



HOUSING COMPANY TSHWANE

ANNUAL REPORT: 2012/13 FINANCIAL YEAR

Housing Company Tshwane NPC

Company Information

Registration number:	2001/029821/08
Registered address:	Shop 7-8 Ground Floor Bothongo Plaza West 271 Francis Baard Street Pretoria 0001
Postal Address:	P.O. Box 11586 The Tramshed 0126
Bankers:	Absa Limited
Auditors:	Auditor General of South Africa

Company Vision

Housing Company Tshwane seeks to become a leading Social Housing Institution capable of developing and managing quality, affordable rental housing on a sustainable basis.

Company Mission

“to provide quality, affordable and sustainable social/rental housing” through the following programmes:

- New builds: develop and manage new rental/social housing stock
- Property management: manage existing, City of Tshwane rental housing stock
- Refurbishment: refurbish and manage selected inner-city rental housing schemes within the City of Tshwane

To be capable of developing and managing quality, affordable rental housing on a sustainable basis, HCT will:

- Acquire, develop and hold immovable property primarily for occupation and use by individuals who qualify for assistance in terms of the institutional housing subsidy scheme implemented in terms of the National Housing Act. This can be done

either through new rental housing development, or the conversion and/or refurbishment of suitable inner-city buildings.

- Manage selected and existing rental stock on behalf of the City of Tshwane.
- To capacitate the company sufficiently for it to provide affordable, quality, integrated, well-managed rental housing units for the lower-middle income earners within the Tshwane Metropolitan area.

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CHAPTER ONE: INTRODUCTION AND CORPORATE PROFILE

Section 1: Corporate profile and overview of the entity

Housing Company Tshwane (“HCT”) was established as a Section 21 company by the City of Tshwane (“CoT”) in 2001. At the time, the registration was made in terms of the Companies Act, Act 61 of 1973 as amended. The company’s legal form was amended to be a Non-Profit Company (NPC) during 2012/13. This means that HCT continues to work on a non-profit making basis and that all income and property of the HCT, however derived, must be applied solely towards the promotion of its main object and no portion thereof shall be paid or transferred, directly or indirectly, by way of dividend, bonus, or otherwise howsoever, to the members of the association or to its holding company or subsidiary.

HCT is therefore a Municipal Entity (“ME”) wholly owned by the City of Tshwane

Briefly put, the HCT mandate can be summarised as follows

- Develop, own and manage affordable rental housing opportunities close to employment nodes, transport nodes, social amenities and related public services for households earning between R3 500 and R7 500 (as revised by the National Department of Human Settlements from time to time).
- Provide rental housing accommodation for people who do not qualify for subsidy and are unable to participate in the formal, non-subsidised housing market.
- Provide property management and turnaround services for low to medium density social or rental accommodation.

In executing its mandate, the company is expected to contribute to inter alia the following strategic objective(s) of the City of Tshwane:

- To provide basic services, roads and storm water
- To provide economic growth and development and job creation
- To provide sustainable communities with clean, healthy & safe environments and integrated social services
- To foster participatory democracy and Batho Pele Principles through a caring, accessible and accountable service
- To ensure sound governance, financial viability and optimal institutional transformation with capacity to execute its mandate.
- To ensure organisational development

The annual report is prepared bearing in mind the following:

- Targets set in 2010 as part of the Service Delivery Agreement (SDA) and Business Plan signed by the HCT and the CoT.
- The shareholder’s “operations clean audit” drive

HCT STRATEGIC OBJECTIVES (as per the approved Business Plan 30 May 2009)

3.1 Core functional strategies

- **Procure sufficient stock to meet critical mass**
 - Develop and manage 2500 units (500 units in 2012/13)
 - Acquire and manage City rental stock (2012-13: other municipal stock under management)
 - Secure land/or buildings for future projects (2012-13: other land/buildings)

- **Manage procured stock efficiently and effectively (351 units as per business plan)**
 - Efficient property management
 - 100% occupation rates
 - 100% rent collection

Section 3: Chairperson's report

Housing Company Tshwane's (HCT) mandate is to develop and manage affordable social/rental housing within the boundaries of the City of Tshwane. As a municipal entity, HCT derives its mandate from the City of Tshwane (sole shareholder), and is therefore expected to contribute to the City's service delivery programme as captured in the applicable integrated development Plan (IDP) and Service Delivery and Budget Implementation Plan (SDBIP). Operations at HCT are underpinned by the four key guiding principles encapsulated in the company's Strategic Plan, namely *Sustainability, Affordability, Integrity, and Independence*.

Housing Company Tshwane did all it could to discharge of its mandate as per the old Service Delivery Agreement (SDA) with the shareholder. Certain aspects of the old SDA could not be implemented (e.g. the management of newly-refurbished City of Tshwane rental units/ buildings), and this has affected the company's performance in terms of the set targets for 2012/13. It is anticipated that this problem will be resolved during 2013/14, and that HCT can effectively grow its rental stock under management.

Overall, the company's operations during 2012/13 improved significantly as a result of a reliable cash-flow position, the capacitation of the company (i.e. the appointment of key personnel) as well as the continued improvement of the governance environment. The third, successive unqualified audit outcome achieved for 2012/13 bears testimony to the company's efforts to contribute to the City's clean audit initiative. All the matters raised by the Auditor General in the 2012/13 audit report are being attended to as required. Also, the Auditor General's 2012/13 management report will be used as a guideline towards correcting specific compliance, performance and internal control issues which need urgent attention from the HCT management and board.

Finally, I wish to take this opportunity to thank the management and staff of Housing Company Tshwane for the commitment and enthusiasm displayed during the past year. The contribution of the shareholder to the company's 2012/13 operational re-engineering is also acknowledged and appreciated. On behalf of all the Directors, I wish to thank the City of Tshwane for affording all of us the opportunity to serve the City and to contribute to the development of Housing Company Tshwane as a social housing institution.

Tshepo Phetla
Board Chairperson

Date
29 November 2013

Section 4: Managing Director's report

4.1 General performance

The company achieved a 50% performance rating during the 2012/13 external audit of the pre-determined (service delivery) objectives. The general performance is therefore not satisfactory, and the board and management are committed to raising performance levels during 2013/14 as set out in the newly approved company Business Plan (2013-2017).

4.2 Units under management

The company's book (in terms of units under management) remained unaltered, and this remains an operational challenge since Social Housing Institutions require a minimum 2000 units under management to break-even (assuming cost-recovery rentals at least). The rental stock under HCT management at the end of the 2012/13 financial year was restricted to the 95 units at the Eloff Building. The company has however succeeded in negotiating with the City's Housing department for the release of existing rental stock to HCT for management during 2013/14 and beyond, as well as the sourcing of projects for ownership or management outside of the City of Tshwane's portfolio.

4.3 New project(s)

No new projects were implemented by the company during 2012/13.

4.4 Governance

The company's governance structure for 2012/13 has been sound, with twelve (12) regular board meetings and eight (8) sub-committee meetings scheduled and concluded successfully. Company policies and operational procedures were duly reviewed and approved for implementation by management. However, limited human resources continued to undermine the company's ability to comply with *inter alia* certain provisions of the Companies Act and the Municipal Finance Management Act (MFMA).

4.5 Conclusion

The company's general performance (relative to the company mandate scorecard and targets set in the Service Delivery Agreement) was unsatisfactory. In 2013/14, management's priority is to meet all the company's pre-determined objectives and targets as detailed in the newly revised Service Delivery Agreement (SDA) and multi-year company business Plan (2013-2017), thus ensuring that there is overall compliance and that set performance targets/pre-determined objectives are met.

M Gaffane
Chief Executive Officer
30 June 2013

Section 5: Statement of responsibility

The directors are responsible for the preparation, integrity and fair presentation of the financial statements of the company and the entire business operations.

CHAPTER TWO: PERFORMANCE HIGHLIGHTS

Section 1: Highlights and Achievements

The HCT mandate is as follows:

- Develop, own and manage affordable rental housing opportunities close to employment nodes, transport nodes, social amenities and related public services for households earning between R 3 500 and R7 500 (as revised by the National Department of Human Settlements from time to time).
- Provide rental housing accommodation for people who do not qualify for subsidy and are unable to participate in the formal, non-subsidised housing market.
- Provide property management and turnaround services for low to medium density social or rental accommodation
- Manage all CoT Council owned rental Stock

Social Housing is one of the housing programmes designed by National Department of Human Settlements to offer quality, affordable and easily accessible housing opportunities within the Inner city. In the City of Tshwane (CoT), social housing is seen as a vehicle to bring the less affluent people closer to the city centre. The CoT is conscious of the fact that the independent management of social and rental housing stock by HCT would relieve the pressure on municipal finances by dedicating the collection of rentals to an entity without “municipal baggage”, and that the non-payment culture and trends exhibited in municipal rental stock would be reversed.

The company is therefore expected to contribute to the following strategic objective(s) of the City of Tshwane:

- To provide basic services, roads and storm water
- To provide economic growth and development and job creation
- To provide sustainable communities with clean, healthy & safe environments and integrated social services
- To foster participatory democracy and Batho Pele Principles through a caring, accessible and accountable service
- To ensure sound governance, financial viability and optimal institutional transformation with capacity to execute its mandate.
- To ensure organisational development

Key service delivery highlights for the period under review are as follows:

- Continued to successfully manage ELOFF building, 95 unit residential building owned by Housing Company Tshwane.
- The Housing Company Tshwane board was active and functioned for an entire financial year without any problems. Twelve (12) regular and eight (8) sub-committee scheduled board meetings were held during the 2012/13 financial year.

The implementation of the Service Delivery Agreement (SDA) was initiated during 2010/11. The SDA spells out the relationship between HCT and the CoT with respect to the discharging of the social housing delivery mandate. The SDA also spells out the roles and responsibilities of both the HCT and the CoT, the land development process (including future social housing projects to be developed and managed by HCT). The SDA also governs among other things the deliverables and performance milestones expected from HCT as the City's social housing delivery agent, and also stipulate the financial and other support to

be given to HCT by the City of Tshwane. Several key aspects of the SDA could not be implemented (e.g. the management of newly-refurbished City of Tshwane rental units/ buildings), and this has affected the company's performance in terms of the set targets for 2012/13. The plan for 2013/14 is to gradually build the portfolio under management by pursuing a strategy based on existing properties and new-builds where possible. This is in line with the newly revised SDA (the old SDA expired 30 April 2013).

Section 2: Financial Performance

The operating results for this financial year (01 July 2012 to 30 June 2013) are as follows:

Table 1 Operating results

Summary Statement of Financial Performance			
Description	YTD Budget - June 2013 R'000	YTD actual - June 2013 R'000	YTD variance - June 2013 R'000
Total Revenue	R17,224	R16,863	(R361)
Total Expenses	R17,224	R10,256	R6,968
Surplus/Deficit	0	R6,607	R6,607

The overall financial performance resulted in an accumulated surplus of **R 6, 6 million**. This is attributable to the fact that HCT could not finalise the appointment of board-approved Service Providers/Contractors to provide services related to the preliminary project work (Townlands Project). Also, up until 30 June 2013 the company (HCT) had not been fully accredited by the Social Housing Regulatory Authority (SHRA) to carry out social and rental housing developments. SHRA is working with the company to ensure that accreditation is achieved by 28 February 2014.

2.1.1 Operating Revenue

Recorded variances are from revenue categories such as rental revenue and other revenue (bad debts recoveries, maintenance recoveries and interest received). The variance can be explained as follows:

2.1.2 Rental revenue

For the financial year 2012/2013 (July 2012 – June 2013), the revenue from rental decreased as per the budget due to vacancy rate at the Eloff building, reflecting that there were more vacant flats in the quarters 1 and 4. **Variance (R124, 864).**

2.1.3 Other revenue

Housing Company Tshwane's Credit control has improved since the installation of Biometric access control at Eloff building as R17,976 was collected by Debt Controller (**variance = R36,371**)

2.2 Operating Expenses – refer table F1

2.2.1 Expenditures

Major expenditure variances were recorded from broad expenditure categories such as employee related costs, remuneration of directors, finance charges, contracted services and other expenditures.

2.2.2 Employee related costs

The variance is due to the fact that certain positions (as per approved organogram) were placed on hold pending transfer of additional building by COT to HCT. Appointment of additional staff for management of Eloff will result in fruitless and wasteful expenditure as the staff will idle with limited job responsibilities. The total salary bill excludes benefits such as provident fund or pension fund, medical aid contributions and cell phone allowances as all HCT employees are employed on a contract basis and do not receive such allowances (**variance – R727,000 million**)

2.2.3 Remuneration of directors

The variance is attributable to the fact that the company had more board meetings. There were 12 board meetings and 8 sub-committee meetings in the current financial year and 10 in the prior year (**variance – R 28,000**). The company will ensure that the 2013/14 board meetings do not exceed the budgeted allowance as per the approved board calendar.

2.2.4 Depreciation and amortization

The variance on depreciation is due to the review of useful life of assets. The effect of this review has decreased the depreciation charges for the current financial year (**variance – R187,548**).

2.2.5 Finance Charges

For this financial year, Housing Company Tshwane (HCT) has paid R463,633 in finance charges. Finance charges are paid on the National Housing Finance Corporation (NHFC) loan (**variance – R736**)

2.2.6 Contracted Services and other expenses

The variance is due to the fact that the appointment of Service Providers for the Townlands Project was not finalized during the period under review (**variance – R8, 8 million**).

2.2.7 Fair value adjustment

Housing Company Tshwane did not budget for the reduction in value of the investment property. The fair value was determined by an independent valuer using the income capitalization method. **(variance – R2,7 million).**

2.3 In-year Budget Statement Tables: June 2013

The financial results for the period ended 30 June 2013 (2012/13 financial year) are summarized in the table below:

2.3.1 Table F4 : Financial Position

2.3.2 Table F5 : Cash Flows

Housing Company Tshwane - Table F4 Monthly Budget Statement - Financial Position - M12 June 2013

Vote Description	2011/12	Current Year 2012/13			
	Audited Outcome	Original Budget	Adjusted Budget	YearTD actual	Full Year Forecast
R thousands					
ASSETS					
Current assets					
Cash	18,503	9,673	20,834	26,889	20,834
Call investment deposits	–	–	–	–	–
Consumer debtors	255	12	46	626	46
Other debtors	19	113	19	99	19
Current portion of long-term receivables	–	–	–	–	–
Inventory	–	–	–	–	–
Total current assets	18,777	9,799	20,899	27,613	20,899
Non-current assets					
Long-term receivables	–	–	–	–	–
Investments	–	–	–	–	–
Investment property	15,871	21,343	16,188	13,200	16,188
Property, plant and equipment	132	1,128	1,719	211	1,719
Agricultural assets	–	–	–	–	–
Biological assets	–	–	–	–	–
Intangible assets	–	–	–	71	–
Total non-current assets	16,003	22,470	17,907	13,482	17,907
TOTAL ASSETS	34,780	32,269	38,806	41,095	38,806
LIABILITIES					
Current liabilities					
Bank overdraft	–	9,670	–	–	–
Borrowing	315	–	315	315	315
Consumer deposits	437	348	445	419	445
Trade and other payables	1,072	325	536	559	536
Provisions	127	716	185	682	185

Total current liabilities	1,951	11,059	1,481	1,975	1,481
Non-current liabilities					
Borrowing	3,119	3,189	2,871	2,871	2,871
Provisions	–	–	–	2,804	–
Total non-current liabilities	3,119	3,189	2,871	2,804	2,871
TOTAL LIABILITIES	5,070	14,248	4,352	4,779	4,352
NET ASSETS	29,710	18,021	34,454	36,316	34,454
COMMUNITY WEALTH/EQUITY					
Accumulated Surplus/(Deficit)	29,710	18,021	29,840	36,316	29,840
Reserves	–	–	–	–	–
Share capital	–	–	4,614	4,614	4,614
TOTAL COMMUNITY WEALTH/EQUITY	29,710	18,021	34,454	36,316	34,454

**Housing Company Tshwane - Table F5
Monthly Budget Statement - Cash Flows -
M12 June 2013**

Description	2011/12	Current Year 2012/13							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands									
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts									
Ratepayers and other	2,579	2,744	2,488	101	2,678	2,488	190	7.6%	2,488
Government - operating	13,500	13,568	28,743	-	13,727	28,743	(15,016)	-52.2%	28,743
Government - capital	-	-	-	-	-	-	-	-	-
Interest	0	2	6	7	7	6	1	16.7%	6
Dividends	-	-	-	-	-	-	-	-	-
Payments									
Suppliers and employees	(5,984)	(12,687)	(11,187)	(538)	(7,076)	(11,187)	4,111	-36.7%	(11,187)
Finance charges	(514)	(461)	(464)	(35)	(464)	(464)	0	0.0%	(464)
Dividends paid	-	-	-	-	-	-	-	-	-
Transfers and Grants	-	-	-	-	-	-	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES	9,581	3,167	19,586	(466)	8,872	19,586	(10,714)	-54.7%	19,586
CASH FLOWS FROM INVESTING ACTIVITIES									
Receipts									
Proceeds on disposal of PPE	-	-	-	-	-	-	-	-	-
Decrease (Increase) in non-current debtors	-	-	-	-	-	-	-	-	-
Decrease (increase) other non-current receivables	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments	-	-	-	-	-	-	-	-	-
Payments									
Capital assets	(140)	(6,007)	(1,596)	(119)	(171)	(1,596)	1,425	-89.3%	(1,596)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(140)	(6,007)	(1,596)	(119)	(171)	(1,596)	(1,425)	89.3%	(1,596)

CASH FLOWS FROM FINANCING ACTIVITIES									
Receipts									
Short term loans	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing	-	-	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits	-	-	-	-	-	-	-	-	-
Payments									
Repayment of borrowing	(608)	(315)	(315)	(104)	(315)	(315)		0	(315)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(608)	(315)	(315)	(104)	(315)	(315)		0	(315)
NET INCREASE/ (DECREASE) IN CASH HELD	8,833	(3,156)	17,675	(689)	8,386	17,675	(9,289)	-52.6%	17,675
Cash/cash equivalents at the year begin:	9,670	3,159	3,159		18,503				3,159
Cash/cash equivalents at the year-end:	18,503	3	20,834	(689)	26,889	17,675	(9,289)	-52.6%	20,834

Section 3: Performance against IDP and City Scorecard

	STRATEGIC OBJECTIVE	KEY PERFORMANCE INDICATOR	BASELINE	2012/13 TARGET	2012/13 BUDGET	ACTUAL RESULT(S)	MEASURES TO CORRECT NON-ACHIEVEMENT OF TARGETS
SO 1	Procure sufficient stock to meet critical mass	1.1 Develop and manage 2500 units	0	500	-	Target not achieved. -No new units completed in 2012/13	Target removed for 2013/14 as it is not achievable (project not ready for implementation) Revised target reinstated for 2014/15 on the new HCT multi-year business plan
		1.2 Acquire and manage City rental stock	0	Other municipal stock under management	-	Target not achieved. -No new units acquired in 2012/13	Target removed for 2013/14 as it is not achievable. KPI not specific, measurable, achievable, realistic or time-bound.
		1.3 Secure land/or buildings for future projects	0	Vague target- "other land/buildings"	-	Target not achieved. -No new units acquired in 2012/13.	KPI same as 1.1 so it is not useful. Target removed for 2013/14 as it is not achievable. KPI not specific, measurable, achievable, realistic or time-bound. New agreement with City of Tshwane to transfer City rental stock in place. 159 units already transferred effective 01 July 2013. 2013/14 targets reflect this.
SO 2	Manage procured stock efficiently and effectively	2.1 Efficient property management	95	Vague target- "improve PMS"	-	Target achieved on the existing property (95 units) with respect to managing procured stock efficiently and effectively using the existing property management system, rudimentary as it is. However, KPI not specific, measurable, achievable, realistic or time-bound.	New agreement with City of Tshwane to transfer City rental stock in place. 159 units already transferred effective 01 July 2013. 2013/14 targets on track (based on a new Business Plan with SMART objectives and targets).

					-New buildings not yet transferred to HCT for management -
2.2	100% occupation rates	95 %	Vacancy rate below 5%	-	Target of 95% % occupancy achieved (98%) , but . KPI not specific, measurable, achievable, realistic or time-bound.
2.3	100 % rent collection	+95%	Improved tenant awareness, (leading to 100% collection of rentals due)		103% collection rate. Target t achieved. KPI still not specific, measurable, achievable, realistic or time-bound though.
					New agreement with City of Tshwane to transfer City rental stock in place. 159 units already transferred effective 01 July 2013. 2013/14 targets on track (based on a new Business Plan with SMART objectives and targets). Occupancy target revised to 95%
					2013/14 targets on track (based on a new Business Plan with SMART objectives and targets

3.1 Performance rating 2012/13

Total targets 2012/13	Total targets achieved 2012/13	Total targets not achieved for 2012/13 as per 30 May 2009 Business Plan	Performance rating
6	3	3	50 %

3.2 Measures taken to improve performance for targets not achieved in 2012/13

Key Performance indicator	Reasons for target not being achieved in 2012/13	Measures adopted to achieve target in 2013/14
1.1 Develop and manage 2500 units	<p>Housing Company Tshwane (HCT) not fully accredited by the Social Housing Regulatory Authority (SHRA) to access funding for social housing projects</p> <p>Greenfields projects not ready in terms of land release, feasibility studies and funding applications</p>	<p>Target removed for 2013/14 as it is not achievable (projects not ready for implementation)</p> <p>Revised target reinstated from 2014/15 on the new HCT multi-year business plan</p> <p>HCT has re-applied to SHRA for accreditation. All outstanding SHRA queries addressed</p>
1.2 Acquire and manage City rental stock	No new rental stock was transferred by the City of Tshwane to HCT	Target removed for 2013/14 as it is not useful, and is the same as target (KPI) 1.1 above.
1.3 Secure land/or buildings for future projects	No new rental stock was transferred by the City of Tshwane to HCT	New agreement with City of Tshwane to transfer City rental stock in place. 159 units already transferred effective 01 July 2013. 2013/14 targets reflect this

Key Performance indicator	Reasons for target not being achieved in 2012/13	Measures adopted to achieve target in 2013/14
2.1 Efficient property management	No new buildings were managed by HCT during 2012/13, thus no increase in stock under management. Existing 95-unit property well managed.	Target achieved only on the existing property with 95 units. Revised KPI on new 2013/14 business plan now specific, measurable, achievable, realistic or time-bound.
2.2 100% occupation rates	It's unrealistic to plan for 100% occupancy. An occupancy rate of 95 % with a vacancy rate of 5% more realistic. Current adverse economic conditions, and perhaps higher rentals at the building managed by HCT, are likely to result in a less-than 100% occupancy rate.	<p>A 95% occupancy rate is factored into the 2013/14 business plan as one of the targets under property management. Vacant units being marketed actively by the company to ensure a maximum vacancy rate of 5%.</p> <p>All units are being refurbished incrementally to make them more attractive to tenants, thus likely to reduce vacancies.</p> <p>For 2013/14, rent increases will be kept below 10% (once approved by board) to make HCT rental stock more attractive price-wise, and therefore more readily marketable</p>
2.3 100 % rent collection	<p>Processes to maximize outstanding recoveries on default accounts in place but not effective.</p> <p>Legal option also pursued for 90days+ overdue accounts.</p>	<p>Target removed on the new 2012/13 scorecard as it is not SMART</p> <p>Revised target limited to 95% targeted collection rate (2013/14 onwards).</p>

Section 4: Assessment of arrears on municipal taxes and service charges

4.1 Amounts owed by the Entity for service charges

Name of entity	Amount Owed R'000	Status	Comments
City of Tshwane	n/a	n/a	n/a

CHAPTER THREE: DIRECTOR'S REPORT AND GOVERNANCE

Section 1: Corporate Governance Statement

The Board of Directors and Executives recognise and are committed to the principles of openness, integrity and accountability advocated by the King II/III Code on Corporate Governance. Through this process, shareholders and other stakeholders may derive assurance that the entity is being ethically managed according to prudently determined risk parameters in compliance with generally accepted corporate practices. By and large, the entity has complied with the Code in all respect during the year under review.

The Board of Directors has incorporated the City of Tshwane's Corporate Governance Protocol (the Protocol) in its Board Charter, which *inter alia* regulates its relationship with the City of Tshwane as its sole member and parent municipality in the interest of good corporate governance and good ethics.

The Protocol is premised on the principles enunciated in the King Report for Corporate Governance for South Africa 2002 ("King II/III report"). The Company steadfastly consolidated its position in respect of adherence to the King II report on Corporate Governance. Housing Company Tshwane' practices are, in most material instances, in line with the principles set out in the King II/III Report. On-going steps are however taken to align practices with the Report's recommendations and the Board continually reviews our progress to ensure that we improve our Corporate Governance. During the year under review the Company did not finalise its risk management reviews as well as reporting and compliance assessments in terms of the Companies Act and the Municipal Finance Management Act (MFMA).

Section 2: Board of Directors

The Housing Company Tshwane board consists of eight (08) non-executive directors. The Board was chaired by the non-executive director, Mr. Tshepo Phetla during the 2012/13 financial year (01 July 2012-30 June 2013). The Board remains accountable to City of Tshwane Metropolitan Municipality, the sole member and its stakeholders, the citizens of Tshwane. The Board provides Monthly, Quarterly, Bi-Annually and Annual Reports on its performance and service delivery to the parent municipality as prescribed in the SDA, the MFMA and the MSA.

Non-executive Directors contribute an independent view to matters under consideration and add to the depth of experience of the Board. The roles of Chairperson and Chief Executive Officer are separate, with responsibilities divided between them. The Chairperson has no executive functions. Members

have unlimited access to the Company Secretary, who acts as an advisor to the Board and its committees on matters including compliance with Company Rules and Procedures, statutory regulations and best corporate practices.

The Board or any of its members may, in appropriate circumstances and at the expense of the company, obtain the advice of independent professionals. An annual director and peer review is undertaken, as well as a Board evaluation. The company's governance structure for 2012/13 has been sound, with twelve (12) regular board meetings scheduled and concluded successfully.

The following directors have been active for the year under review:

- Mr. T Phetla (Chairman)
- Adv. ME Mphahlele
- Ms. MN Lehlokoa
- Ms. DM Masilela
- Adv. SS Kholong
- Dr. TJ Mokgoro
- Dr. W Rowland
- Dr. AJ Singh

Board attendance registers are kept and are up to date with respect to inter alia the disclosure and declaration of interests of directors and senior management. The Board and Senior Management ensure that there is full material compliance to all relevant legislation. Company Secretary has certified in terms of section 268(d) of the Companies Act that all statutory returns have been submitted to the Registrar of Companies.

Section 3: Board Committees

The following committees have been formed, each of which is chaired by a non-executive director.

3.1 Human Resources, Remuneration and Procurement Committee

The committee consisted of the following non-executive directors:

- Dr. William Rowland
- Ms. Dombolo Masilela
- Adv. Tebogo Kholong

The committee advises the board on remuneration policies, remuneration packages and other terms of employment for directors and senior executives. Its specific terms of reference also include recommendations to the board on matters relating *inter alia*, general staff policy, remuneration, bonuses, director's remuneration and fees.

3.2 Risk, Finance and Social Ethics Committee

The risk, finance and social ethics committee consists of the following non-executive directors

- Dr. Tebogo Job Mokgoro (Chairperson)
- Adv. Matane Edwin Mphahlele
- Dr. Anirood John Singh.

The committee has been delegated the task of overseeing the quality, integrity and reliability of the company's risk management function. In terms of its mandate, it reviews and assesses the integrity and the quality of risk control systems and ensures that risk policies and strategies are effectively managed. The committee did not meet during the year under review.

3.3 Development and Projects Committee

The development and projects committee consists of the following non-executive directors

- Ms. Mirriam Lehlokoa (Chairperson)
- Dr. Anirood John Singh.
- Adv. Tebogo Kholong

3.4 Audit and Performance Committee

The City of Tshwane -appointed single Audit and Performance Committee serviced all Municipal entities during 2012/13.The Audit and Performance Committee consists of the following non-executive directors:

- Melck, A.P.. (Chairperson)
- Makinta, S.M.
- Noxaka,P
- Rangongo, M.G.
- Mzizi, P
- Sebeelo, M.K.
- Sebesho, L.
- Mnisi,P.R.
- Fourie, P.S.
- Magongwa, B.N.
- Gounden,S.

The role of the audit and performance committee is to assist the boards of municipal entities by performing an objective and independent review of the functioning of the organizations' finance and accounting control mechanisms. It exercises its functions through close liaison and communication with corporate management and the internal and external auditors.

The audit committee operates in accordance in with a written charter authorised by the City of Tshwane as well as the boards of municipal entities, and provides assistance to the board with regard to:

- Ensuring compliance with applicable legislation and the requirements of regulatory authorities;
- Matters relating to financial accounting, accounting policies, reporting and disclosures;
- Internal and external audit policy;
- Activities, scope, adequacy and effectiveness of the internal audit function and audit plans;
- Review/ approval of external audit plans, findings, problems, reports and fees;

- Compliance with the Code of Corporate Practices and Conduct; and
- Compliance with code of ethics.

The audit committee addressed its responsibilities properly in terms of the charter during the year under review. No changes to the charter were adopted during the year under review. Management has reviewed the financial statements with the audit committee and the audit committee has reviewed them without management or the external auditors being present. The quality of the accounting policies was discussed with the external auditors.

The audit committee considers the annual financial statements of the entity to be a fair presentation of its financial position on 30 June 2013 and of the results of its operations, changes in equity and cash flow (where applicable) for the period ended then in accordance with GRAP and the Companies Act.

Section 4: Company Secretarial Function

The primary function of the company secretary is to act as the link between the board and management and to facilitate good relationships with the shareholders. The company secretary is responsible for the general administration, more specifically to ensure compliance to good corporate governance practices and to provide guidance to the directors on corporate governance principles and applicable legislation.

Section 5: Risk Management and Internal controls

Effective risk management is integral to the company's objective of consistently adding value to the business. Management is continuously developing and enhancing its risk and control procedures to improve the mechanisms for identifying and monitoring risks.

Operating risk is the potential for loss to occur through a breakdown in control information, business processes and compliance systems. Key policies and procedures are in place to manage operating risk involve segregation of duties, transaction authorisation, supervision, monitoring and financial and managerial reporting.

In order to meet its responsibility with respect to providing reliable financial information, the entity maintains financial and operational systems of internal controls. These controls are designed to provide reasonable assurance that transactions are concluded in accordance with management authority, that the assets are adequately protected against material loss or unauthorized acquisition, use or disposal and that transactions are properly authorised and recorded. The system includes a documented organisation structure and visions of responsibility, established policies and procedures, including a Code of Ethics to foster a strong ethical climate, which are communicated to the parent municipality. It also includes the careful selection, training and development of people.

Internal auditors monitor the operation of the internal control systems and report findings and recommendations to management and the board of directors. Corrective actions are taken to address control deficiencies and other opportunities for improving the system as they are defined. The board, operating through its audit and performance committee of the City of Tshwane, provides supervisions of the financial reporting process and internal control systems. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls.

Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and the safeguarding of assets. Furthermore, the effectiveness of internal control systems can change with circumstances. The internal control process has been in place up to the date of approval of the annual report and financial statements.

Section 6: Internal Audit Function

The City of Tshwane's internal audit department has a specific mandate and independently appraises the adequacy and effectiveness of the company's systems, financial internal controls and accounting records, reporting its findings to local and divisional management and the auditor-general as well as the audit committee.

The internal audit coverage plan is based on risk assessment performed at each operating unit. The coverage plan is updated annually, based on the risk assessment and results of the audit work performed. This ensures that the audit coverage is focused on and identifies areas of high risk.

The City of Tshwane's internal audit department reports regularly to the Audit and Performance Committee. The Auditor General is invited to all meetings of the Audit and Performance Committee.

The internal audit department interrogated the company's performance for all the four (04) quarters of the 2012/13 financial year. The internal audit department assisted the company to finalise its risk register for 2012/13.

Section 7: Response to the Auditor-General Report

Sect	Audit findings	Recommendations	Management Responses	Action	Responsible Person	Target date
14-19	<p><u>Pre-determined objectives</u> Planned and reported indicators are not specific, not measurable, not well defined and/or verifiable. In terms of approved Business Plan of 2009, planned and reported indicators were not defined and verifiable and this is due to not following the “SMART” criteria.</p>	<p>The smart criteria being (specific, measurable, achievable, realistic and time bound) must be followed on the development of indicators on the business plan.</p>	<p>We agree with the finding with respect to objectives based on the 2009/10 business plan not being “Smart”. This matter has since been rectified in the newly approved business plan.</p>	<p>Management must follow the “Smart” criteria on the development of indicators on the Business Plan.</p>	CEO	Annually
20-25	<p><u>Compliance with laws and regulations</u> The entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. Non-compliance in terms of budgets (section 87(5) (b)</p>	<p>Comply with laws and regulations.</p>	<p>We agree with the Auditor General’s findings.</p>	<p>Rectify all matters raised in the Audit Report and Management Letter by monitoring compliance on an ongoing and</p>	CEO	<p>Monthly. Management Letter Action Plan to address AG issues to be completed and approved by the HCT board 29</p>

Sect	Audit findings	Recommendations	Management Responses	Action	Responsible Person	Target date
	of the MFMA, Annual Financial Statements preparation (section 122 of the MFMA), performance management (section 95(c)(i) of the MFMA) and expenditure management (section 95(d) of the MFMA.			consistent basis.		November 2013 (Done). Thereafter the boards Finance and Risk committee to monitor compliance regularly.
29	<p><u>Governance</u> No risk assessment procedures relating to performance information reporting. In terms of the National treasury framework for managing programme performance information chapter 4, management must develop and implement proper risk management process for performance. However the company did not develop and implement risk management process in terms of the performance management function.</p>	Management must ensure that a proper risk management process in terms of the performance management function are developed and implemented as per the National treasury framework for managing programme performance information.	The 2013/14 risk management process will incorporate the performance management function and be implemented as per the National treasury framework for managing programme performance information.	Management will ensure that a proper risk management process in terms of the performance management function is developed and implemented as per the National treasury framework for managing programme performance information.	CEO	Annually

Section 8: Corporate Ethics and Organisational Integrity

The company has developed a Code of Conduct (“the Code”) which has been fully endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism.

In summary the Code requires that at all times, all company personnel act with utmost integrity and objectivity and in compliance with the letter and spirit of both the law and company policies. Failure by employees to act in terms of the Code results in disciplinary action. The Code is discussed with each new employee as part of his or her induction training and all employees are asked to sign an annual declaration confirming their compliance with the Code. A copy of the Code is available to interested parties upon request. Any breach of the Code is considered a serious offence and is dealt with accordingly; as a result, this acts as a deterrent. The directors believe that ethical standards are being met and fully supported by the ethics programme.

Section 9: Sustainability Report

The three year (2010/11-2012/13) financial commitment from the shareholder has revived the company’s operations. The company is therefore committed to implementing new projects as per the signed Service Delivery Agreement (SDA) and approved business plan. New projects and the resultant revenue will assist the company towards sustainability beyond 2012/13 and a move away from dependence on grant (shareholder) funding to prop up operations.

Section 10: Corporate Social Responsibility Projects

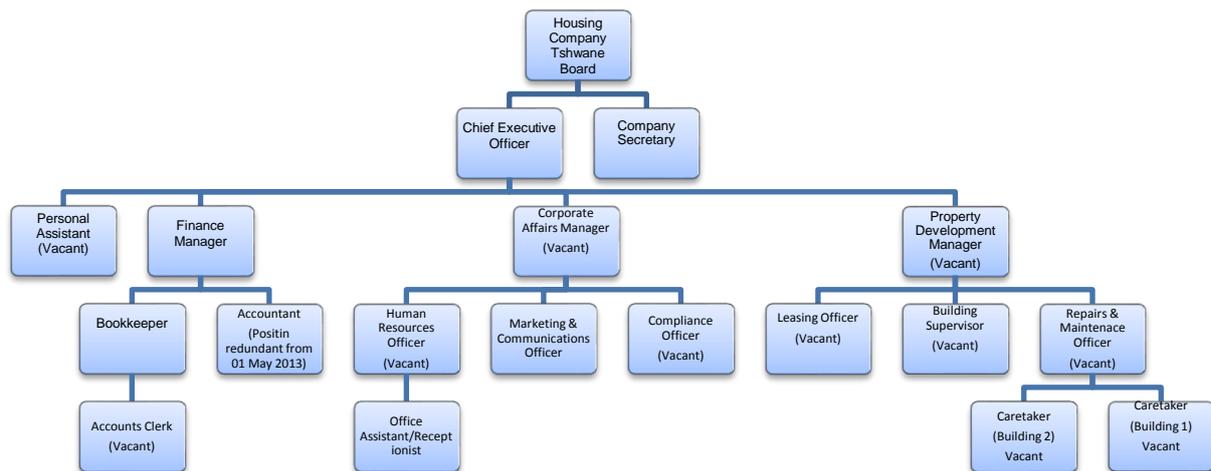
None

CHAPTER FOUR: HUMAN RESOURCES AND ORGANISATIONAL MANAGEMENT

Section 1: Human Resource Management

Staff information

4.1 Housing Company Tshwane organisational structure 2012/13



* A process to fill all key posts during 2013/14 (as per the approved Human Resources Plan) is underway. The filling of vacancies is currently linked to the company's expectation to manage additional City of Tshwane properties in the first instance, as well as any new projects earmarked for development by HCT. The filling of critical vacancies is therefore linked to the company's ability to meet its mandate.

4.2 Statistical information

Statistical information:	2011/12		2012/13	
	Nr	R (000's)	Nr	R (000s)
Number and cost to employer of all personnel associated with the housing function:	13*	3,246,257	7	4,098,771
- Professional (Engineers/Consultants)	3	2,021,180	2	3,506,423
- Field (Supervisors/Foremen)			-	-
- Office (Clerical/Administration)	4	1,021,076	4	586,840
- Non-professional (blue collar, outside workforce)	6	204,001	1	5,508
- Temporary			-	
- Contract	12		7	
Note: total number to be calculated on full-time equivalent (FTE) basis, total cost to include total salary package.	12	3,246,257	7	4,098,771

* One (01) resignation during the financial year

Key function (as per organisational structure, e.g. planning; connections etc.)	2011/12		2012/13	
	Number of posts	Number of posts filled	Number of posts	Number of posts filled
Management	3	2	4	2
Administration	6	6	8	4
Field staff	5	5	4	1
TOTAL	14	13	16	7

4.3 Trends in personnel expenditure

Financial year	R
2008/9	R3,165,093
2009/10	R1,965,713
2010/11	R2,382,227
2011/12	R3,246,257
2012/13	R4,098,771

4.4 Disclosure of senior staff benefits

Incumbent	Pay number	Designation	Remuneration package per annum (2012/13) R
M. Gaffane		CEO	1,659,416
L. Makibinyane		Finance Manager	610,893

4.5 Disclosures Concerning Board Members

Director	Salaries & Wages R'000	Total (Rands)
T. Phetla	R5844.00 p/ meeting	R 95,153
D M Masilela	R5844.00 p/ meeting	R95,153
Kholong	R5844.00 p/ meeting	R53,781
M Lehlokoa	R5844.00 p/ meeting	R125,117
T Mokgoro	R5844.00 p/ meeting	R71,647
E Mphahlele	R5844.00 p/ meeting	R107,343
W Rowland	R5844.00 p/ meeting	R101,324
A Singh	R5844.00 p/ meeting	R101,324
TOTAL		R750,842

Section2: Employment Equity

Occupational Categories										TOTAL	
	Male			Female				White Male	Foreign Nationals		
	A	C	I	A	C	I	W	W	Male		Female
Senior officials and managers	1			1							2
Officers				3					1		4
Clerks											
Security Personnel											
Craft and related trades workers	1										1
TOTAL PERMANENT	-	-	-	-	-	-	-	-	-	-	-
Non – permanent employees	2			4					1		7
GRAND TOTAL											7

Section 3: Employee benefits

Pension Funds

There are currently no pension and/or provident fund benefits for Housing Company Tshwane staff members.

Fund	2012/13
	Number of members
Not applicable	Not Applicable for 2012/13
TOTAL	

Medical Aid Funds

Housing Company Tshwane staff members do not belong to any medical aid scheme. The company does not contribute to the employees' medical expenses at the moment.

Outstanding Amounts owed to the Entity by employees

Number of employees	Type of loan/outstanding debt	Total rand owed
None	None	Not applicable
TOTAL		

Section 4: Supply Chain Management

All goods and services under R200 000.00 procured during 2012/13 were procured using the approved supply chain management policy of the company which is consistent with that of the City of Tshwane and the Municipal Supply Chain Management Regulations (GenN 868 in GG 27636 of 30 May 2005) .

No tenders were advertised during the financial year:

CHAPTER FIVE: AUDITED STATEMENTS AND RELATED FINANCIAL INFORMATION

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE CITY OF TSHWANE METROPOLITAN MUNICIPALITY ON THE HOUSING COMPANY TSHWANE NON PROFIT COMPANY

Introduction

1. I have audited the financial statements of the Housing Company Tshwane Non Profit Company (NPC) as set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the cash flow, the statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008)(Companies Act), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004)(PAA), the *general notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Housing Company Tshwane NPC as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and the Companies Act.

Additional matters

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

Unaudited supplementary schedules

7. The supplementary information set out on pages **XX to XX** does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Other reports required by the Companies Act

8. As part of my audit of the financial statements for the year ended 30 June 2013, I have read the Directors' Report and the Company Secretary's Certification for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statements in respect of which I have expressed an unqualified opinion. I have not audited the reports and accordingly do not express an opinion on them.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

9. In accordance with the PAA and the *general notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

10. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages **... to ...** of the annual report.

11. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury framework for managing programme performance information.

12. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

13. The material findings are as follows:

Usefulness of information

Measurability

Performance targets are not specific

14. The National Treasury Framework for managing programme performance information (FMPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 67% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained in the FMPPI to the current service delivery agreement.

Performance targets are not measurable

15. The FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 67% of the targets. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained in the FMPPI to the current service delivery agreement.

Performance indicators are not well defined

16. The FMPPI requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 50% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained in the FMPPI to the current service delivery agreement.

Performance indicators are not verifiable

17. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 50% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection of actual performance information.

Additional matter

18. I draw attention to the matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Material adjustments to the annual performance report

19. Material audit findings in the annual performance report were identified during the audit, of which some were corrected by management and those that were not corrected have been reported on accordingly.

Compliance with laws and regulations

20. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *general notice* issued in terms of the PAA are as follows:

Budgets

21. The budget of the municipal entity was not consistent with the business plan attached to the service delivery agreement between the entity and the entity's parent municipality, as required by section 87(5)(b) of the MFMA.

Annual financial statements

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of property, plant and equipment, intangible asset and unspent conditional grant in the statement of financial position, revenue from non-exchange transactions in the statement of financial performance, cash receipts from customers and grants in the cash flow statement, commitments, related party balances and related party transactions disclosed in the notes identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

23. The accounting officer assessed the performance of the entity during the first half of the financial year by 20 January 2013, however, he did not take the targets set in the approved business plan (2009) included in the service delivery agreement with the entity's parent municipality into account, as required by section 88(1)(a) of the MFMA.

24. The municipal entity did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 95(c)(i) of the MFMA.

Expenditure management

25. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as by section 95(d) of the MFMA.

Internal control

26. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

27. The entity did not have sufficient monitoring controls to ensure the proper implementation of the overall process of financial reporting as material misstatements have been identified during the audit which has been corrected. The entity did not have documented and approved internal policies and procedures to address the process of collection/recording/processing/monitoring/ reporting of performance information.

Financial and performance management

28. The financial statements contained numerous misstatements that were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework. The annual performance report contained numerous misstatements that were corrected and this was mainly due to staff members not fully understanding the performance information requirements. Non-compliance with laws

and regulations could have been prevented had compliance been properly reviewed and monitored.

Governance

29. The entity did not conduct a risk assessment as required by the MFMA specifically relating to the performance management function. Risks affecting the achievement of performance targets were not monitored resulting in targets not being achieved.

Johannesburg

30 November 2013



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence

ANNEXURE B

AUDITED ANNUAL FINANCIAL STATEMENTS (Housing Company Tshwane: 2012/13)