not been omitted from the NDS, as it is on the NDS under Property No 214898. The Duplicate Entry under Property No. 108339 (in the Audit Sample) is thus correctly marked Deleted. [Deedsweb Ownership Report attached.]

Audit No 2 Property No. 87475 (see attached Printscreen from NDS) relates to Erf 69, Blanco. It is a duplicate of the correct entry for this Property on the NDS under Property No. 87475 (see the attached Printscreen from the NDS). The asset has indeed not been disposed of, but Erf 69, Blanco has not been omitted from the NDS, as it is on the NDS under Property No 214898. The Duplicate Entry under Property No. 87475 (in the Audit Sample) is thus correctly marked Deleted. [Deedsweb Ownership Report attached.]

Audit Nos. 3, 4 and 6 the Department does not agree. The 2010/11 Amending Journal has not been taken in consideration. These three properties relate respectively to three Sectional Title Flat Units in the name of the Department, namely Units 1, 2 and 3, of Sectional Scheme Outeniqua No 357 [Deedsweb Ownership Reports attached]. It is so that these properties were under Properties Numbers 217545, 217546 and 217547 for a part of the 2010/11 wrongly carried under the Property Registration Status Deleted (i.e. omitted), however part of the correction of the 2010/11 Amending Journal on BAS was to change the value of these three properties to the correct counting and validatable Municipal Values which means that they were not omitted from counting to the Property Portfolio Value, and consequently thereafter the changes made on NDS to bring it in line with the Amending Journal changes to BAS, which includes that the Property Registration Statuses of these 3 Properties was amended to NOTU (counting) in order to facilitate the Amending Journal action (i.e. having them counting to the Property Portfolio Value for the 2010/2011 and not being omitted).

Audit No. 5, the Department does not agree. The applicable Property Number 217564 relates to Ptn 241 of Sectional Scheme Parow Park No. 140 [Deedsweb Ownership Report attached] which is not in the name of the Department of Human Settlements but in the name of the Local Authority City of Cape Town. The property is thus not "not disposed of" but is devolved, and was correctly "omitted", i.e. not counting to the Property Portfolio Value (by being in the correct Property Registration Status of Delete).

Audit Nos. 7 and 8, the Department does not agree. Also instances where the Property Numbers referred to 33736 and 33801 where correctly "omitted"/not Counting to the Property

Portfolio Value (being D) because they are Duplicates from the correct entries/official Property Numbers for the applicable erven (NDS Printscreens of Prop Nos 33735 and 33801 is attached.) They refer respectively to 23311, Bellville and 23733, Bellville [attached find the Deedsweb Ownership Reports showing Erf 23311, Bellville as not in the name of the Department Human Settlements anymore and Erf 23733, Bellville as still in the name of the Department. However, it refers to the correct entries (with the correct statuses) for these two erven under respectively Property Number 112078 and 112268 (NDS Printscreens of the latter attached).

- 2.2 The Auditor states: “ *In addition, it was discovered that the following transactions for deletion did not have any documentation to support its authorization.*”

Audit Nos 1 and 2: Prop No 157576 (Erf 5651, Riversdale) and 219042 (Erf 1410, Wilderness at Kleinkrantz). The properties were indeed deleted (because it is not in the name of the Department Human Settlements anymore: see Deedswebs under Annexure Table 2]. We regret the oversight of not attaching the correct Audit Trail Evidences for these two instances with our Answer to Request 32 (respectively the wrong Audit Trail attached, and one omitted). Attached find copies of the applicable Audit Trail Evidences (again just the front signature page, the spreadsheet and the specific Deedsweb Printout; as it would be too bulky to attach the two thick Audit Trail Evidences; but the original on file can be shown if there is a need for it.

Name: P Crous

Position: DIRECTOR: LAND AND ASSET MANAGEMENT

Date: 25 October 2011

Auditor’s conclusion

Management response noted: the finding will remain in the management letter, and follow-up should be done next to ensure that the Asset register is GRAP compliant.

16. Impairment of Assets

Audit finding

“Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.”

It was identified that assets were transferred to the different municipalities and the value of the assets were classified as impairments where they are actually in the nature of disposals. Therefore these assets were incorrectly classified as impairments instead of disposals.

The impairment balance is overstated and the disposal amount is understated by R7 215 971.

Internal control deficiency

Financial and performance management

Management does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Inadequate oversight by management over the preparation of the financial statements to ensure correct classification of amounts.

Recommendation

Management should implement controls to make sure that the transactions are correctly classified.

Annexure 1:

No	Date	Property no	Amount
1	2011/03/12	93261	R 750,000.00
2	2011/03/11	93503	R 560,000.00
3	2011/03/12	93497	R 560,000.00
4	2011/03/12	93257	R 550,000.00
5	2011/03/11	93248	R 530,000.00
6	2011/03/12	93445	R 530,000.00
7	2011/03/12	125335	R 530,000.00
8	2011/03/12	125339	R 509,000.00
9	2011/03/11	125321	R 427,000.00
10	2011/03/11	125319	R 422,500.00
11	2011/03/12	93419	R 387,000.00
12	2011/03/12	93363	R 387,000.00
13	2011/03/11	93377	R 338,000.00
14	2011/03/12	93411	R 195,000.00
15	2011/03/12	93394	R 195,000.00
16	2010/10/13	125821	R 65,000.00
17	2011/03/12	93305	R 60,000.00
18	2011/03/12	93298	R 60,000.00
19	2011/03/28	101430	R 40,000.00
20	2011/03/12	93293	R 35,000.00
21	2011/03/01	112358	R 13,300.00

22	2011/03/28	94294	R 11,220.00
23	2011/03/29	94402	R 11,220.00
24	2011/03/12	93393	R 10,000.00
25	2011/03/28	101430	R 10,000.00
26	2011/03/04	100280	R 6,500.00
27	2011/03/28	109013	R 5,000.00
28	2011/03/01	112358	R 12,361.00
29	2011/03/11	125327	R 3,500.00
30	2011/03/04	100280	R 2,370.00

Management response

Your correspondence with reference Communication No. 41 dated 25 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communication and the necessary adjustments will be made to the financial statements.

Name:

Position: ACCOUNTING OFFICER

Date: 25 August 2011

Auditor's conclusion

Management comment is noted. Sufficient appropriate audit evidence was not provided for assets that were impaired and matter will remain as a reportable item in the management report.

17. Items for which no information had been provided

Audit finding

As per the engagement letter between the office of the Auditor General of South Africa and the Western Cape Housing Development Fund (WCHDF), WCHDF is required to provide to the auditors all supporting documentation that is required by the auditors to enable them to conduct the audit.

While performing the audit of the Western Cape Housing Development Fund (WCHDF), the information required for the following properties was not given as per Request 32 of 2011.

No.	Property No.	Amount
1	190929	R 13 650 600,00

The error in the sample selected amounts to R13 650 600,00.

The auditor will be unable to express an audit opinion on the work performed.

Internal control deficiency

Financial and Performance management

Review and monitor compliance with applicable laws and regulations

Controls were not implemented to ensure that there is proper record keeping of the documents.

Recommendation

Controls should be implemented to ensure the proper recordkeeping of documents.

Management response

COMMUNICATION 37 OF 2011.

1. Communication 37 refers.
2. The Department answers as follows:

Audit No 1

Erf 11916, Kraaifontein: The Department concurs with the finding. The approval for the devolvement of this Erf to City of Cape Town took place in the 1990's and could the official authorization not be found on different old file series that were investigated.

Audit No. 2

Erf 12698, Cape Town. This audit sample could not be traced to Request 32 or other previous Requests. The property is firstly still in the name of the Department of Human Settlements and there is also no authorization applicable [See the Deedsweb Ownership Report.] The entry for Erf 12698 under the mentioned Property Number 112582 is not wrongly "omitted" from the NDS, as it was correctly Deleted, because it is a duplicate copy of the correct entry for this Erf on the NDS under Property Number 112378. [NDS Printscreens attached as evidence.]

Audit No. 3

This was answered before in another Audit Query and also another Communication [Communication 36]. It is the same as above. There was no approval for disposal, so there is no authorization applicable. The property is still in the name of the Department Human Settlements [see Deedsweb]. The entry for Ptn 1 of Farm 976, Malmesbury RD under Property Number 108339 is not wrongly "omitted" from the NDS as it was correctly Deleted, because it is a duplicate copy of the correct entry for this Erf on the NDS under Property Number 214898. [NDS Printscreens attached as evidence.]

Name: P. Crous

Position: DIRECTOR: LAND AND ASSET MANAGEMENT

Date: 25 August 2011

Auditor's conclusion

Management response noted: the finding will remain in the management letter and the audit report as a limitation of scope.

18. Impairment of assets

Audit finding

“Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.”

During impairment testing a debit balance in the impairment account of R43 908 000 was identified. After enquiry the following was identified for the breakdown of the amount:

Amount of impairment per the NDS	R5 906 022.49
Less: Journal (Journal no. 98896) passed (DR)	R46 467 000
Less: Journal passed (DR)	R3 345 859.04
Total	R43 906 836.55

The journals passed were reversal journals for the prior year and should not affect the current financials year's amount. This should be a prior period error.

As a result impairments are understated by the amount of R46 467 000.

Internal control deficiency

Financial and performance management

Management does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

There are inadequate controls in place to review and authorize journal transactions.

Recommendation

Management should implement adequate controls when journal adjustments are passed.

Management response

Your correspondence H3/2/1/2/2010-2011 dated 24 August 2011 refers.

Cognisance is taken of the content of the abovementioned communication and the necessary adjustments will be made to the Annual Financial Statements.

The Service Provider, Grant Thornton, who prepared the financial statements was informed of the misstatements and internal control fundamentals and was requested to adjust the financial statements accordingly.

Name:

Position: DEPUTY DIRECTOR: ACCOUNTING SERVICES

Date:

Auditor's conclusion

Management comment is noted. Amount disclosed as impairment but has not decrease effect on the property, plant and equipment. The impairment/reversal amount shows an increase in property, plant and equipment. Matter will remain as a reportable item in the audit report.

19. Reversal of impairment

Audit finding

“Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.”

During the testing of impairments reversals it was identified that these assets were treated as reversal of impairment. These assets were taken off the asset register in the prior financial period and brought onto the asset register in the current financial period as an impairment reversal. These assets were incorrectly classified as impairment reversals instead of additions.

No	Date	Property no	Amount
1	2010/12/01	104067	R 630,000.00
2	2010/12/01	104434	R 160,000.00
3	2011/02/09	94845	R 129,000.00
4	2010/12/14	94782	R 119,000.00
5	2010/09/21	150960	R 70,500.00
6	2011/01/19	110023	R 44,000.00
7	2010/12/06	159490	R 34,000.00
8	2010/12/14	94782	R 34,000.00
9	2010/12/06	156884	R 27,000.00
10	2010/12/06	155217	R 18,000.00
11	2011/03/01	112358	R 13,300.00
12	2010/12/06	156883	R 7,500.00
13	2011/01/18	156887	R 7,500.00
14	2011/03/28	100280	R 6,500.00
15	2011/03/01	112358	R 4,700.00
16	2011/03/28	100280	R 2,370.00
17	2010/12/01	104067	R 922.85
18	2010/09/21	150960	R 540.00
19	2011/03/01	112358	R 200.00
20	2010/11/22	152772	R 166.16
21	2011/03/28	100280	R 155.00
			<u>R 1,309,354.01</u>

The assets additions are understated by R1 309 354.01 and impairment overstated by R1 309 354.01

Internal control deficiency

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

Inadequate oversight and monitoring of assets.

Recommendation

Management should ensure that reversal of impairment is in terms of the accounting policy

Management response

Your correspondence with reference Communication No. 42 dated 25 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communication and the necessary adjustments will be made to the financial statements.

We trust that you will find this in order.

Name:

Position: ACCOUNTING OFFICER

Date: 25 August 2011

Auditor's conclusion

Management response is noted. Matter will remain in the audit report.

20. Provision bases

Audit finding

According to International Accounting Standards (ISA) 39, Financial Instruments - Recognition and Measurement, paragraph 58:

“An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraph 63 (for financial assets carried at amortised cost), paragraph 66 (for financial assets carried at cost) or paragraph 67 (for available-for-sale financial assets) to determine the amount of any impairment loss.”

During audit of accounts receivables it was noted that assessment of impairment of suspensive sale debtors (lease debtors) and rental debtors was not performed. Hence it could not be determined whether debtors were impaired or not.

Based on our assessment the following was noted

- Only 16% of rental debtors and 1% of suspensive sale debtors were collected based on calculations presented below.

Details	Rental debtors	Suspensive sale debtors
Closing balance	R13 947 120,30	R394 469 860,51
Installments received/collections	R2 226 181,00	R5 009 917,43
Percentage of collection	16%	1%

- Interest of R90.2 million charged to suspensive sale debtors had to be reversed in accordance with in duplum rule and section 103 (5) of the National Credit Act no. 34 of 2005.

Under this Act no further interest should be charged when total interest charges are equal to principal debt. This reversal indicates that debtors have been outstanding for a long period such that interest charges are now equal to principal debt.

Based on our assessment presented above there is sufficient evidence to indicate that accounts receivable is impaired.

Management did not assess the accounts receivable balance for impairment.

Provision for doubtful debt basis used is non-compliant with IAS 39.

Internal control deficiency

Financial and Performance management

Review and monitor compliance with applicable laws and regulations

There was no review of financial statements against applicable GRAP standards prior to submission for audit

Recommendation

Management should perform individual or group impairment assessment of accounts receivable balance as required by IAS 39.

Management response

Your correspondence with reference Communication No. 18 dated 19 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communication.

According to the Accounting Policy on Impairment of Financial Assets, after initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less provision for impairment.

Although the basis used to determine the Provision for Doubtful Debt is non-compliant with IAS 39, the same selection criteria apply to all contracts/agreements and the risk profile is applicable to all debtors.

Furthermore to the above, cognisance is taken of the Internal Control deficiencies and also the recommendation.

We trust that you will find this in order.

Name:

Position: ACCOUNTING OFFICER

Date: 22 August 2011

Auditor's conclusion

Management response is noted. Sufficient appropriate audit evidence could not be obtained to determine if management complied with IAS 39 matter will be reported in the audit report.

21. Receivables: Non compliance to GRAP 13

Audit finding

Operating leases

Amounts held under finance leases are initially recognised as assets of the entity at their fair value at the inception of the lease or, if lower at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they may be capitalised in accordance with the entity's policy on borrowing costs.

Finance leases

Amounts due from lessees under finance leases are recorded as receivables at the amount of the entity's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return to the entity's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Department is the owner of a number of units, which it leases to qualifying tenants.

According to GRAP 13, Leases, paragraph 66 (d):

“Lessors shall, in addition to meeting the requirements of the Standard of GRAP on Financial Instruments: Disclosure and Presentation, disclose the following for finance leases: (d) the accumulated allowance for uncollectible minimum lease payments receivable.”

No lease payments for the rentals were disclosed in the annual financial statements (AFS) to meet the requirement of GRAP 13. The total amount of suspensive sale debtors amounts to R385 million.

This is the first year of GRAP implementation and as such there may have been uncertainty concerning its application.

This non-compliance to GRAP 13 represents a material misstatement of the AFS.

Internal control deficiency

Financial and Performance management

Review and monitor compliance with applicable laws and regulations.

There was no review of financial statements against applicable GRAP standards prior to submission for audit.

Recommendation

Suspensive sales debtors should be reclassified to lease debtors and accounted for using the principles of GRAP 13, Leases.

The effects of incorrect classification on accumulated surplus and balances should be assessed and error corrected using GRAP 3 (Accounting Policies, Changes in Accounting Estimates or Error) principle.

Management response

Your correspondence with reference Communication No. 17 dated 19 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communication.

We are not in agreement with the non-compliance of GRAP 13 that the Financial Statements are materially misstated.

The nature of the rental agreements/contracts does meet the criteria of the definition of a finance lease defined according to GRAP 13, paragraph 6 "A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred".

Furthermore all rental agreements are opened contracts without a fixed period and therefore do not meet the GRAP criteria.

Furthermore to the above, cognisance is taken of the Internal Control deficiencies and also the recommendation.

We trust that you will find this in order.

Name:

Position: ACCOUNTING OFFICER

Date: 22 August 2011

Auditor's conclusion

Management comment is noted. This matter will remain in the audit report.

22. Overstatement of Accounts Payable (Debtor's refund)

Audit finding

According to GRAP 19 (Provisions, Contingent liabilities and Contingent assets) the following terms are defined:

- *Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.*
- *An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.*

During the audit of the Western Cape Housing Development Fund (WCHDF), it was identified through the inspection of debtors files that no actual payments were received from debtors and therefore the accounts payable amount of R3 970 000 (2011) and R7 894 000 (2010) refundable to debtors is not valid.

Accounts payable are made up of debtors with credit balances not amounts refundable to debtors and management has not yet investigated whether the fund has an obligation to refund these debtors.

Management exercised inadequate controls over the record keeping of accounts receivable and accounts payable.

This results in overstatement of accounts payable as the WCHDF does not have a present obligation to refund the debtors.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Controls were not implemented to ensure that refunds due to debtors are valid transactions.

Recommendation

Management should investigate the trade and other payables account and determine whether the debtors with credit balances are valid.

Management response

Your correspondence dated 23 August 2011 refers.

Recommendation

The recommendation is noted and steps to investigate the current credits will be implemented with effect from 1 October 2011.

Name: Deputy Director

Position: Title Deeds and Asset Administration

Date: 23/08/2011

Auditor's conclusion

Management's response is noted but not accepted. Inspected the adjusted financial statements and no changes have been made to the Accounts Payable in respect of 'amounts refundable to debtors'. The matter will be included in the audit report.

ANNEXURE B: OTHER IMPORTANT MATTERS

23. Financial statement errors

Audit finding

The financial statements were inspected and the following errors were identified:

The expenditure amounts for the 2011 financial year was recalculated on the Statement of Financial Performance and the amount was R105 516 000. The amount reflected is R106 320 000. There is a difference of R804 000.

The expenditure amounts for the 2010 financial year was recalculated on the Statement of Financial Performance and the amount was R79 308 000. The amount shown is R79 360 000. There is a difference of R52 000.

It was identified that there was no note for rebates and subsidies in note no. 6: goods and services.

Management did not review the financial statements to ensure that it is accurate prior to submission.

Presentation and disclosure in the financial statements may not be appropriately presented and disclosed in terms of the accounting framework used.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Controls were not implemented to verify the accuracy of the financial statements

Recommendation

Management should make the necessary adjustments to the financial statements and implement controls to ensure accuracy of financial statements prior to submission.

Management response

Your correspondence with reference Communications Nos. 1, 2 and 9 dated 08 August 2011, refers.

Cognisance is taken of the content of the abovementioned Communications and the necessary adjustments will be made to the Annual Financial Statements.

The Service Provider, Grant Thornton, who prepared the financial statements was informed of the misstatements and internal control fundamentals and was requested to adjust the financial statements accordingly.

Furthermore to the above, cognisance is taken of the Internal Control deficiencies and recommendations made by our office.

We trust that you will find this in order.

Name:

Position:

Date:

Auditor's conclusion

Management response noted: the finding will remain in the management letter as a non-compliant as financial statement were not presented and disclosed appropriately in terms of the accounting framework.

24. WCHDF does not have an accounting system

Audit finding

Section 14(2)(b) of the Western Cape Housing Development Fund Act 6 of 1999 states the following:

"The accounting officer of the Fund must —

(b) keep separate records of receipts and expenditure in respect of the respective housing and development programmes for which funds have been made available to the Fund. "

During the audit of the Western Cape Housing Development Fund, it was noted that the financial records are maintained using BAS (which supports the cash basis of accounting) whereas the Fund is on GRAP as detailed in the basis of preparation of financial statements submitted for audit.

It was also noted that the Fund is sharing one ledger module with the Western Cape Department of Human Settlements.

BAS is the accounting system utilised for both the Department of Human Settlements and Local Government and thus the officials are familiar with its functionality.

The accounting system may not have the functionalities required to support the presentation of financial statements in compliance with GRAP.

Internal control deficiency

Financial and performance management

Review and monitoring of compliance with applicable laws and regulations was not performed to enable compliance with section 14 of the Western Cape Housing Development Act 6 of 1999.

Pertinent information is not identified and captured in a form to support financial reporting relating to the housing fund.

Recommendation

It is recommended that a separate accounting system should be implemented that will enable preparation of the financial statements with GRAP to ensure compliance with section.

Management response

Your correspondence with reference Communication No. 12 dated 16 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communications and partially do not agree to the audit finding due to the following reasons:

The National Debtor System is an approved database by the National Treasury and administer by the National Department of Human Settlements with its inception with effect from 1 April 1990.

The National Debtor System is the database where all transactions related to the debtors and properties of the Fund been captured, in other words records of receipts and expenditure related to the Fund are been kept separately, where after all Fund related transactions interface to Bas.

A proper reconciliation (reports are drawn from the NDS to perform this function) between the NDS and BAS are been done monthly and annually.

Information for the in-year-monitoring are extracted from the NDS.

All financial information such as Trial Balances, Debtors Listing, Age Analysis, Property Audit Reports, Debtors Statements and Receipts are obtained from NDS to enable us to do all our monthly reconciliations.

The Western Cape Housing Development Fund's transactions in respect of assets and debtors (loans, sales and rentals) were processed via the NDS database which interface into BAS, in other words the NDS is a sub-system where all transactions related to debtors and properties interface to BAS.

We agree that the NDS do not have the required functionalities to support the presentation of the financial statements in compliance with GRAP.

In the light of the provision of the Housing Act, the decision of MINMEC to disestablished the Provincial Funds, it is considered uneconomic to enhance the current system or develop a new system. It must be remembered that with the exception of transactions on the NDS, the Provincial Housing Fund are predominantly dormant.

Furthermore to the above, cognisance is taken of the Internal Control deficiencies.

We trust that you will find this in order.

Name:

Position:

Date:

Auditor's conclusion

Management's response is noted. This matter will remain in management report for follow up as NDS and BAS does not have the required functionalities to support the presentation of the financial statements in compliance with GRAP.

25. No bank account for the WCHDF

Audit Finding

During the audit of the Western Cape Housing Development Fund (WCHDF), it was noted that no bank account exists in the name of the Fund. All the monies received and paid for the Housing Fund are transacted from the bank account of the Western Cape Department of Human Settlements.

Because of the similar nature of the transactions of the Western Cape Department of Human Settlements and the WCHDF, a separate bank account was not opened.

Presentation and disclosure of cash and cash equivalents in the financial statements may not be appropriately presented and described and disclosures may not be clearly expressed in terms of the accounting framework used.

Unidentified deposits might be erroneously allocated to the Department Human Settlements.

Internal control deficiency

Leadership

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Inadequate oversight exercised to ensure that a separate bank account was opened in the name of the WCHDF.

Recommendation

It is recommended that a bank account should be opened with a registered bank approved by the Treasury.

Management response

Your correspondence with reference Communication No. 13 dated 18 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communication.

For your information all the Provincial Funds did have bank accounts but after a decision made by MINMEC to de-establish the Provincial Funds the Provincial Funds decided to closed their bank accounts. Furthermore National Treasury considered it necessary to ensure compliance with the introducing of the new Division of the Revenue Act (DORA).

We are not in agreement that unidentified deposits might be erroneously allocated to the Department of Human Settlements, because all deposits are clearly marked with a reference number and controls are in place to ensure that all monies are correctly allocated.

Furthermore to the above, cognisance is taken of the Internal Control deficiencies.

We take note of the recommendation that a bank account should be opened, but in this point in time, it is considered uneconomic and not financial feasible to open a bank account due to the Phasing Out Programme, the sanitization programme, promotion of ownership and the devolvement of properties.

We trust that you will find this in order.

Name:

Position:

Date:

Auditor's conclusion

Management comment noted. Matter will remain in B section for follow up next year.

26. Non compliance to GRAP 17

Audit Finding

According to the Accounting Guideline GRAP 17 paragraph 11 that was issued by National Treasury it states that:

"Entities are required to safeguard and maintain its assets, to value them in accordance with the related standards of GRAP, maintain a system of internal control over assets and to keep an asset register."

In order to comply with the requirement of GRAP, a GRAP compliant asset register should be prepared which should consist of the following information as a minimum:

1. Detail asset description;
2. Bar code, unique identifier, serial number (where applicable), erf number (where applicable) (or other number to distinguish it from other assets);
3. Location;
4. Purchase price;
5. Acquisition date;
6. Estimated useful life (original);
7. Estimated residual value;
8. Remaining useful life;
9. Depreciation;
10. Accumulated depreciation;
11. Disposal – date, proceeds, depreciation up to date of disposal;
12. Information on a change in accounting estimate as a result of change in useful life or residual value – date reassessed, etc;
13. Impairment loss recognised or reversed;
14. Carrying amount at the beginning and end of the reporting period;
15. Funding source;
16. Condition of the asset – this can assist in determining the remaining useful life of an asset and whether it may possibly be impaired; and
17. Person responsible for safeguarding and maintaining the asset(s).

The asset register was inspected and it does not contain the minimum requirements.

This is the first year of GRAP implementation and as such there may have been uncertainty concerning its application.

This is non compliance to the accounting guideline for GRAP 17.

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable laws and regulations.

Controls were not implemented to ensure the asset register is GRAP compliant.

Recommendation

Management should adjust the asset register to comply with the requirements in the accounting guideline for GRAP 17.

Management response

15. Your memorandum H3/2/1/2/2010-2011 dated 22 August 2011, refers.
16. The Department takes cognizance of the statements in the above-mentioned.
17. It is agreed that the National Debtors System, as official recognized asset register do not meet ALL of the requirements as set out under GRAP. Whereas the NDS offer limited data fields, some data is reflected as per the title deed for each property. The various information fields referred to in you communication is covered as follows:
 - Field 1: The NDS offers limited space or options for detailed descriptions. This aspect will be addressed in the planned migration from the old DOS-based NDS to a more advanced database system.
 - Field 2: Provided
 - Field 3: Provided
 - Field 4: Could be reflected in the title deed, but not always accurate, e.g. bulk acquisition. Very few of the properties on the register were purchased as such by this Department. Most were “inherited” from historic entities or predecessors without the purchase amount having been disclosed at the time.
 - Field 5: The title deed reflects the date of transfer. However, in many cases the transfers were made into the name of predecessor. At a later stage properties were acquired by this Department in bulk in response to the legislative framework at that point in time.
 - Field 6: In the case of vacant land the estimated useful life is indefinite.
 - Field 7: In the case of vacant land the residual value is assumed to the fair market value at the time.
 - Field 8: In the case of vacant land the estimated useful life is indefinite.
 - Field 9: Not applied in the case of vacant land.
 - Field 10: Not available in the case of vacant land.
 - Field 11: Provided - data on earlier disposals were often not captured accurately on the NDS.
 - Field 12: Not available.
 - Field 13: Revaluations reflected on the NDS annually, were applicable.
 - Field 14: Provided.
 - Field 15: Not available.
 - Field 16: Observed on an ongoing basis by the property inspectorate section.
 - Field 17: Accounting Officer
18. The Department is currently busy with the preparation of a Custodian Asset Management Plan (C-AMP) in respect of it property portfolio. The C-AMP is to comply with the minimum

content requirements as per the Government Immovable Asset Management Act (Act 19 of 2007). The Department wrote to the National Department of Public Work requesting exemption from the said Act until 2013, but no official response has been received to date.

19. In the medium run, the Department plans to dispose of the bulk of its properties to those organs of state who should be the rightful custodians thereof. However, it [Department] will retain a core portfolio of strategic properties in respect of which it will maintain a comprehensive property register wherein the minimum requirements referred to in GRAP 17 paragraph 11 will be maintained.

Position: DIRECTOR: LAND AND ASSET MANAGEMENT

Date:

Auditor's conclusion

Management response noted. Matter will remain for follow up next year.

27. Property transfer before 1 April 1990

Audit finding

The following property was listed as a property “transferred before 1 April 1990” but per inspection of the title deed it was found to be in the name of the Housing Fund and was recorded in the asset register.

The following amount was recorded in the prior year:

Property number	Date	Amount
153098	17/03/2010	R 51 630 000

The property is recorded in the asset register as R5 163 000,00 for the current financial year.

There are no proper monitoring controls and oversight of the asset register.

Assets are overstated by R 5 163 000,00.

Internal control deficiency

Financial and performance management

Management does not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Controls were not implemented to ensure that properties are recorded correctly.

Recommendation

Management should implement controls to ensure that properties being disposed of are updated on the asset register on a regular basis.

Management response

COMMUNICATION 38

20. Communication 38

21. The Department does not agree with the finding. The argument is based on an error originally made by the 2009/10 External Auditor. They have namely made the wrong deduction that Property Number 153098 (Erf 21489, Bellville) had a Property Registration Status of TPCP (Tranferred Prior To Conversion Process) at 30 March 2010. [The applicable External Auditor accepted their error and removed the COMAF.]

Property Number 153098 was not marked TPCP in the 2009/10 Bookyear (or at 31 March 2010), neither was it ever TPCP in the 2010/11 Bookyear.

It correctly carries the Property Registration Status of NOTU as the property is in the name of the Department of Human Settlements [Deedsweb Ownership Report and NDS Printscreen attached].

3 The history about the amount at which this property is carried is that there were in the past a typing error by entering one zero too many, whereby the value for the Property was wrongly

R51 630 000 at the end of the 2009/10 Bookyear. The Auditor General allowed an Amending Journal of R46 467 000 which was attached to the 2009/10 Financial Statements. The Amending Journal was corrected against the BAS System, and thereafter (i.e. within the 2010/11 Bookyear) the NDS was changed in terms of the Amending Journal that was run against BAS to read the correct amount of R5 163 000 (and a Journal Entry was duly made for the change of the NDS System). Attached find a copy of valuation from the Official City of Cape Town GV2006 valuation roll website facility (with effective date 1 July 2008 as the letter on the official General Zoning File for City of Cape Town underwrites). The value of the property is thus correct on the NDS.

Name: P Crous

Position: DIRECTOR: LAND AND ASSET MANAGEMENT

Date: 25 August 2011

Auditor's conclusion

Management response is noted, This matter will remain for follow up next year.

28. Rates and taxes: Rates paid for property not owned

Audit Finding

During the execution of rates and taxes it was noted that rates and taxes are paid on properties not owned by the Fund. The title deeds for these properties were inspected and it is not in the name of the Housing Fund. Refer to annexure 1 for the complete list.

Due to this rates and taxes could be overstated in the financial statements.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

There are inadequate monitoring controls and oversight of the asset register.

Recommendation

Management should implement controls to ensure that rates and taxes are paid only for properties owned by the fund.

Annexure 1:

No	Payment No.	Item description	Date	Erf No.
1	000027782	SERVICES	2010/01/10	23661
2	000027711	RATES	2010/09/30	1054
3	000027690	RATES	2010/09/29	87
				5654
				1139
4	000027941	SERVICE MUNICIPAL AND RATES	2010/08/10	18978
				12499
5	000027684	SERVICES RATES & TAXES	2010/09/27	64
				1325
				28
				87
6	000027997	SERVICES RATES & TAXES	2010/11/10	28
7	000027692	RATES	2010/09/30	22200
8	000027695	RATES	2010/09/30	32
9	000024740	RATES AND SERVICES	2010/05/27	18803
				1896
10	000024902	NON REC RATES & SERV	2010/02/06	105
				19327
				864

No	Payment No.	Item description	Date	Erf No.
11	000027740	RATES	2010/09/30	26
				787
				787
12	000027954	SERVICE MUNICIPAL AND RATES	2010/08/10	787
13	000027670	REC RATES AND SERVICES	2010/09/27	6397
14	000027864	RATES	2010/04/10	116634
				23681
				1106
				874
15	000028188	RATES	2010/10/21	12499
16	000027238	REC RATES AND SERV	2010/09/13	8398
				18978
				22880
				10013
				1057
17	000028214	RATES	2010/10/21	12674
18	000027762	SERVICE MUNICIPAL AND RATES	2010/01/10	23032
19	000032486	SERVICES RATES & TAXES	2011/03/25	19312
20	000028482	SERVICES RATES & TAXES	2010/10/25	12499
				12499
21	000028579	SERVICES/RATES	2010/10/29	28579
22	000028743	SERVICES RATES AND TAXES	2010/05/11	1426
				1312369
				1456
				131074
23	000027787	NON REC RATES AND SERV	2010/01/10	23311
24	000026927	SERVICES	2010/08/30	22445
				22776
				23010
				23704
				23135
				23130
25	000027259	SERVICE RATES&TAXES	2010/09/13	22397
				23000
				23765
26	000032653	SERV/RATES	2011/03/28	4592
				23044
				22392
27	000027790	REC RATES AND SERVICES	2010/01/10	23142
				23387
				22846

No	Payment No.	Item description	Date	Erf No.
				23760
28	000028193	RATES	2010/10/21	19021
				15968
29	000028269	SERVICES/RATES	2010/10/21	19239
				20154
30	000026926	SERVICES	2010/08/30	22400
				23535
				23356
				23137
31	000027074	SERVICE MUN AND RATES	2010/06/09	23160
				22843
				21633
				15967
32	000028004	SERVICES RATES & TAXES	2010/11/10	114726
				151691
33	000032651	SERV/RATES	2011/03/28	102407
34	000032570	RATES AND TAXES	2011/03/28	19435
35	000028562	SERVICES RATES & TAXES	2010/10/28	13096
36	000028238	SERVICE RATES & TAXES	2010/10/21	12678
				12499
37	000028121	RATES	2010/11/10	19453
38	000028725	RATES	2010/05/11	116634
39	000026933	REC RATES & SERVICES	2010/08/30	22586
				22523
				23526
40	000028114	SERVICES/RATES	2010/11/10	19312
41	000028429	SERVICES RATES & TAXES	2010/10/25	23119
42	000028185	RATES	2010/10/21	18865
				18880
43	000028410	RATES	2010/10/25	19312
				19457
44	000028678	SERVICES RATES AND TAXES	2010/04/11	19262
				165
45	000028598	SERVICES/RATES	2010/10/29	14417
				4531
				10075
				5566
46	000032587	RATES	2011/03/28	19558
47	000032834	SERVICES RATES & TAXES	2011/03/31	23046
				19413
				23646

No	Payment No.	Item description	Date	Erf No.
48	000028707	SERVICES RATES & TAXES	2010/05/11	1475
49	000032556	RATES	2011/03/28	20246
				1406
50	000026882	SERVICES	2010/08/27	22756
				22344
51	000032650	REC RATES & TAXES	2011/03/28	19429
				23348
52	000032577	RATES AND TAXES	2011/03/28	23545
53	000028252	SERVICES/RATES	2010/10/21	9955
54	000024926	MUN SER AND RATES	2010/03/06	23011
				23344
55	000025526	SERVICES	2010/06/28	12499
56	000025532	SERVICES	2010/06/28	1873
				34837
57	000027961	SERVICE MUNICIPAL AND RATES	2010/08/10	10031
58	000025528	SERVICES	2010/06/28	19217
				22970
				116634
59	000025545	SERVICES	2010/06/29	34837

Management response

Cognisance is taken of the content of the abovementioned Communication.

Management, however do not agree with your findings, As indicated, on the actual payments, these properties had and in some cases still have, a paid up or sold not transferred status, Therefore payments were processed, for the period in question as the ownership of these properties still vested with the Department of Human Settlements.

Name:

Position: ACCOUNTING OFFICER

Date: 24 August 2011

Auditor's conclusion

Managements response is noted but not evidence was provided to substantiate that some of the properties still have a "paid up or not transferred status". This matter will be followed up next year.

29. Expenditure: Completeness

Audit finding

Paragraph 31 and 71 of GRAP 1 states the following;

"Accrual basis of accounting

.31 *An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.*

Current liabilities

.71 *A liability shall be classified as current when it satisfies any of the following criteria:*

- (a) *it is expected to be settled in the entity's normal operating cycle;*
- (b) *it is held primarily for the purpose of being traded;*
- (c) *it is due to be settled within twelve months after the reporting date; or*
- (d) *the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date."*

The following payments were incurred during the 2010/2011 financial year, but were not taken into consideration for the preparation of the financial statements:

No	Date	Item description	Rand-value of the item	Payment No.
1	07/03/2011	MUNICIPALITY BREEDE VALLEY	R179,78	33097
2	22/03/2011	WITZENBERG MUNICIPALITY	R487,98	33098
3	23/03/2011	DRAKENSTEIN MUNICIPALITY	R601,71	33101
4	17/03/2011	BREEDE VALLEY MUNICIPALITY	R1 797,80	33109
5	17/03/2011	BREEDE VALLEY MUNICIPALITY	R228,86	33123
6	02/03/2011	THEEWATERSKLOOF MUNICIPALITY	R31 500,00	33569
7	29/03/2011	MUNICIPALITY GEORGE	R103 200,00	33580
8	02/03/2011	MUNICIPALITY GEORGE	R28 400,00	34186
9	25/03/2011	MUNICIPALITY DRAKENSTEIN	R11 796,46	34312
10	31/03/2011	MUNICIPALITY MATZIKAMA	R429,68	34384
11	11/03/2011	STATE ATTORNEY (657/11/AA,655/11/AB,654/11/AP,583/11/AS)	R2 520,00	32974
12	07/03/2011	STATE ATTORNEY (584/11/AR,582/11/AF,491/11/AM,490/11/AM)	R2 520,00	32975
13	11/03/2011	STATE ATTORNEY (499/11/AS,627/11/AM,885/11/AS)	R2 635,00	32977
14	03/03/2011	STATE ATTORNEY(346/11/AP,,460/11/AG)	R1 860,00	32978
15	29/03/2011	STATE ATTORNEY (819/11/AC)	R930,00	33017
16	24/03/2011	STATE ATTORNEY (783/11/AW)	R930,00	33018
17	29/03/2011	STATE ATTORNEY (937/11/AP)	R630,00	33021
18	17/03/2011	STATE ATTORNEY (709/11/AO)	R1 230,00	33022
19	22/03/2011	STATE ATTORNEY (1266/97/AA)	R930,00	33023
20	17/03/2011	STATE ATTORNEY (716/11/AP)	R930,00	33025
21	11/03/2011	STATE ATTORNEY 653/11/AS)	R630,00	33026
22	29/03/2011	STATE ATTORNEY 933/11/AH)	R630,00	33027
23	03/03/2011	STATE ATTORNEY (545/11/AP)	R930,00	33029
24	23/02/2011	STATE ATTORNEY (452/11/AF)	R930,00	33031
25	29/03/2011	STATE ATTORNEY (925/11/AK)	R630,00	33032
26	03/03/2011	STATE ATTORNEY (458/11/AR)	R930,00	33033

Management report of Western Cape Housing Development Fund (WCHDF)

No	Date	Item description	Rand-value of the item	Payment No.
27	28/03/2011	STATE ATTORNEY (8/11/AB)	R930,00	33034
28	08/03/2011	STATE ATTORNEY (526/11/AF)	R930,00	33036
29	30/03/2011	STATE ATTORNEY (913/11/AC)	R930,00	33037
30	23/03/2011	STATE ATTORNEY (781/11/AA)	R930,00	33044

The projected error is R2 419 811,05.

The following payments are for expenditure incurred during the 2009/2010 financial year, but were not taken into consideration while preparing the financial statements:

No	Date	Description	Amount	Invoice number
1	09/03/2010	CHIEF REGISTRAR OF DEEDS	26,528.00	1520021147
2	28/03/2010	STATE ATTORNEY	2,790.00	6621/10/A/J
3	29/03/2010	STATE ATTORNEY	3,720.00	667/10/A/G
4	18/03/2010	S ALLIE T/A S ALLIE BUILDING CONCEPTS	13,200.00	059
5	30/03/2010	DAIK PROTECTION & CLEANING SERVICES	850.00	
6	07/03/2010	WORLD FOCUS 1722CC	6,227.00	25
7	28/03/2010	S&W EYETHU TRADING	840.00	052010/14A
8	28/03/2010	CITY OF CAPE TOWN	44,529.51	151180420
9	03/03/2010	CITY OF CAPE TOWN	32,658.98	213136307
10	10/03/2010	CITY OF CAPE TOWN	29,512.28	161585311
11	28/03/2010	CITY OF CAPE TOWN	27,559.54	205853626
12	28/03/2010	CITY OF CAPE TOWN	25,564.49	702-1196
13	05/03/2010	CITY OF CAPE TOWN	24,902.67	134467703
14	10/03/2010	CITY OF CAPE TOWN	21,542.42	161400370
15	10/03/2010	CITY OF CAPE TOWN	20,562.19	142300292
16	10/03/2010	CITY OF CAPE TOWN	18,866.27	206655318
17	03/03/2010	CITY OF CAPE TOWN	15,716.57	142072185
18	05/03/2010	CITY OF CAPE TOWN	13,855.77	152444831
19	28/03/2010	CITY OF CAPE TOWN	5,838.31	132192204
20	05/03/2010	CITY OF CAPE TOWN	5,783.23	171934892
21	05/03/2010	CITY OF CAPE TOWN	5,760.37	206327416
22	10/03/2010	CITY OF CAPE TOWN	5,667.96	209512551
23	05/03/2010	CITY OF CAPE TOWN	4,767.09	161399301
24	10/03/2010	CITY OF CAPE TOWN	4,410.38	172409396
25	05/03/2010	CITY OF CAPE TOWN	4,346.63	161399317
26	10/03/2010	CITY OF CAPE TOWN	4,345.24	132208085
27	28/03/2010	CITY OF CAPE TOWN	4,334.48	111554672
28	28/03/2010	CITY OF CAPE TOWN	4,243.46	206720206
29	28/03/2010	CITY OF CAPE TOWN	4,237.59	132201397
30	28/03/2010	CITY OF CAPE TOWN	4,009.27	111512165

The projected error is R896 977,72.

The general ledger of the Department of Human Settlements was used to prepare the financial statements of the Western Cape Housing Development Fund. The department is however on the cash basis, while the Housing Fund on the accrual basis.

Expenditure and payables are understated.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Controls were not implemented to ensure that all valid expenditure was identified for inclusion in the annual financial statements

Recommendation

The necessary adjustments to the financial statements should be made and controls should be implemented to ensure that all valid expenditure is recorded in the financial statements.

Management response

Your correspondence with reference Communications Nos. 1, 2 and 9 dated 08 August 2011, refers.

Cognisance is taken of the content of the abovementioned Communications and the necessary adjustments will be made to the Annual Financial Statements.

The Service Provider, Grant Thornton, who prepared the financial statements was informed of the misstatements and internal control fundamentals and was requested to adjust the financial statements accordingly.

Furthermore to the above, cognisance is taken of the Internal Control deficiencies and recommendations made by our office.

We trust that you will find this in order.

Name:

Position:

Date:

Auditor's conclusion

Managements response is noted as the relevant adjustments has been made to the financial statements. Matter will remain in management report for follow up as the internal control deficiency still exists.

30. Evidence not provided for audit purposes

Audit finding

Management is required to provide information as requested within 2 days of receipt of the request for information as agreed upon in the Audit engagement letter.

Debtors files were requested in the following request for information and some of the debtor's files are still outstanding:

- Request for information no. 42 dated 3 August 2011 - due 5 August 2011
- Request for information no. 49 dated 8 August 2011 - due 11 August 2011

The following debtor's files are still outstanding as per request for information:

Request for information no. 42:

No.	Region code	Transaction date	Effective date	Property document no.	Transaction amount	Debtor reference number	User id	Run number	Extract date
1	WESK	2010/04/14	2010/03/01	112386	R24 150,00	01186954S01	DCP006	2337	2010/05/05
2	WESK	2010/07/06	1996/03/01	190912	R14 500,00	01182726S01	DCP094	2410	2010/07/06
3	WESK	2010/09/27	2010/09/09	152307	R25 810,81	00764489S01	DCP006	2471	2010/09/27
4	WESK	2010/09/27	2010/09/09	188815	R25 810,81	00762878S01	DCP006	2471	2010/09/27
5	WESK	2010/05/24	2010/05/11	38133	R17 438,82	00128518S01	DCP072	2368	2010/05/24
6	WESK	2010/05/24	2010/05/10	38078	R17 445,12	00127978S01	DCP072	2368	2010/05/24
7	WESK	2010/05/31	2010/05/23	38276	R19 126,50	01178055S01	DCP072	2378	2010/05/31
8	WESK	2010/06/01	2010/05/25	38347	R19 355,38	00130628S01	DCP072	2386	2010/06/02
9	WESK	2010/08/26	2010/05/28	38268	R17 539,86	01171392S01	DCP072	2447	2010/08/26
10	WESK	2010/08/26	2010/05/28	38357	R17 438,82	00115803S01	DCP072	2447	2010/08/26
11	WESK	2010/10/01	2010/10/01	38172	R17 615,46	00128900S01	DCP072	2477	2010/10/04

Request 49

NO.	REGN CODE	TRANSACTION DATE	EFFECTIVE DATE	PROPERTY/ DOCUMENT NO	TRANSACTION AMOUNT	DEBTOR REF. NUMBER
1	WESK	2010/10/07	1996/05/03	110988	R20 830,17	00216529R01
2	WESK	2010/10/27	1999/03/31	102653	R18 343,94	00206496R01

Request no 41 for bad debts written off files

The following files were requested but not provided, the comments attached received on the 3 August 2011 indicated the files are in George

2010/08/23	466586	R 5,130	00857445S01	F DCP067	2444
2010/09/03	474831	R 5,056	01131851S01	F DCP074	2455
2010/08/20	466573	R 4,845	00855943S01	F DCP067	2444
2010/08/20	466575	R 4,845	00857037S01	F DCP067	2444

Request for information no. 59:

No.	Amount	Category
1	R3 345 859,04	Impairment
2	R31 019 448,00	Deletion

In order for us to meet the legislated dates for the submission of the audit report, the delay in meeting the agreed timelines for submission of the requested information may result in it not being taken into consideration in concluding on the audit.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Due to many staff members being on leave and due to the large number of transactions management was unable to locate and compile the information requested

Recommendation

Information should be provided for audit purposes. The non-submission of the above may lead to a limitation of scope. If management is unable to supply the information requested, kindly indicate the reasons for the non-submission or for the delay in meeting the agreed date of the submission.

Management response

Name:
Position:
Date:

Auditor's conclusion

Management response noted: Request 41 and 59 is still outstanding; this has lead to limitation of scope in the management letter and audit report.

31. Existence of Accounts Receivables : Rent

Audit finding

During the execution of debtors the following debtor numbers could not be traced to the asset register and therefore the properties are not recorded in the asset register:

Debtor No.	Amount Outstanding
1161822R01	R2 666,13
220617R01	R13 575,76
715374R01	R7 800,00

Management did not verify that all properties that are rented out are linked to a debtor number.

This could lead to a misstatement of the amount reflected for debtors and properties.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Controls were not implemented to ensure the completeness and accuracy of debtors and the asset register

Recommendation

Management should implement controls to ensure that the properties that are rented out to debtors are recorded in the asset register.

Management response

There must be a misunderstanding about the residing of Debtor Nos 1161822R01 and 2220617R01 on the NDS. Both are namely Previous Tenants, which means that as soon as a property is marked Previous Tenant, the Debtor Number programmatically does not anymore future on the Property Section (Property Enquiry Details). It is namely correct that there shows a vacant entry against the debtor Ref Nbr in the Property Enquiry Details. It, however, does not mean that the property or the debtor cannot be traced on the NDS.

Firstly the applicable properties, namely property Numbers 107521 (Garage No 6, De Waal Drive Flat Complex) and 112413 (a entry for attaching a rental debtor to Erf 12696, Cape Town are on the NDS. According to the Property Section (Property Enquiry Details) the said rental units and/or rental portion of an Erf are just vacant at the moment. I.e. they are examples of Property Numbers existing for the attachment of a rental debtor pertaining to a top structure on a specific Erf (or group of erven) but there is at the time no rental attached.

The Rental also still exists on the NDS under the Debtor Section and under the "Personal Detail Search Facility" the Debtor or Debtor Account Detail can be looked up.

There is also no reason for unclarity about the link between the Debtor Section and the Property Section of the NDS. According to the applicable National Debtor System Policy one can when in "Personal Details Search Facility" press PF5 and get a definite answer to what property number/applicable property this debtor relationship is attached to (or was attached to in the case of a Previous Tenant). Also when in the Property Section of the NDS there exist the function

PRO/PAG with which one can conclusively see which Debtor Relations is or was attached to the property Number/ Applicable Property in history.

[it can be added that FTP One Liner Property Report from the NDS would also just show the empty space at Debtor Ref Nbr in a case like Property Numbers 107521 and 112413. The same will be applicable to the Debtors, namely depending on what Report one draws (from available applicable Reports from the NDS) one might choose to include or exclude previous Tenants in a Debtor Report.]

Therefore it is not correct that Debtor Nos 1161822R01 and 2520617R01 cannot be traced on the NDS.”

Name: Roy Stuart

Position: Deputy Director Title Deed and Asset Administration

Date: 12 /08/2011

Auditor’s conclusion

Management response is noted. Finding will remain in the management letter for follow up next year. Projected misstatement not material amounts to R431 168.

32. Accounts Receivables : Property with two debtor numbers linked to it

Audit finding

During the execution of debtors it was noted that property no. 108750 is linked to the following two debtors:

- debtor no. 715374R01 and
- debtor no. 210680R01 and both have active status.

Management does not verify that all properties that are rented out are linked to a debtor number.

This could result in the debtor's balance being misstated.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Controls were not implemented to ensure the completeness and accuracy of debtors and the asset register

Recommendation

Management should implement controls to ensure that the properties that are rented out to debtors are linked to the correct property in the asset register

Management response

We agree with your findings. The accounts linked to the incorrect property numbers will be corrected in this financial year.

Name: Roy Stuart

Position: Deputy Director Title Deeds and Asset Administration

Date: 11 August 2011

Auditor's conclusion

Management's response noted. The finding will remain in the management letter for follow up next year.

33. Debt Collection Policy not adhered to

Audit Finding

Per inspection of the Debt Management Policy it was noted that the debt collection process set out in the policy for **Rental, Sales and Loan debtors** is as follows:

1. Monthly statements are sent out to debtors
2. If payment is not received by the due date, a First letter of Demand is send to the debtor. The debtor has 30 days to respond to this letter of demand.
3. If there is no response to the First letter of Demand, a Second letter of Demand is sent to the debtor, giving the debtor 15 days to respond from the date of the letter being sent.
4. If there is no response to the second letter of demand, a Final letter of Demand is sent out, allowing the debtor 30 days from the date of the letter being sent, to make arrangements
5. Failure to respond to the final letter of demand will result in the debtor being entered into the legal collection process, the lease-agreement being terminated and the matter being referred to the state attorney for the recovery of the outstanding debt, and where instructed by the department, for the eviction of the tenant.

After discussions with management, the following was noted:

Rental debtors

1. Debt was not followed up on a monthly basis, but was followed up on a quarterly basis.
2. Outstanding debt was not handed over to the state attorney as this would result in administrative costs that will have to be covered by the debtor.

Loan and Sales Debtors

Loan debtors were not followed up during the year under review.

The non-compliance may result in bad debts not being followed up properly as per debt collection policy.

It is therefore concluded that the Debt Management Policy was not adhered to during the year under review.

Internal control deficiency

Leadership

Develop and monitor the implementation of action plans to address internal control deficiencies
There was inadequate monitoring to ensure that Debt Management Policy was implemented.

Recommendation

The Debt Management Policy should be adhered to and there should be regular and proper follow up on outstanding debt.

Management response

Your letter with reference Communication No. 29 of 2011 dated 24 August 2011, refers.

The Department is in agreement with the findings: The reasons for non-adherence to the debt collection policy are as follows:

RENTAL DEBTORS

The letters of demand are posted/ sent out on a monthly basis with Excel generated statements, but it takes approximately 4 months to conclude the entire arrears list for rentals. There are currently ± 934 accounts which have to first be checked for correctness before the letter of demand and statement can be sent out.

Due to the NDS not being able to generate user friendly statements, the Debt Management section reconstructed a user friendly statement for all rentals to accompany all arrears letters of demand posted in the period 2010/2011.

SALES

Due to the implementation of the EEDBS no letters of demand were sent for loans and sales. As 90% of these properties fall within the criteria of pre 1992 stock, the Sales Section at Asset Management has been in the process of concluding the transfer of properties to the owners through the EEDBS.

LOANS

There are currently more than 6000 loan accounts that has not been attended too. The NDS cannot confirm whether the balances reflected in the statements are correct. Credit balances are reflected for debtors who has made few payments and due to the erroneous accounts these letters of demand has not been sent. The matter has been taken up with National via the Departmental Systems Controller, but the matter has not yet been corrected.

GENERAL

Numerous problems exist with the debtor statements generated by the National debtors system (NDS). In order to rectify the said statements, the problems are taken up continuously with the National Department of Housing, the principal of the NDS, as well as the User Group (National and the Provinces). Had the NDS been rectified to produce statements which were correct in all respects, it would have enabled this Department to follow up its debtors on a monthly basis. The fact that the Department has to produce its own statements on Excel in respect of rental debtors is a major factor in the rental debtors only being followed up quarterly. It is extremely time consuming to re-produce these statements on Excel. The Department started re-producing the statements on Excel during 2008/09 and completed this project during the same year. This re-production of debtor statements on Excel was also planned in respect of the Department's sales and loan debtors. The NDS is an old system and due to the fact that it is being phased out as result of the EEDBS, it has low priority with National.

The EEDBS was implemented in 2005/06 when surveys were conducted and people were promised that they would receive subsidies which would extinguish their debt. Thus, on the one hand there were certain promises by politicians, but on the other hand the Department must adhere to the debt management policy threatening people with legal action if they stay in defiance of paying their debt. We are dealing with the poorest of the poor, who could come into rebellion should the Department continue with such threats, including serving them with eviction orders in which event the Department must provide alternative accommodation, causing further problems, including a capacity and cost effect for the Department.

With the implementation of the EEDBS legal action was not part of the delivery process. Thus debtors were not handed over for prosecution as it was in contradiction to the enabling process of the EEDBS. Otherwise, tenants/debtors would then have had a judgment and litigation process against them, the cost of which is recovered from the tenants directly, according to the State

Attorney. Thus, in this way more debt would accrue to a tenant, seriously hampering delivery of the EEDBS.

As the EEDBS's are granted, the debt accounts are verified for correctness. The properties for which EEDBS's will not be granted and which would be kept as rental stock are in the process of being transferred to the City of Cape Town who will administer these properties further.

The Department is of the opinion that it would not have been realistic to change its debt management policy merely for the sake of the roll-out of the EEDBS. Furthermore, as far as the Department's control activities and monitoring are concerned, it can be seen (from the above-mentioned) that actions were in fact taken to address the risks and that monitoring was conducted. Trust that the above-mentioned are acceptable reasons for the Department's non-compliance to its debt management policy.

Trust you find it in order.

Name: R BAAK

Position: DEPUTY-DIRECTOR: MANAGEMENT ACCOUNTING

Date:

Auditor's conclusion

Management comment noted matter will remain in management report for follow up next year.

34. Recognition of Interest Raised

Audit finding

According to paragraph 34 of Generally Recognised Accounting Practice (GRAP) 9 it states the following:

".34 Revenue arising from the use by others of entity assets yielding interest, royalties and dividends shall be recognised using the accounting treatments set out in paragraph .35 when:

- (a) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- (b) The amount of the revenue can be measured reliably."

Interest raised amounting to R13 347 000.00 has been recognised as Other Revenue, despite the Western Cape Housing Development Fund's intention to write off a number of these debtors each year.

Additionally, there is no accounting policy dealing specifically with the recognition of interest raised relating to accounts receivables.

This is the first year of GRAP implementation and as such there may have been uncertainty concerning the recognition of revenue for interest raised.

Revenue may be overstated.

Internal control deficiency

Financial and performance management

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Controls were not implemented to ensure compliance with GRAP 9.

Recommendation

Management should implement controls to assess the probability that interest raised will be paid before recognising interest as receivable.

Management response

Your correspondence with reference Communication No. 11 dated 16 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communication.

The Accounting Policy dealing with Recognition of Interest Raised does exist.

See Paragraph 1.6.4: Impairment of Financial Assets on page 18 of the Financial Statements.

Furthermore to the above, cognisance is taken of the Internal Control deficiencies and also the recommendation.

We trust that you will find this in order.

Name:

Position: ACCOUNTING OFFICER

Date: 22 August 2011

Auditor's conclusion

Management response noted: the finding will remain in the management letter and follow should be done next year

35. Recognition of Administration fees received

Audit finding

According to paragraph 34 of Generally Recognised Accounting Practice (GRAP) 9 it states the following:

" Revenue arising from the use by others of entity assets yielding interest, royalties and dividends shall be recognised using the accounting treatments set out in paragraph .35 when:
(a) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
(b) The amount of the revenue can be measured reliably."

Each loan agreement stipulates that an amount will be levied on the debtors account on a monthly basis in respect of administration fees. The amount levied on vacant land is R2.50 while the amount to be levied on houses is R5.00. Although the loan agreement contains the detail relating to the stipulated amount, there is no policy or other form of proof relating to the basis on which the amounts are levied.

Administration fees received amounting to R300 000 has been recognised as Other Revenue, despite the Western Cape Housing Development Fund's intention to write off a number of these debtors each year.

This is the first year of GRAP implementation and as such there may have been uncertainty concerning the recognition of revenue for administration fees received.

Revenue may be overstated.

The total of the administration fees account also includes R10, 00 entries that are being levied on debtor's accounts. An extract is included below:

NO.	TRANSACTION DATE	PROPERTY NO.	TRANSACTION AMOUNT	DEBTOR REF.
1	30/04/2010	374222	R10,00	00611666L01
2	30/04/2010	403396	R10,00	00611108L01
3	30/04/2010	403398	R10,00	00611123L01
4	31/05/2010	403411	R10,00	00611666L01
5	31/05/2010	438604	R10,00	00611108L01
6	31/05/2010	438606	R10,00	00611123L01
7	30/06/2010	438618	R10,00	00611666L01
8	30/06/2010	454373	R10,00	00611108L01
9	30/06/2010	454375	R10,00	00611123L01
10	31/07/2010	454387	R10,00	00611666L01
11	31/07/2010	467539	R10,00	00611666L01
12	31/07/2010	467525	R10,00	00611108L01
13	31/08/2010	467527	R10,00	00611123L01
14	31/08/2010	497563	R10,00	00611108L01
15	31/08/2010	497565	R10,00	00611123L01
16	30/09/2010	497577	R10,00	00611666L01
17	30/09/2010	548779	R10,00	00611666L01
18	30/09/2010	548765	R10,00	00611108L01
19	31/10/2010	548767	R10,00	00611123L01
20	31/10/2010	575871	R10,00	00611108L01
21	31/10/2010	575873	R10,00	00611123L01
22	30/11/2010	575885	R10,00	00611666L01
23	30/11/2010	586225	R10,00	00611108L01

NO.	TRANSACTION DATE	PROPERTY NO.	TRANSACTION AMOUNT	DEBTOR REF.
24	30/11/2010	586227	R10,00	00611123L01
25	31/12/2010	586239	R10,00	00611666L01
26	31/12/2010	594581	R10,00	00611108L01
27	31/12/2010	594583	R10,00	00611123L01
28	31/01/2011	594595	R10,00	00611666L01
29	31/01/2011	613479	R10,00	00611108L01
30	30/04/2010	613481	R10,00	00611123L01

Internal control deficiency

Financial and performance management

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Controls were not implemented to ensure compliance with GRAP 9. The incorrect capturing of information relating to debtors accounts as well as no review performed on the information captured with regards to debtors accounts.

Recommendation

Management should perform regular reviews on the debtors balance to ensure the correct levies on the debtors are charged and control measures should be put in place to assess the probability that administrative fees received will be paid before recognising it as revenue.

Management response

The recommendation is noted and (System Controller) of National Department of Human Settlements will be requested to rectify the system error.

Name:

Position:

Date:

Auditor's conclusion

Management comment noted matter will remain for follow up next year.

36. Rental adjustment (Comparative)

Audit finding

Included in the statement of financial performance is an amount of R11 279 000 for 2010 is disclosed in the Statement of Financial Performance as Rental adjustment. This amount is classified as other expenditure. This relates to rental adjustments for 2009 that were initially raised as rental income but due to transfer from rental to sale, the amount had been reversed. The amounts were however not reversed in the accumulated surplus and recognize as a prior period error.

This is the first year of GRAP implementation and as such there may have been uncertainty concerning its application.

The surplus for the year is understated and accumulated surplus overstated.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Controls were not implemented to ensure the adjustments in respect of prior periods are correctly recorded.

Recommendation

The rental adjustment should not be disclosed in the Statement of Financial Performance as it relates to the transfer of debits from rental to sales accounts in the 2009 year and thus should be disclosed in the Statement of Changes in Net Assets a prior period error and adequate disclosure should be made in the notes to the financial statements.

Management response

Your correspondence with reference Communication No. 15 dated 18 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communication.

Your recommendation has been noted and the necessary adjustments will be made to the Financial Statements

We trust that you will find this in order.

Name:

Position: ACCOUNTING OFFICER

Date: 22 August 2011

Auditor's conclusion

Adjustment has been made to the financial statements.

37. Instalments received amount not disclosed in the AFS

Audit finding

During the execution of accounts receivables, it was identified that an amount of R7 276 098,43 (as per National Debtor System (NDS) instalments received reports) was included in the trial balance, but was not disclosed in the financial statements.

Installments received as per NDS reports:

Loans	(R1 211 038,39)
Rental	(R2 266 181,00)
Property Sold	(R3 798 879,04)
TOTAL	(R7 276 098,43)

The instalment receipt/ income amount is understated by R7 276 098,43.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Controls were not implemented to ensure that all instalments are accounted for in the financial statements.

Recommendation

Controls should be implemented to ensure that all instalments are reflected in the financial statements. The necessary adjustments should be made to the financial statements.

Management response

Your correspondence with reference Communication No. 26 dated 23 August 2011 refers.

Cognisance is taken of the content of the abovementioned Communication and do not agree do the Audit finding.

The instalments received were disclosed on the face of the Statement of the Financial Position under Receivables and prepayments and Note 8 to the Financial Statements.

We trust that you will find this in order.

Position: ACCOUNTING OFFICER

Date: 23 August 2011

Auditor's conclusion

Management response is noted. This matter will remain for follow up next year in the management report.

38. Debtor file provided does not contain debtor agreement

Audit finding

Inspected the debtor's files for the following debtors and the agreements were not on file to verify the interest rates. There were also no interest summaries on file.

The total amount of the interest that could not be verified is R110 730.63..

No.	Interest amount detail on file	Debtor agreement on file	Debtor Reference	Property Detail
1	X	✓	1125731SO1	188487
2	X	X	420761	107408
3	X	✓	420761SO1	107408
4	X	X	Communicare Rygerhofwoonstelle	1143699
5	X	X	Communicare Bishop Lavis	1143699
6	X	X	Communicare Kenny Dur	1143699
7	X	X	Communicare Bishop Lavis Creche	1143699
8	X	X	Communicare Survey Cost	1143699
9	X	X	Communicare	1143699L04
10	X	X	Communicare	1143699L03
11	X	✓	484419	128553
12	X	X	Communicare	1143699/010049 Volume 1
13	X	X	Communicare	1143699/010049 Volume 2
14	X	X	Communicare Ruyterwacht	1143699L06

No	Debtor Number	Monthly Rental Amount	Prop No
1	00762852R01	121.00	188814
2	00762878R01	121.00	188815
3	00762579R01	121.00	152297
4	00762933R01	44.00	152292
5	00762634R01	121.00	188813

The projected error is R255 238.72

Debtor's files are not updated on a regular basis and are only updated if a sale or transfer of any kind takes place.

Interest raised could be overstated by R1 180 485, 67 and rental income could be overstated by R255 238.72 the non submission of the information will lead to a limitation of scope.

Internal control deficiency

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Recommendation

Management should put controls in place to ensure that the debtor's files are updated on a regular basis.

Management response

Your correspondence dated 24 August 2011 refers.

The following accounts identified in the abovementioned Communication refers.

No.	Debtor Reference	Property Detail
1	1125731SO1	188487
2	420761	107408
3	420761SO1	107408
4	Communicare Rygerhofwoonstelle	1143699
5	Communicare Bishop Lavis	1143699
6	Communicare Kenny Dur	1143699
7	Communicare Bishop Lavis Creche	1143699
8	Communicare Survey Cost	1143699
9	Communicare	1143699L04
10	Communicare	1143699L03
11	484419	128553
12	Communicare	1143699/010049 Volume 1
13	Communicare	1143699/010049 Volume 2
14	Communicare Ruyterwacht	1143699L06

The recommendation is noted and management will put systems in place to update files on a regular basis.

Name: Deputy Director

Position: Title Deeds and Asset Administration

Date: 24 August 2011

Auditor's conclusion

As a result of us unable to obtain comfort regarding interest raised, a new sample was selected and tested as follows and results in a projected misstatement of R110 730,63.

ANNEXURE C: ADMINISTRATIVE MATTERS