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WESTERN CAPE HOUSING DEVELOPMENT FUND

ANNUAL REPORT 2003/2004

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FOREWORD BY THE CHAIRPERSON

It is with considerable disappointment that I submit the annual report of the Western Cape Housing Development Board for the financial year ending 31 March 2004, to the Provincial Minister of Local Government and Housing: Mr Marius Fransman.

One of the main functions of the Board is to ensure that funds, provided to improve the quality of life of the poorest of the poor, are fully and properly spent. It was therefore very difficult to accept the fact that the budget for the financial year ending 31 March 2004 was underspent by a massive R 141 million.

However, the writing has been on the wall for a long time. The budget for the 2002/2003 financial year was underspent by approximately 8%, which would have been much more, were it not for the fact that several very large projects were carried over from the previous financial year. In my foreword to the 2002/2003 annual report, I stated that the 8% under expenditure could only be attributed to the introduction at National level on 01 April 2002 of significant policy changes, which were definitely responsible for impeding housing delivery.

The requirement that as from 01 April 2002, all Beneficiaries who did not participate in a People's Housing Process project must make a minimum up-front contribution of R 2 479, 00 towards the cost of their house, together with the requirement that all "home builders" [Contractors], must enroll projects with the National Home Builders Registration Council [N.H.B.R.C.] has also shied many big developers / contractors away from becoming involved in contractor built housing projects and this has had a disastrous effect on housing delivery.

I also find it a little disturbing to accept the fact that the Head of Department is being held responsible for the lack of housing delivery whereas everybody connected with low-income housing knows that there is absolutely no doubt that the lack of housing delivery during the past two financial years is due to significant policy changes at National level and various other issues unrelated to the manner in which the Head of Department carried out his official duties.

I am pleased to be able to report, however, that from 01 April 2002 to 16 February 2004, housing projects [including phased projects] to the value of R 790 639 025 covering the construction of 47 694 new houses have been approved by the Board. Provided we can remove the blockages impeding housing delivery, there appears to be no reason therefore why the Board / Department should fail to spend the budget of R 446 million approved for the 2004/2005 financial year.

Unfortunately many of the Developers of the afore-mentioned projects are People's Housing Associations, many of whom lack the necessary experience and expertise to administer and control such projects and it may be necessary to go the Managed Peoples Driven Process route using Secondary Housing Support Organisations or to appoint Project Managers to control such projects provided care is taken to ensure that:

- [i] Beneficiaries are responsible for the construction of their houses through mutual aid facilitated by the Secondary Housing Support Organisations / Project Managers;

- [ii] Households are work shopped around basic construction techniques and good building practice;
- [iii] Training skills must also be provided at the support centre; and
- [iv] The Managed People's Housing Process complies with all the relevant policy prescripts particularly the correct procurement procedures.

In conclusion I wish to thank Board Members, Senior Officials and the Departmental staff for their support, co-operation and dedication in trying to resolve housing problems.

J.W. COETZEE
CHAIRPERSON

PART ONE: GENERAL INFORMATION

1.1 Introduction by the Accounting Officer of the Western Cape Housing Development Fund

Housing delivery in the Western Cape has been governed by three separate but interrelated entities since 1994, namely, the Western Cape Housing Development Board (Board), the Department of Housing (Department) and the Western Cape Housing Development Fund (Fund)

The Board was established in terms of section 5 of the Western Cape Housing Development Act 1999 (Act 6 of 1999) and is a provincial public entity in terms of the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA).

The Board consists of members appointed by the Provincial Minister of Housing. It has no infrastructure, no budget and is not responsible for any expenditure. The administrative functions of the Board are performed by officials of the Department as stipulated in section 8(12) of the Housing Act, 1997 (Act 107 of 1997) and section 7(3) of Act 6 of 1999.

Although the Board is a juristic person and owner of assets, it must manage said assets in accordance with policies determined by the Provincial Minister and dispose of assets at market value, or, if not possible, at a price determined by the Provincial Minister. The Board is not at liberty to acquire properties – the acquisition of property can only be done at the request of the Provincial Minister.

The Western Cape Housing Development Fund was established in terms of section 13 of Western Cape Housing Development Fund Act No.6 of 1999. The assets of the Fund is comprised of money which is due or payable to the Fund in terms of any provision of the Housing Act and out of the provincial revenue account in terms of provincial or national legislation that appropriates money for housing-related development. The Fund, therefore, finances all housing development projects and the subsidies approved by the Board.

In a consultative process between the National Treasury and the national Department of Housing over a period of time it was decided, on administrative level, that the South African Housing Fund as well as the Provincial Housing Funds created respectively in terms of national and provincial housing legislation should be abolished.

On 15 August 2003, the Housing: MINMEC approved the dissolution of the South African Housing and provincial Housing Development Funds. MINMEC also approved the establishment of a Task Team comprising representatives from the National Department of Housing and Provincial Departments of Housing to facilitate the process pertaining to the dissolution of the Funds.

The Task Team met on two occasions and the following resolutions were taken.

- That provinces who still have active Provincial Housing Development Funds and are currently processing payments of projects from the Fund, should begin to reduce the balances in the Fund so that, by 31 March 2004, the balances should be those other than for financing subsidy programmes, i.e.

loan repayments etc, and this funds will be subjected to audit before disestablishment;

- That, with effect from 1 April 2004, the Housing Conditional Grant will no longer be transferred to Provincial Housing Development Funds once the National Department of Housing had transferred the funds to National Treasury prescribed accounts;
- The Housing Conditional Grant would be treated on a similar basis as any other conditional grants, thus the transfer mechanism, thus the reporting on expenditure and performance should be done on the vote.
- The practical application of the aforementioned would be that monthly conditional grants would be transferred from the National Treasury to the National Department of Housing, to the Provincial Treasury and then to the Provincial Department of Housing (and at a later stage to accredited municipalities). The new programme structure for the Housing sector has been adopted, gazetted and this new programme structure caters for the new accountability arrangements. Most provinces have already moved to this reform and no problems were experienced in terms of accounting for funds received.

In terms of section 12(2)(b) of the Housing Act and section 13(5) of the Western Cape Housing Development Fund Act, the Head of the Department is the Accounting Officer for the Fund.

The Board has no financial statements. The financial statements presented with this report are those of the Fund and incorporate the assets of the Board.

The Financial Statements for the 2002/2003 were disclaimed by the Office of the Auditor-General, therefore the Auditor-General could not express an opinion on the Financial Statements, because of the significance of the following matters:

- **Trade and other receivables – Total outstanding debtors amounting to R 773.3 million;**
- **Property, Plant and Equipment – Total amount R 404.4 million;**
- **Annual Financial Statements – Significant and material balances could not be agreed to a Trial Balance.**

PRIOR YEAR ADJUSTMENT IN RESPECT OF DEBTORS AND PROPERTIES

The balances reflected in the general ledger did not support the method applied for compiling the annual financial statements for the year ended 31 March 2003. Accordingly a prior year adjustment has been effected to restate the opening balance in terms of the general ledger.

REALIGNMENT ADJUSTMENT IN RESPECT OF DEBTORS AND PROPERTIES

It was determined that the Debtor System Data Basis provided a fair reflection of the debtor and property balances, as such the general ledger balance was aligned with this system.

1.2 Mission Statement

The Western Cape Housing Development Board subscribes to the aim of the Department of Housing, which is to promote and facilitate the provision of affordable and acceptable housing and related infrastructure.

1.3 Legislative Mandate

The following legislation and case law provide fundamental principles and guidelines upon which the decisions of the Board are based: -

- The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996).
- The Housing Act, 1997 (Act 107 of 1997).
- The Housing Amendment Act, 2001 (Act 4 of 2001)
- The Western Cape Housing Development Act, 1999 (Act 6 of 1999)
 - Court Judgments – Government of the Republic of South Africa v Grootboom and others (2000 [ii] BLCR 1169 [CC])
Peter Ndlovu and Mpika Lawrence Ngcobo (Supreme Court Appeal Case No. 240/2001)

The functions of the Board, in terms of Act 6 of 1999, are to:

- Assist and support the Provincial Minister and the Department with the provision of housing and the promotion and facilitation of the integration of housing with other facets of development, within the framework of the national and provincial housing policy;
- Consider and approve the financing of any project or programme which is in accordance with any national or provincial housing programme, with money paid into the Provincial Housing Development Fund in accordance with the multi-term programme approved by the Provincial Minister;
- Investigate housing-related issues at the request of the Provincial Minister or the Head of the Department in order to advise the Provincial Minister;
- Interpret and evaluate national and provincial policy with a view to applying it;
- Advise the Provincial Minister on the granting of approval to municipalities for accreditation in terms of section 16(2) of the Western Cape Housing Development Act, 1999;
- Subject to the policy determined by the Provincial Minister and in accordance with section 19 of the Western Cape Housing Development Act, 1999, manage the assets which pass to it in terms of section 6(2) and other assets acquired in terms of paragraph (g) or subsection (2), and dispose of the assets in a manner consistent with sections 14 and 15 of the Housing Act, 1997 (Act 107 of 1997); and
- If requested by the Provincial Minister to do so, acquire immovable property.

The Board may –

- In conjunction with the Head of the Department and subject to section 7(2)(a) of the Western Cape Housing Development Act, 1999 and to procurement legislation, policy and practice that apply in the Province, contract in services that may reasonably be required by the Board to enable it to execute its duties effectively, and the cost of such services must be met by the Head of the Department out of money from the Fund;
- Subject to the provisions in any law, and with the approval of the Provincial Minister responsible for financial matters, raise funds by borrowing from any source in or outside of the Republic by agreement or issuing debentures, bills and stocks, and funds so raised must accrue to the Fund;
- In conjunction with the Head of Department, acquire immovable property

Accountability arrangements between the Head of the Department, the Board and the Fund

The Head of the Department of Housing is the Accounting Officer for the Western Cape Housing Development Fund. Since the Head of the Department is the Accounting Officer of the Fund, the responsibility for all financial matters, such as the allocation of funds to developers and municipalities and the recovery of revenue, vests with the Department.

PART TWO: HUMAN RESOURCE MANAGEMENT

2.1 Personnel arrangements

The Board does not have personnel within its employ. The administrative functions of the Board are performed by the Department of Housing.

2.2 Personnel costs and related information

MEMBERS OF THE BOARD

In accordance with the Housing Amendment Act, 2001 (No. 4 of 2001) all Provincial Housing Development Boards were abolished to be substituted by an Advisory Panel. As the Western Cape Housing Development Board was established in terms of the Provincial Housing Act, 1999 (Act 6 of 1999) the then Provincial Minister of Housing, Ms N.E. Hanganana on April 2003 extended the terms of the members of the Board until such time that the new Western Cape Housing Development Advisory Panel is instituted after the amendment of the Provincial Housing Act.

The following are the members of the Board:

<u>Name</u>	<u>Capacity</u>
Mr JW Coetzee	Chairperson
Ms E Sprague	Vice Chairperson
Mr S Patel	Member
Ms P Motalengwe	Member
Ms S Samaai	Member
Mr NC van Breda	Member
Ms N Walker	Member
Mr A Essop	Member

The members of the Western Cape Housing Development Board remained the same for the reporting period. The members of the Executive Committee are JW Coetzee, Ms E Sprague, Mr S Patel and Ms P Motalengwe.

Expenditure

Expenditure in respect of the remuneration of Board members for the 2003/2004 financial year is: **R 165, 921.66**

Attendance at Board meetings:

Board Members	Meetings Attended		
	Full Board	Exco	Special
Mr JW Coetzee	7	3	2
Ms E Sprague	7	3	2
Mr S Patel	5	3	1
Ms P. Motalengwe	5	2	1
Ms S Samaai	5		2
Mr NC van Breda	7		
Ms N Walker	6		
Mr A Essop	4		

PART THREE: PERFORMANCE OF THE BOARD

3.1 Key Objectives

The key objectives of the Western Cape Housing Development Board for the period under review were as follows:

- Facilitate the expenditure of the full conditional grant by considering and approving project proposals that comply with national and provincial housing legislation and policy;
- The continuous implementation of a comprehensive asset management policy;
- The continuous updating and verifying of information in respect of Board property and the Debtor System;
- The continuous transfer of Board properties to municipalities for purposes of housing development.
- The continuous management of Board assets with special reference to updating accounts and improving communication to debtors.
- The pro-active and re-active management of land invasions on Board properties.

3.2 Achievements

A total of 12 meetings were held with 255 items being tabled before the Board.

Integration of Waiting Lists

The existing waiting list in respect of letting units in the ownership of the Western Cape Housing Development Board, from which allocations are presently done on an area-specific basis, have been integrated to afford those applicants on the waiting list a bigger selection of accommodation.

Maintenance in respect of Letting Units

All maintenance of rental units belonging to the Western Cape Housing Development Board is now being done in accordance with a formal maintenance plan. The maintenance plan includes both upgrading, as well as day-to-day maintenance of rental units. The introduction of this plan will ensure that these assets are properly maintained and upgraded to an acceptable level.

Addressing the backlog in respect of the payment of outstanding rates and services accounts

The Department initiated constant discussions with various municipalities in anticipation of settling arrear rates and services charges in respect of the Western Cape Housing Development Board properties, especially to persuade Local Authorities to consider the writing-off of interest charged on outstanding accounts.

Thus far, agreement has been reached with the City of Cape Town that the Department will pay the outstanding capital amounts at this stage, while the question of interest on those accounts will be addressed at a later stage once the City of Cape Town has reached a final decision in this regard.

Effective and Efficient Recovery of Debt

Consideration has been given to the appointment of service providers to assist the Department with the collection of outstanding arrears from the Board's debtors, with the view to improve the recovery of debt. It is envisaged that pilot projects initially be considered and if successful, full-scale projects will be implemented.

Development of Western Cape Housing Development Board Properties

A total of 136 Western Cape Housing Development Board properties were devolved/transferred to Municipalities in terms of national and provincial housing legislation for future housing development. It is envisaged, in the near future, that Municipalities will be required to submit business plans that will ensure that devolved/transferred properties will be utilised for housing within a period of two years. In line with this objective, the Department transferred all the Western Cape Housing Development Board properties in Kleinkrantz and Riversdale to the respective Municipalities since they were in a position to utilize them for future housing developments.

A further 83 Western Cape Housing Development Board properties were transferred to beneficiaries to promote home ownership especially amongst the tenants. In this regard, cognisance should be taken that the clients of the Department are from the lowest income group, the unemployed and the indigent. In order for the Department to pass transfer, the beneficiary had to pay all outstanding Municipal services, rates and taxes and the outstanding amounts on their accounts.

A total of 99 Western Cape Housing Development Board erven were sold to the public [i.e. developers, ex-tenants and individuals]. The Department also sold 16 allotments in Covie at the historical cost of R 88 621.50 to the Department of Land Affairs, to assist them in terms of the Land Restitution Act [Act 22/1994] as part of its contribution towards land restitution. This was a first in the Western Cape Province and, in the near future, similar applications might follow the same route.

The Department is currently in the process of streamline its Disposal Policy to bring it in line with that of the national Department of Public Works and the provincial Department of Transport and Public Works as well as drafting guidelines to ensure access to the Previously Disadvantaged Individual (PDI) and Black Economic Empowerment (BEE) companies.

3.3 Outputs and service delivery trends

Analysis of items considered by the Board

The following tables reflect meeting dates, the number of items considered, number of projects approved at the meeting and the subsidy value of the beneficiaries.

Date of Meeting	Full Board or Exco.	No. of policy approvals	No. of submissions		Total no. of submissions	Subsidy Value of Beneficiaries
			Ad hoc	Other		
22/04/03	Exco.	-	3	11	14	R 195 500.00
13/05/03	Full Board	2	2	12	16	R 184 000.00
03/06/03	Exco.	-	4	13	17	R 86 985 158.00
08/07/03	Full Board	4	5	11	20	R 9 821 052.00
05/08/03	Full Board	-	9	17	26	R0
16/09/03	Full Board	1	11	26	38	R 1 335 096.00
30/10/03	Exco.	-	3	9	12	R 14 558 163.00
18/11/03	Full Board	2	2	17	21	R 3 765 936.00
09/12/03	Full Board	3	5	15	23	R 88 035 604.00
18/12/03	Exco.	-	-	38	38	R 45 654 286.00
16/02/04	Exco.	-	-	4	4	R 31 901 688.00
02/03/04	Full Board	1	8	17	26	R 39 182 186.65
Total		13	52	190	255	R 321 618 669.65

3.4 Capital Investments, maintenance and asset management plan

3.4.1 Fixed Assets

Value: R 406,635 million as at 31 March 2004.

3.4.2 Movable Assets

Nil

3.4.3 Acquisitions

Nil

3.4.4 Disposals

A total of 136 Board properties were transferred to municipalities.

A total of 83 Board properties were transferred to individuals.

A total of 99 properties were sold to the public.

The Department also sold 16 allotments in Covie at historical cost as part of the Department's contribution towards land restitution.

3.4.5 Rehabilitation

Nil

PART FOUR: FINANCIAL STATEMENTS

WESTERN CAPE HOUSING DEVELOPMENT FUND

WESTERN CAPE HOUSING DEVELOPMENT FUND

ANNUAL FINANCIAL STATEMENTS For the year ended 31 March 2004

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WESTERN CAPE HOUSING DEVELOPMENT FUND

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

In terms of Section 55(1)(b) of the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999), the preparation of the Annual Financial Statements of the Western Cape Housing Development Fund and all other information presented in this report are the responsibility of the Head of the Department/Accounting Officer.

The annual financial statements for the period 1 April 2003 - 31 March 2004 as set out on pages 24 to 30 have been prepared in accordance with generally accepted accounting practice, as applicable to the Housing Fund and the rules of the Fund and are presented by the Accounting Officer and Acting Head of the Department since July 2004 and are certified to the best of my knowledge to be true and fair.

L. PLATZKY (Dr.)
ACTING HEAD OF DEPARTMENT/ACCOUNTING OFFICER
DATE: 29 July 2004

WESTERN CAPE HOUSING DEVELOPMENT FUND (WCHDF)

REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE WESTERN CAPE HOUSING DEVELOPMENT FUND (WCHDF) FOR THE YEAR ENDED 31 MARCH 2004

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AUDITOR - GENERAL

REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL PARLIAMENT OF THE WESTERN CAPE ON THE FINANCIAL STATEMENTS OF THE WESTERN CAPE HOUSING DEVELOPMENT FUND (WCHDF) FOR THE YEAR ENDED 31 MARCH 2004

1 AUDIT ASSIGNMENT

The financial statements as set out on pages 24 to 30 for the year ended 31 March 2004, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 13(7) of the Western Cape Housing Development Act, 1999 (Act No. 6 of 1999). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2 NATURE AND SCOPE

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

An audit includes:

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

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

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

3. ACCOUNTING STATUS ON THE WCHDF

Pursuant to discussions between National Treasury and the national Department of Housing, it was decided to abolish the Fund. No legislation has been enacted to date to authorise the abolishment of the Fund. However, the Housing: MINMEC approved the dissolution of the Fund on 15 August 2003 and in addition a task team was established to facilitate the process.

As a result of the new programme structures approved by National Treasury for the 2003/2004 financial year, conditional grants that have historically flowed to the Fund, have been allocated to programmes within Vote 8, namely the Western Cape Department of Housing. The only transactions that impacted the Fund's financial statements during the current financial year were the raising of interest on outstanding loan balances, debtors' repayment of outstanding balances, revaluation/impairment of properties, disposals and acquisition of properties, and provision for doubtful debt.

4 QUALIFICATION

4.1 Non-current assets, Property R 406 635 000

[Note 2 to the financial statements: page 28]

- 4.1.1** A title deed search performed on a sample of properties, included in the property listing, indicated that 15 properties with a total value of approximately R 154 million were not registered in the name of the Western Cape Housing Development Board. Due to the data inaccuracies included on the property listing, the property balance may be overstated.
- 4.1.2** Accounting policy note 1.2 on page 27 of the financial statements states that property is carried at historical cost or municipal valuation and therefore all properties should have recorded values. However, it was found that a total of 2617 properties included on the property list were reflected at nil value.
- 4.1.3** Although valuations have been performed on certain properties, these were performed between 9 and 15 years ago in respect of those properties tested and are thus not in line with present municipal valuations. It was therefore not possible to substantiate the valuation of property in the financial statements.
- 4.1.4** From the sample of 45 property files selected for testing, 24 files could not be submitted during the audit. Of the 21 files tested it was found that there was no supporting documentation for the valuations attributed to the property. In certain instances there were inconsistencies between the information reflected on the property listing and the documentation on the relevant file. The records maintained by the Western Cape Department of Housing (department) in respect of the Western Cape Housing Development Fund did not permit for alternative audit procedures to be performed. As a result of the limitation of scope it was not possible to conclude on the valuation, accuracy and validity of the property balance.

4.2 Current assets, Gross trade and other receivables, R 807 238 000

[Note 3 to the financial statements, page 28]

4.2.1 Credit balances

Included in the above-mentioned outstanding debtor's balance were debtor accounts with credit balances amounting to approximately R 40 million. From the sample of credit balances tested it was found that approximately R 12 million represented credit balances relating to various unallocated receipts for which the department had no supporting documentation.

The records maintained by the department in respect of the Western Cape Housing Development Fund did not permit for alternative audit procedures to be performed. As a result of the limitation of scope, the existence, accuracy and completeness of the credit balances amounting to approximately R 40 million could not be verified. *(This matter was also reported on page 22, paragraph 3.1.3 of the previous year's annual report).*

4.2.2 Suspense accounts

A suspense account debtor of R 22 million relating to historical transactions which was included as part of the debtors listing, could not be substantiated as no audit trail existed. *(This matter was also reported on page 22, paragraph 3.1.2 of the previous year's annual report).*

4.2.3 Interest on debtors – *In duplum* rule

The '*in duplum*' rule in essence states that the total interest raised on debt may not exceed the original capital balance. The national debtor's system presently does not prohibit the charging of interest in excess of the original capital balance. The '*in duplum*' rule is only applied at the settlement of any outstanding balance and the excess interest is written off as part of the finalisation of the relevant transactions. From a sample of debtors tested, interest raised in excess of the capital balance amounted to approximately R 18,7 million, resulting in the debtor's balance being overstated by at least the latter amount. Due to the non-application of the '*in duplum*' rule, the accuracy of the debtor's balance could therefore not be verified. *(This matter was also reported on page 23, paragraph 3.1.4 of the previous year's annual report).*

4.2.4 Invalid debtors

Included as part of the individual debtors' listing, debtor accounts amounting to approximately R 3.3 million were identified that were not in respect of the Western Cape Housing Development Fund but should have been transferred to another department. *(This matter was also reported on page 23, paragraph 3.1.5 of the previous year's annual report).*

4.2.5 Provision for doubtful debts, R 686 152 000

The provision for doubtful debt in respect of the above gross trade and other receivables amounted to R 686 152 000. Based on a review of the method for arriving at the provision for doubtful debts, it was noted that the provision was calculated based on the recovery rate for debt raised during the financial year under review. The ageing of debtors' balances was not taken into account in calculating the provision, nor could a full and accurate age analysis be obtained for audit purposes. Due to the inaccuracies included in the debtors' balances as well as the non-availability of a complete age analysis, the reasonableness of the provision could not be verified.

4.3 Revaluation reserves, R 11 761 000

[Financial statements: page 24]

The above amount represents the revaluation of properties. However, no list detailing the properties' revaluation or explanation could be submitted for audit purposes and the amount of approximately R 11,8 million could therefore not be verified.

5. DISCLAIMER OF AUDIT OPINION

Because of the significance of the matters referred to in paragraph 4, I do not express an opinion on the financial statements.

6. EMPHASIS OF MATTER

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

6.1 Internal checking and control

Various control weaknesses and deficiencies were brought to the attention of the accounting officer by way of informal queries and a management letter, which included, *inter alia*, the following

- Collection and management of debtors relating to sales and loans were not properly performed;
- the follow-up of certain debts was mainly done on an ad hoc basis;
- debtor's accounts were not in all instances formally allocated to specific officials for investigation; and
- there was no status register of debtors that are in the process of being investigated.

6.2 Outstanding matters arising from prior's year audit report

6.2.1 Individual subsidies

On page 51, paragraph 5.2.2 of the audit report for the financial year ended 31 March 2002, it was projected that the department suspended payments in respect of a project due to the unsatisfactory service delivery by the contractor. This matter was referred to the State Attorney's office and the department also obtained a legal opinion in this regard. Notwithstanding the fact that this matter was again reported on page 30, paragraph 5.2.7 (b) of the audit report for the financial ended 31 March 2003, it was found that the matter was still outstanding and had not yet been finalized at the time of compiling this report.

6.2.2 Internal audit and audit committee

According to section (1) (a) (ii) of the Public Finance Management Act, 1999 (Act No. 1 of 1999), all public entities to which the act apply, should have an internal audit function under the direction and control of an audit committee. During the year under review no internal audits were performed at the Western Cape Housing Development Fund. Furthermore there was no audit committee specifically appointed for the Western Cape Housing Development Fund, as the shared audit committee's functions were only applicable to departments and not to related entities.

7. APPRECIATION

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

W.J. BRITS
for Auditor-General

Bellville
23 July 2004

WESTERN CAPE HOUSING DEVELOPMENT FUND

INCOME STATEMENT FOR THE YEAR ENDED 31 March 2004

	<u>Notes</u>	<u>1 April 2003 to 31 March 2004</u>	<u>1 April 2002 to 31 March 2003</u>
		R'000	R'000
Funds received from National department of housing	5	-	378,860
Other operating income			100,174
Other operating expenses	6	(90,704)	(512,580)
Net loss for the year		(90,704)	(33,546)

WESTERN CAPE HOUSING DEVELOPMENT FUND

BALANCE SHEET AT 31 MARCH 2004

	Notes	1 April 2003 to 31 March 2004	1 April 2002 to 31 March 2003
		R'000	R'000
<u>ASSETS</u>			
<u>Non current assets</u>		406,635	416,354
Property	2	406,635	416,354
<u>Current assets</u>		173,202	189,221
Trade and other receivables	3	121,086	137,061
Amount due by the Western Cape Department of Housing	4	52,116	52,160
<u>Total assets</u>		579,837	605,575
<u>EQUITY AND LIABILITIES</u>			
<u>Capital and reserves</u>		579,837	605,575
Accumulated reserves		568,076	593,843
Revaluation reserves		11,761	11,732
<u>Total equity and liabilities</u>		579,837	605,575

WESTERN CAPE HOUSING DEVELOPMENT FUND

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 March 2004

	Notes	Accumulated reserves R'000	Revaluation reserves R'000	Total reserves R'000
Balance at 1 April 2002		627,389	9,500	636,889
Net loss for the year		(33,546)	-	(33,546)
Revaluation for the year		-	2,232	2,232
Balance at 31 March 2003		593,843	11,732	605,575
Net loss for the year		(90,704)	-	(90,704)
Restructuring Allocation Account	7	64,937	-	64,937
Revaluation for the year		-	29	29
Balance at 31 March 2004		568,076	11,761	579,837

WESTERN CAPE HOUSING DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

1 ACCOUNTING POLICIES

The annual financial statements have been prepared in accordance with generally accepted accounting practice and the requirements of the Public Finance Management Act. The following are the principal accounting policies which are consistent in all material aspects with those applied in the previous financial year except as otherwise stated.

1.1 BASIS OF PREPARATION

The financial statements are prepared on the historical cost basis, except as noted under item 1.2.

1.2 PROPERTY

Property is stated at historical cost or at municipal valuation where no historical costs are available.

Properties are disposed by the selling or transferring thereof to Local Government in accordance with the Housing Act.

No provision was made for depreciation.

1.3 REVENUE

Revenue comprises the amounts raised on debtor accounts in respect of loans, sales, the rental of properties, interest raised on debtor accounts and royalties received in terms of relevant agreements. Revenue for the current financial year is reflected in the annual financial statements of the Western Cape Department of Housing ("Department") due to the new program structure that was adopted and implemented with effect from 1 April 2003.

1.4 TRADE AND OTHER RECEIVABLES

Trade receivables are carried at the anticipated realisable value in respect rental debtors, outstanding loans to individuals and outstanding balances in respect of sale debtors. Debts are written off in accordance with the departmental financial delegations when identified as irrecoverable.

1.5 PROVISION FOR DOUBTFUL DEBT

A provision for doubtful debt was determined based on a review of all monies received against trade receivables raised for the current financial year.

1.6 COMPARATIVE FIGURES

Where necessary, comparative figures have been restated to conform with changes in presentation in the current financial year.

WESTERN CAPE HOUSING DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS AT 31 March 2004

	<u>1 April 2003 to 31 March 2004</u>	<u>1 April 2002 to 31 March 2003</u>
	R'000	R'000
2. Property		
Balance as previously reported	-	404,445
Prior year adjustment		16,651
Realignment adjustment		3,781
Opening net carrying amount	416,354	424,877
Disposals	(9,748)	(10,755)
Revaluation	29	2,232
Closing carrying amount	406,635	416,354

Prior year adjustment

The method applied for compiling the annual financial statements for the year ended 31 March 2003 was not supported by the balances reflected in the general ledger. Accordingly a prior year adjustment has been effected to restate the opening balance in terms of the general ledger.

Realignment adjustment

It was determined that the property management system provided a fair reflection of the property balance, as such the general ledger balance was aligned with this system.

The property register is available for inspection at the offices of the Western Cape Department of Housing

3. TRADE AND OTHER RECEIVABLES

Loans to debtors	642,103	578,444
Sale debtors	127,971	124,713
Rental debtors	14,718	7,175
Historical debtor balances	22,446	22,176
Gross trade and other receivables	807,238	732,508
Less provision for doubtful debt	(686,152)	(595,447)
	121,086	137,061

Closing balance of gross trade and other receivables previously supported	-	773,308
Prior year adjustment	-	(172,320)
Realignment adjustment	-	131,520
Closing balance of gross trade and other receivables as restated	-	732,508

Prior year adjustment

The method applied for compiling the annual financial statements for the year ended 31 March 2003 was not supported by the balances reflected in the general ledger. Accordingly a prior year adjustment has been effected to restate the opening balance in terms of the general ledger.

Realignment adjustment

It was determined that the debtor management system provided a fair reflection of the outstanding debtor balance, which has resulted in the alignment of the general ledger balance with the balances per debtor system.

WESTERN CAPE HOUSING DEVELOPMENT FUND**NOTES TO THE FINANCIAL STATEMENTS AT 31 March 2004
(Continued)**

	<u>1 April 2003 to 31 March 2004</u>	<u>1 April 2002 to 31 March 2003</u>
	R'000	R'000
4. AMOUNT DUE BY THE WESTERN CAPE DEPARTMENT OF HOUSING		
This balance was previously reported as cash and cash equivalents, however the Fund does not operate its own bank account and transacts through the Department	52,116	52,160
5. OTHER OPERATING INCOME		
<u>Old and New Business</u>		
Interest	-	1,561
Other operating income	-	3,929
Redemption of loans	-	639
Rental	-	96,132
Royalties	-	423
Subsidy Raised	-	(4,083)
Sundry income	-	1,573
	-	100,174
6. OPERATING EXPENSES		
Administration fees	-	1,829
Capital adjustments	-	(8,319)
Departmental projects	-	761
Disaster relief	-	156
Housing aid	-	2,908
Individual subsidies	-	3,718
Institutional subsidies	-	109
Loss on disposal of property	-	1,323
Municipal charges	-	4,557
Project linked development	-	191,414
Provision for doubtful debt	90,704	176,612
Repairs and maintenance	-	2,912
Special programmes	-	126,812
Subsidies	-	836
Transfer costs	-	381
Upgrading of hostels	-	6,571
	90,704	512,580

WESTERN CAPE HOUSING DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS AT 31 March 2004

(Continued)

	<u>1 April 2003 to 31 March 2004</u>	<u>1 April 2002 to 31 March 2003</u>
	R'000	R'000
7. RESTRUCTURING ALLOCATION ACCOUNT	64,397	-
<p>The Housing: MINMEC approved the dissolution of the Provincial Housing Development Fund, therefore with effect from 1 April 2003 the receipt of the Conditional Grant, expenditure relating to the Fund and receipt of income will be reflected in the Department's annual financial statements.</p> <p>The Fund and the Department use different bases of accounting, being accrual and cash respectively. The Fund accrues for interest and rental raisings, which are reversed when the Department receipts the cash and recognise the income in its own records. Accordingly the accrual has been raised within the restructuring allocation account to facilitate these transactions during the transitional phase prior to dissolution of the Fund.</p>		
8. CASH FLOW STATEMENT		
<p>No cash flow statement has been prepared due to the Fund sharing a bank account with the Department.</p>		