



HOUSING COMPANY TSHWANE

ANNUAL REPORT 2016/17

(For the period 01 July 2016 to 30 June 2017)

SIGN – OFF	DATE	SIGNATURE
Acting Chief Executive Officer (Amolemo G. Mothoagae)		

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ACRONYMS

Abbreviation	Full Name
ARC	Audit and Risk Committee
BBBEE	Broad Based Black Economic Empowerment Act
BEE	Black Economic Empowerment
CEO	Chief Executive Officer
Constitution	Constitution of the Republic of South Africa
CoT	City of Tshwane
CSI	Corporate Social Investment
EE	Employment Equity
EEA	Employment Equity Act
THE HCT	Housing Company Tshwane
HDI	Historically Disadvantaged Individuals
IDP	Integrated Development Plan
LRA	Labor Relations Act
MFMA	Municipal Finance Management Act
MLAP	Management Letter Action Plan
MSA	Municipal Systems Act, 2000 (Act No. of 2000)
NDHS	National Department of Human Settlements
OHSA	Occupational Health and Safety Act
SCM	Supply Change Management
SDA	Service Delivery Agreement
SDBIP	Service Delivery and Budget Implementation Plan
SHRA	Social Housing Regulatory Authority
SLA	Service Level Agreement

CHAPTER 1 FOREWORD OF THE CEO AND EXECUTIVE SUMMARY

1.1 FOREWORD OF THE CEO

General Performance

The HCT has seen a generally commendable improvement in the performance of its operations in the period under review. Although capacity constraints still remain a challenge, the entity has made remarkable improvement in the implementation of its catalytic projects. The Townlands project has broken ground and currently under implementation. Timberland is at advanced planning stage and will finalize the detailed designs in the new financial year. Chantelle Extension 39 is also under implementation with internal reticulation of infrastructure. Although it advanced to procurement stage, the Sunnyside project could not proceed with implementation due to financial non-viability. There are three other Social Housing projects in the pipeline which are under the planning by CoT Department of Housing and Human Settlements that will be handed over to HCT for construction upon completion of planning. As much as there is remarkable improvement in HCT's performance, HCT has not achieved during the year under review

Operations

The HCT is continuously and systematically improving its operations in terms of policies, procedures, processes and systems were developed or reviewed. A diagnosis of operational weakness was done and an operations turnaround plan crafted. It is being implemented on an on-going basis. The existing procurement bottlenecks were unblocked by strengthened the supply chain management unit, which included revision of the Supply Chain Management Policy and appointing a Senior Supply Chain Officer. The Senior Supply Chain Officer unfortunately resigned from his post in March 2017. However this gap has been closed by capacity deployed from the City. Vacancy rate unfortunately increased during the third and fourth due to uncertainty on the future of the entity. HCT has maintained 90% compliance to its turnaround times when dealing with complaints. A collection rate varies from one building to the other, with all other buildings having achieved rental collection of not more than 4.7%, except for Clarina. HCT is managing Clarina building on behalf of the City to house ex-Schubart Park tenants in its court order obligation to provide short term alternative accommodation. The entity has commenced with proper implementation of its debt collections mechanisms and non-paying tenants have been handed over to debt collectors. Legal capacity has also been insourced to bring eviction orders where applicable. Tenant Management has been improved through regular tenant meetings and a tenant newsletter. In its efforts to improve property management standards in the stock managed by the HCT, a decision was taken to upgrade cleaning

and security staff into permanent staff. This was also to bring certainty in the organization. The Council resolution to transfer affordable rental stock from the CoT to HCT is slowly but surely being implemented. Only one out of the 3 planned buildings were transferred to HCT during the period under review. This was due to violent resistance by tenants in the other targeted buildings. A total of 120 self-sufficient elderly (SSEs) rental units to the HCT for management and the rest 284 SSEs will be managed by HCT effective in 2017/18 financial year. HCT is improving in functions such as marketing of units, take-on of clients, rental collection, and management of client relationship and terminating of the lease agreements.

The HCT has prioritized compliance with MFMA, Municipal Systems Act, Social Housing Act and Rental Housing Act. Cost-to-ratio is still high but once more rental units are added, this will begin to decline. Although declined, effort is made to preferably procure from black businesses in line with our strategic objective of developing BEE SMME's.

The HCT continues to engage with other Social Housing Institutions and benchmarking against them in improving of its operations efficiencies. Social Housing in South Africa has been fraught with uncertainties pertaining to income bands and Reconstruction Capital Grant (RCG) quantum. The economic climate also has an impact on our tenants and cost of doing business. However, the Minister of Human Settlements recently approved the increase of the income bands and the RCG. HCT will be able to traverse this climate and continue its growth path.

Units under Management

The HCT owns an affordable rental property, Eloff (95 units), manages a transitional accommodation property, Clarina Estate (160 units) on behalf of the CoT and took over 120 self-sufficient elderly units from CoT during the 2016/17 financial year. The entity strives to adhere to best practices of property management.

Risk Assessment

The HCT adopted the Enterprise Risk Management (ERM) Strategy and Policy of the Shareholder CoT. A risk register is updated annually, an action plan to address the risks developed and quarterly reports on the action plan presented to the Finance, Risk and Ethics Committee before it is approved by HCT Board. HCT endeavors to embed risk in all its operations. Employees are made aware of how to identify, monitor and mitigate risk in their functional area of work.

Previous Financial Years Audit

The HCT has been able, through MLAP, to address clear the audit findings and has reduced them by 50% from 26 in 2014/15 to 13 in 2015/16. 11 of these findings have been resolved and resolution of the other 2 is on-going. This represents improvement and indication of the seriousness with which HCT treats the AG report.

The Year Ahead

In the light of the recent resolution by the shareholder that HCT will not be discontinued and will remain a going concern, the HCT will priorities the implementation of the following turnaround strategies:

- Appointment of a new Board of Directors;
- Filling of critical vacant positions;
- Development of affordable rental housing strategy;
- Implementation of performance management;
- Upscaling of the delivery of social housing stock;
- Increasing its property portfolio, in order to achieve a degree of financial sustainability; and
- Improving collection of revenue rate in buildings that are currently experiencing low collection rate.

I would like to thank the Board of Directors for their ethical stewardship. A special thanks to the former CEO, Mr. Anthony Ngcezula who resigned in February 2017 for playing a key role in the efforts to turn-around HCT. Moreover, I would also like to convey gratitude to the management and staff of HCT who continue to play a key role in the growth of HCT. Lastly, I would like to thank the shareholder for its commitment to HCT continuous improvement.

Ms Amolemo G. Mothoagae
Chief Executive Officer (Acting): HCT

Date: July 2017

1.2 EXECUTIVE SUMMARY

1.2.1 Background of the entity

The HCT is a municipal owned entity. The CoT, its sole shareholder, established the HCT to develop and manage social housing, which is recognized as a pivotal tool in restructuring the city. The value proposition of the HCT is its ability to offer the CoT a flexible and efficient mechanism of accessing the social housing development opportunities that exist as result of the human settlements policy framework that has been developed in South Africa. The HCT also represents the platform that ensures the City stays focused on its agenda to offer accommodation to poorer communities who have been historically marginalized from the inner-city precinct's and business development districts that have grown within the city.

This document outlines the planning that will guide the growth and development trajectory of the HCT over the financial year (2016/2017). It analyses the strategic context within which the HCT operates and articulates a strategic focus that is aligned to perform on its mandate and recognizes the opportunities that currently exists toward making the HCT the leading social housing institution in the CoT.

In order to understand the overall objectives of the entity and to assess its ability to deliver on its promises, a vision, mission and the organizational structure of the entity needs to be understood.

How are we organized?

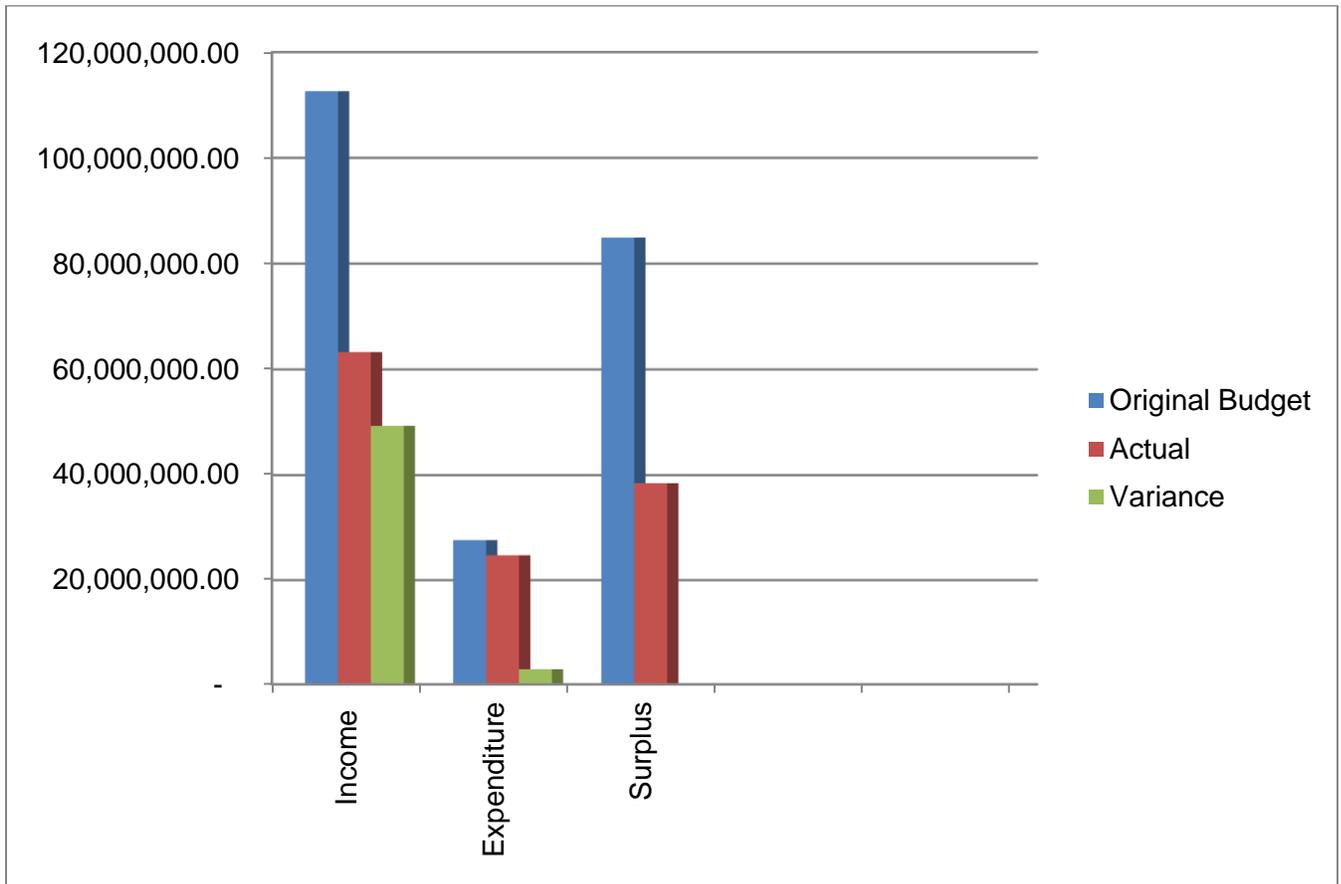
The HCT is governed by an independent board of non-executive and executive directors, in terms of the Companies Act of 2008 (as amended), and related legislation such as Municipal Systems Act, Municipal Finance Management Act and Treasury Regulations. The company is bound by the City's approved "reporting framework for municipal entities", the Service Delivery Agreement (hereinafter referred to as "SDA") concluded between HCT and CoT, and also abides by industry-specific legal and regulatory frameworks (e.g. the compliance and reporting regime of the Social Housing Regulatory Authority). The HCT's constitutional-statutory-regulatory framework for planning, operation and compliance is also defined by the applicable City of Tshwane by-laws, judgments of the High Court, the Supreme Court of Appeal, and the Constitutional Court insofar as they relate to social housing.

1.2.2 Functions of the entity and environmental overview

- Develop, own and manage affordable rental housing opportunities close to employment nodes, transport nodes, social amenities and related public services for households earning between R1 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 approved Council-owned rental stock on behalf of the CoT.
- Be the champion of a social housing strategy in the city that places restructuring of city at the centre of housing initiatives in the city.
- Champion a partnership strategy that extends the capacity of HCT and supports the sustainability of its social housing initiatives.

1.2.3 Summary of financial operating results

The overall financial performance for the financial year period resulted into an accumulated surplus of R38 million. This was attributed to the capital grant expenditure on Townlands project for the development of 1,200 Social Housing units. Below is the graphical presentation of operating results:



1.2.3.1 Operating revenue

Recorded variances from the budget were from revenue categories such as rental revenue, operational grant, interest income, and other revenue and capital grant transfers. The variances can be explained as follows:

1.2.3.2 Rental income

For the financial period under review, the Company realized revenue of R5, 5 million as compared to the budgeted amount of R5, 2 million. The variance is as a result of improved vacancy rate on buildings under management, the budgeted vacancy rate was 5% and the entity has reduced it to 2%. The performance will be maintained.

1.2.3.3 Operational grant

The Company recognized an operational grant of R30, 6 million as compared to the budgeted amount of R31, 5 million. The variance was attributed to certain tenders that were cancelled as they were not responsive in terms of pricing. The grant is recognized once the entity has fulfilled the mandate as per the Service Delivery Agreement between the City and the entity. The variance amounts to R912, 272.00. To mitigate cancellation of tenders, proper costing and bench-marking exercise will be done once specifications are drafted and completed.

1.2.3.4 Interest Income

For the period under review, the Company earned interest income of R136, 000.00 as compared to the budgeted figure of R76, 000.00. The variance of R60, 000.00 is attributed to interest charged to Clarina tenants on outstanding levies payment. Clarina building is the complex transferred to Housing Company Tshwane by the City. The complex is utilized to provide alternative accommodation to ex-Schubart Park residents. The residents are charged levies of R566 per month for services offered by the entity i.e. security and cleaning. The collection rate at Clarina building is very poor. As a mitigation strategy towards non-payment of levies, residents have been handed over to Legal Service Providers for collection. In the new financial year 2017/2018, the report will be tabled to Council to rescind the Clarina Court order and introduce rental payments.

1.2.3.5 Other Income

The Company realized revenue of R208, 000.00 as compared to the budget figure of R82, 000.00. The variance of R126, 000.00 was as a result of a sale of tender documents for the advertised tenders. In the future, the entity will include the sale of tender documents as a revenue stream.

1.2.3.6 Capital Grant Transfers

The Company realized capital grant revenue of R27 million as compared to the budget figure of R70 million. The variance of R43 million was as a result of non-performance on projects. However, most of these projects did not perform due to various reasons.

Timberlands projects were put on hold due to objections from the community on the development of Timberland Social Housing. These objections caused some delays in the completion of detailed design.

There has been a delay in the completion of internal reticulation for Chantelle project as the existing building could not be demolished due to the current occupant refusing to vacate the building. Legal advice is sought from Attorneys to evict the person. The contractor has been instructed to re-schedule the portion of works to a later stage whilst the matter is been resolved.

On the Sunnyside project, the BAC recommended that the tender be re-advertised due to high cost and the professional team is currently looking for alternative building technologies in order to reduce the high cost.

1.2.3.7 Operating expenses

1.2.3.7.1 Expenditure

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

1.2.3.7.2 Employee related costs

The Company spent R8 million as compared to the budgeted figure of R12 million. The variance of R4 million is due to the resignation of the CEO at the end of February 2017 and unfilled vacant positions as a result of moratorium from City on the filling of vacant positions and the review process of entities. The review process has now been finalised and the City has taken a decision to keep the HCT. The process to fill the vacant positions will thus commence in the new financial year.

1.2.3.7.3 Remuneration Of Directors

The Company spent R1, 3 million on Directors' remuneration as compared to the budgeted amount of R1, 4 million. Directors' remuneration is lower than the budgeted amount due to a reduction in the number of board and committee meetings hence the variance of R100, 000. Budget management will be maintained.

1.2.3.7.4 Debt Impairment

The provision for debt impairment is higher as a result of Clarina tenants who are not paying their levies. Tenants allocated at Clarina did not go through the normal HCT processes of affordability assessments as the city needed to abide by a Court ruling to find alternative accommodation to ex-Schubart Park residents. A majority of the residents are unemployed and those who are employed some do not earn enough to even pay the levied amount hence the variance of R157 000.00. As a

mitigation strategy towards non-payment of levies, residents have been handed over to Legal Service Providers for collection. In the new financial year 2017/2018, the report will be tabled to Council to review the Clarina Court order with the view of appealing it in order to enforce rental payments of these residents.

1.2.3.7.5 Depreciation

For the period under review, the entity recorded depreciation of R215, 000.00 as compared to the budget amount of R376, 000.00. The variance of R161, 000.00 is as a result of reviewed useful life of assets.

1.2.3.7.6 Finance Charges

For the period under review, the entity paid R 285, 000.00 as compared to the budgeted amount of R284, 000.00 in finance charges with the variance of R1, 000.00. This relates to the loan with National Housing Finance Corporation (NHFC).

1.2.3.7.7 Contracted Services

The Company spent R8, 8 million on contracted services as compared to the budgeted amount of R3 million. The variance of R5, 8 million was due to scope of work for pre-construction phase of Townlands project whose size was increased from 475 Social Housing units to 1,200 Social Housing units. A mitigation strategy was implemented by taking deviation report to the board for approval.

1.2.3.7.8 Other Expenditures

The Company spent R5,3 million on other expenditures as compared to the budgeted amount of R9,8 million. The variance of R4, 5 million was as a result of tenders being cancelled for not being responsive in terms of pricing and less expenditure on maintenance of properties under management. To mitigate on cancellation of tenders and less maintenance expenditure, proper costing and benchmarking exercise will be performed once specifications are drafted and completed and property maintenance plan will be implemented as per the budget.

CHAPTER 2 GOVERNANCE

2.1 CORPORATE GOVERNANCE

The Board of Directors and Executives recognises and are committed to the principles of openness, integrity and accountability advocated by the King 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. The Protocol is premised on the principles enunciated in the King Report for Corporate Governance for South Africa 2002 (“King III report”).

The Board of Directors is committed to good corporate governance and ethics and has steadfastly consolidated its position in respect of adherence to the King III code on Corporate Governance. On-going steps are taken to align practices with the Code’s recommendations and the Board continually reviews progress to monitor and ensure improvement of Corporate Governance. During the year under review the HCT finalized its risk management reviews as well as reporting and compliance assessments in terms of the Companies Act and the Municipal Finance Management Act (MFMA).

Company Policies and Operational Procedures were duly developed and some 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) in some areas.

Table 1: Board of Directors

Board Member	Capacity: Executive/ Non- Executive	Race	Gender	Board Committee Membership
Mr. T.S Phetla	Board Chairperson	Black	Male	None

Board Member	Capacity: Executive/ Non- Executive	Race	Gender	Board Committee Membership
Adv. E.M Mphahlele	Board Member	Black	Male	Development & Projects Committee and Human Resources & Remuneration Committee
Adv S.T Kholong	Board Member	Black	Male	Finance, Risk and Social Ethics Committee and Development & Projects Committee
Adv A. Singh	Board Member	Indian	Male	Development & Projects Committee
Dr. W. Rowland	Board Member	White	Male	Human Resources & Remuneration Committee
Dr. M. Matlou	Board Member	Black	Male	Human Resources & Remuneration Committee and Finance, Risk and Social Ethics Committee
Ms D.M Masilela	Board Member	Black	Female	Finance, Risk and Social Ethics Committee

2.2 LEGISLATIVE BACKGROUND PRESCRIBING THE FUNCTIONS OF THE ENTITY

The entity is governed by the following legislative prescripts and policies:

- The Constitution of the Republic of South Africa (Act 108 of 1996) Section 26 & 29
- The National Housing Act (Act 107 of 1997)
- The Rental Housing Act (Act 50 of 1999)
- The National Housing Code of 2009
- The White Paper: New Housing Policy and Strategy for South Africa
- The Social Housing Act (Act 16 of 2008)
- The Comprehensive Plan for the Creation of Sustainable Human Settlements (BNG)
- Prevention of Illegal Evictions and Unlawful Occupation of Land Act (Act 19 of 1998) (PIE)
- The Municipal Structures Act (Act 33 of 2000)
- The Municipal Systems Act (Act of 32 of 2000)
- The Municipal Finance Management Act (Act 56 of 2003)

2.2.1 Functioning of the Board against the Work Plan

	Finance Risk and Ethics Committee	Projects and Development Committee	Human Resources and Remunerations Committee
	Adv S.S.T Kholong	Dr. A J Singh	Dr. W. Rowland
	Ms. D.M Masilela	Adv E.M Mphahlele	Adv E.M Mphahlele
	Dr M. Matlou	Adv T.S Kholong	Dr M. Matlou

2.2.1.1 Finance, Risk & Social Ethics Committee

The Finance and Risk committee consists of the following non-executive directors:

- Adv. S.T Kholong;
- Dr M. Matlou; and
- Miss D Masilela.

The Finance, Risk & Social Ethics Committee has the following functions:

(a) To monitor the company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to:

(i) Social and economic development, including the company's standing in terms of the goals and purposes of:

- (a) the 10 principles set out in the United Nations Global Compact Principles; and
- (b) the OECD recommendations regarding corruption;
- (c) the Employment Equity Act; and
- (d) the Broad-Based Black Economic Empowerment Act;

(ii) Good corporate citizenship, including the company's:

- (a) promotion of equality, prevention of unfair discrimination, and reduction of corruption;
- (b) contribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed; and
- (c) record of sponsorship, donations and charitable giving;

(iii) the environment, health and public safety, including the impact of the company's activities and of its products or services.

2.2.1.2 Human Resources and Remuneration Committee

The Human Resources and Remuneration committee consist of the following non-executive directors:

- Dr W. Rowland;
- Adv. E. Mphahlele; and
- Dr M. Matlou.

The HR committee advises the board on remuneration policies, remuneration packages and other terms of employment for all directors and senior executives. Its specific terms of reference also include recommendations to the board on matters relating *inter alia*, general stall policy remuneration, profit bonuses, executive remuneration, director's remuneration and fees, service contracts, share purchase (not applicable to HCT) and option schemes, and retirement funds.

2.2.1.3 Development and Projects Committee

The Development and Projects committee consists of the following non-executive directors, i.e.

- Dr A. Singh;
- Adv. E.M Mphahlele; and
- Adv. S.T Kholong.

The function of the committee is to:

- Fulfill the functions of Bid Adjudication Committee, responsible for the Evaluation/Adjudication of procurement of Bids/Tenders/Proposals for the procurement of goods and services in excess of R 200 000.00 in accordance with the frameworks for Supply Chain Management Framework and Treasury Regulations issued in terms of Municipal Finance Management Act 56 of 2003.
- Monitor the adherence to the internal control procedures, compliance plans and bid deliverables.
- Development and monitoring of projects approved by the Board for the purposes of ensuring that the Board fulfils its mandate and achieves its strategic goals and objectives set in its strategic plan and service level agreements with its shareholders.

2.2.1.4

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 which are in place to manage operating risk involve segregation of duties, transaction authorization, 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 authorized and recorded.

The system includes a documented organization structure, division of responsibility, established policies and procedures, including a Code of Ethics to foster a strong ethical climate, which is 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 the audit and performance committee of the City of Tshwane, provides oversight 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.

The City of Tshwane appointed a single Audit and Performance Committee servicing all City of Tshwane departments and Municipal Entities during 2016/17.

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 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 as well as the internal and external auditors.

The Finance & Risk Committee operates in accordance with a written charter authorized by the City of Tshwane as well as the other Entities of the Municipality, and provides assistance to the board with regards to:

- a.** Ensuring compliance with applicable legislation and the requirements of regulatory authorities;
- b.** matters relating to financial accounting, accounting policies, reporting and disclosures;
- c.** internal and external audit policy;
- d.** activities, scope, adequacy and effectiveness of the Internal Audit function and audit plans;
- e.** review/ approval of external audit plans, findings, problems, reports and fees;
- f.** compliance with the Code of Corporate Governance and Conduct; and
- g.** Compliance with Code of Ethics.

The Finance & Risk committee carried its responsibilities 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 Finance & Risk committee considered the annual financial statements of the entity to be a fair presentation of its financial position on 30 June 2017 and of the results of its operations, changes in equity and cash flow (where applicable) for the period ended and thus in accordance with GRAP and the Companies Act requirements.

RISK REGISTER

No	Strategic and Business Objectives	Date Risk Identified	Risk Description	Root Cause	Consequence
1	Provide new Social Housing units on a sustainable basis	08-Jul-16	Inability to provide Social Housing units and affordable housing units	<ol style="list-style-type: none"> 1. Delays in obtaining approved plans and designs from the relevant authorities. 2. Inadequate funding. 3. Lack of Capacity in Supply Chain/Procurement of Professional Teams and Main Contracts. 	<ol style="list-style-type: none"> 1. Non accreditation from Social Housing Regulatory Authority (SHRA). 2. Poor service delivery. 3. Reputational damage.
2	Promote effective and efficient management of THE HCT and Social Housing Portfolio	08-Jul-16	Non-compliance with MFMA, Social Housing Act and Rental Housing Act	<ol style="list-style-type: none"> 1. Non-adherence to Financial Procedures and Processes. 2. Non-adherence to Supply Chain Policy. 3. Non-existence of Finance and Supply Chain templates 4. Critical Finance Posts not filled. 5. Non-adherence to Tenant and Property Management Processes, Procedures and Good Practices. 6. Lack of knowledge and competence in rental and Social Housing by middle and senior managers. 	<ol style="list-style-type: none"> 1. Adverse audit opinions 2. Loss of accreditation from SHRA.
3	Strive for Financial sustainability by 2019	08-Jul-16	Inadequate levies and rental revenue.	<ol style="list-style-type: none"> 1. Delay in construction of Social Housing projects in order to increase number of Greenfields units. 2. Delay in transfer of rental stock from CoT to THE HCT in order to increase number of Brownfield's units 3. Poor levies collection by THE HCT because of low levies payment rate by Clarina residents. 	<ol style="list-style-type: none"> 1. Over-reliance on CoT Operational Grant. 2. Non-achievement of breakeven point.
4	Promote sound governance	08-Jul-16	Lack of IT governance	<ol style="list-style-type: none"> 1. The HCT Board has not been responsible for IT Governance as required by Chapter 5 of King III. 	<ol style="list-style-type: none"> 1) Noncompliance to relevant Regulations, Acts and Codes of

No	Impact		Likelihood		Inherent Risk		Existing Control	Control Type	Perceived Control effectiveness		Residual Risk	
1	Severe/Catastrophic	5	Almost Certain	5	Critical	25	<ol style="list-style-type: none"> 1. Property development policy. SLA with developers. 2. Service Delivery Agreement with CoT. Detailed designs 3. Conditional accreditation on level 2 has been granted by SHRA. 4. Funding secured for 100 units for 2016/17 Financial year. 5. Supply Chain Policy 6. SDA with CoT. 	Preventative	Good	0.30	Low	8
2	Severe/Catastrophic	5	Likely	4	Critical	20	<ol style="list-style-type: none"> 1. Finance Policies and Processes 2. Supply Chain Policy 3. Tenant Management Policy, Processes and Procedures 4. Organizational Performance Management System 5. Quarterly Compliance Checklist 	Detective	Satisfactory	0.50	Medium	10
3	Severe/Catastrophic	5	Almost Certain	5	Critical	25	<ol style="list-style-type: none"> 1. Service Level Agreements with Project Teams. 2. Council Resolution for transfer of Silverkroons (units), Ou/Nuwe Stalshoogte (units) and Bosmanshuis (units). 3. Rent Collection Policy. 4. Arrears Management Policy. 5. Rental Housing Tribunal. 	Corrective	Weak	0.70	High	18
4	Severe/Catastrophic	5	Almost Certain	5	Critical	25	<ol style="list-style-type: none"> 1. Quarterly ICT Governance report. 2. Quarterly Compliance Checklist. 	Preventative	Satisfactory	0.50	High	13

2.2.1.5 Entity's Supply Chain Processes and Procedures

During the current financial 2016/2017, the entity developed the new Supply Chain Policy that is aligned with the provisions of the MFMA and the National Treasury: Municipal Supply Chain Management Regulations, 2005 and the policy was approved by the Board. The entity's SCM policy provides for the exclusion of awards to persons in the service of the state subject to the exemptions and regulations issued by National Treasury from time to time. The entity has started implementing bidding processes with separate Bid Specification, Bid Evaluation and Bid Adjudication Committees having been set up.

To capacitate Supply Chain Management, the HCT employed a Senior Supply Chain Officer in quarter 1 who unfortunately resigned in March 2017. There is a need for a Supply Chain Manager to manage and oversee that the Bid Committees are well functions and efficient.

The Board has ensured that the Procurement Policy embraced the objectives of Broad-Based Black Economic Empowerment (B-BBEE) and the CEO, as the Accounting Officer of the Company, was tasked as the custodian for effective implementation. The Capital projects implemented during this period served as valuable foundations for ensuring community participation in the HCT's BEE programmes. This process will be enhanced and the Company will continue to be sensitive to the financial constraints facing emerging black owned businesses.

The entity has made a number of quotations-based awards for property maintenance and management projects that the entity undertakes from time to time. The HCT is committed to the development of BEE and SMME's. No unsolicited bids were made by the Company in the period under review.

In instances where there are deviations from the Supply Chain processes, irregular, wasteful and fruitless expenditure, management report these to the board and consequence management is undertaken where money will be recovered from responsible employees.

2.2.1.6 Information and Communications Technology

HCT has adopted the ICT governance framework and policy of the shareholder, CoT. The entity submits a quarterly ICT governance report to the shareholder CoT.

IT Support

HCT is supported by the IT Department of shareholder, CoT. IT queries are logged and attended to in a reasonable turnaround time.

IT Infrastructure

HCT is on the CoT fibre network. The network is up most of the time with very rare instance of down time.

IT Application

HCT is an MDA system which is currently the best property management system in South Africa. The system is also SAP compatible.

IT Projects

HCT is embarking on:

- Designing and installation of new website;
- Installation of on offsite server; and
- SAP implementation (in anticipation of mSCOA readiness and compliance).

IT Staff

HCT plan to appoint an IT Technician who will be responsible for:

- Daily ICT operational tasks;
- Network Troubleshooting;
- Helpdesk Management; and
- Network user management.

HCT IT is handled by the Shareholder City of Tshwane (CoT). HCT is in the process of developing its IT Governance Framework which will consist of;

- IT Strategy
- IT Policy and Procedures
- IT Charter;

During the ICT computer audit it was mentioned that as we solemnly rely on the CoT IT services and support, the memorandum of understanding between the CoT and HCT

must be developed. This memorandum of understanding will cover all the point mentioned in point 2 above. CT is currently developing the following policies.

- ICT Equipment Allocation Policy
- Computer Use Policy
- ICT Security Policy
- ICT Disaster Recovery Plan

During the ICT computer audit it was mentioned that as we solemnly rely on the CoT IT services and support, the memorandum of understanding between the CoT and HCT must be developed. This memorandum of understanding will cover all the point mentioned in point 3 above. IT Governance will be a standing item on the Board's Agenda.

IT spending is covered on a quarterly Supply Chain Implementation Report. IT Risk will be included in the HCT Risk Register. HCT sever was installed in a safe environment in a sever room in Centurion Office, the reason for this is that HCT don't have a proper room where the server can be installed. HCT procured a new laptop that is going to be utilized by the finance manager the old laptop that she was using will remain the server. The issue of Pastel has been resolved. CT website is now working properly, the service provider had finish designing the website, and training is to be provided to the officer who will be responsible for the uploading and updating the site. Anti-Virus update are automatically done online by the server when there's a virus the computer will inform you and ask you to follow certain steps and then the update is done, so we rely on the CoT sever for the updates.

2.2.1.7 Anti-Corruption and Fraud

HCT has put in place strategies to prevent corruption, fraud and theft. The risk areas are around supply chain and sub-letting. The Anti-corruption and Anti-fraud Policy is in place to mitigate such risks. The CoT Internal Audit also reviews internal control processes of HCT including our supply chain processes. Fruitless, Wasteful Expenditure are reported to the HCT Board quarterly. HCT Board has established a Disciplinary Committee to take disciplinary action against employees who commit fraud, corruption or theft.

Anti-Corruption and Ant-Corruption Policy have been reviewed this year. This is complemented by the Anti-Corruption and Fraud Prevention Plan. This is as a result of the expressed commitment of Government to fight corruption. It is also an important contribution to the National Anti-Corruption Strategy of the country and supplements both the Public Service Anti-

Corruption Strategy and the Local Government Anti-Corruption Strategy. Those who report incidents of fraud or corruption are protected by the Whistleblowing Policy.

The approach in preventing fraud and corruption is focused into 3 areas, namely:

- Structural Strategies;
- Operational Strategies; and
- Maintenance Strategies.

2.2.1.8 Tenant Satisfaction on Entity Services

The entity annually conducts the customer satisfactory survey as required by the regulatory body (SHRA) to assess the level of satisfaction amongst its tenants. The customer satisfactory survey conducted this year at Eloff and Clarina highlighted that majority of our tenants are happy with our services.

Table 2: HCT's supply chain committees and functions

Supply Chain Management Committees:	Guidelines	Functions and purpose of the Committee	No of Meetings targeted	Actual	Reasons	Intervention/ Action Taken
Bid Specification Committee (BSC).	Municipal Finance Management Act, Board Terms of Reference	Consideration and approval of the project's scope of works for upcoming tender/bid.	5	Consideration of bid specification for: 1. Tender for Development of a Social Housing Scheme on ERF 708 & 709 in Sunnyside. 2. Tender for Development of a Social Housing Scheme at Townlands in Marabastad. 3. Tender for Installation of the internal Civil Services: Water, Sewer and Storm water in Chantelle. 4. Hiring of the Copier Machines. 5. Provision for Geotechnical Investigation for the Development of a Social Housing Scheme at Townlands in Marabastad.	All 5 Bids specifications were considered and approved.	None.
Bid Evaluation Committee (BEC).	Municipal Finance Management Act, Board Terms of Reference	Receive tenders from bid specification Committee and Evaluate tenders according to the criteria determined by the BSC	5	Evaluation of Bids: 1. Tender for Development of a Social Housing Scheme on ERF 708 & 709 in Sunnyside. 2. Tender for Development of a Social Housing Scheme at Townlands in Marabastad. 3. Tender for Installation of the internal Civil Services: Water, Sewer and Storm water in Chantelle. 4. Hiring of the Copier Machines. 5. Provision for Geotechnical Investigation for the Development of a Social Housing Scheme at Townlands in Marabastad.	All 5 Bids were evaluated according to the criteria specified in the tender document.	None.
Bid Adjudication Committee (BAC).	Municipal Finance Management Act, Board Terms of Reference	Considers the evaluation report from the Bid evaluation committee and make awards.	5	4 Bids were awarded namely: 1. Tender for Development of a Social Housing Scheme at Townlands in Marabastad. 2. Tender for Installation of the internal Civil Services: Water, Sewer and Storm water in Chantelle.	1 Bid was not awarded as a result that the bids received were higher than the estimated cost, the BAC then resolved that the bid be referred back to BSC for the review of specification and be re-	None.

				3. Hiring of the Copier Machines. 4. Provision for Geotechnical Investigation for the Development of a Social Housing Scheme at Townlands in Marabastad.	advertised. Name of the bid: 1. Tender for Development of a Social Housing Scheme on ERF 708 & 709 in Sunnyside.
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Table 3: HCT's Bid Adjudication Committee Structure and non-compliance with the requirements

Supply Chain Management procurement threshold and delegations (Table 10) Value of Purchase	Procurement method and requirements	Delegated Authority	Oversight role	Procurement requirements defaults	Reasons	Intervention/ Action Taken
0 to R2,000	Petty cash (One quotation)	Accounting Officer	Senior Finance Officer	None.	None.	None.
R2 0001 to R10 000	Three quotations system	Accounting Officer	Senior Finance Officer	<ul style="list-style-type: none"> • R 5,182.58 • R 3,118.01 • R 9,945.36 • R 7,313.00 	Non-compliance • Is was emergencies whereby it was impractical to follow the procurement processes	Approved by the CEO and board
R10,000 to R30 000	Three quotations system	Accounting Officer	Senior Finance Officer	<ul style="list-style-type: none"> • R 11003.23 • R 16,500.00 	Non-compliance • Is was emergencies whereby it was impractical to follow the procurement processes	Approved by the CEO and board
R30 001 to R200 000	Three quotations system (80/20 Point system)	Accounting Officer	Senior Finance Officer	<ul style="list-style-type: none"> • R 51,509.99 • R 53,709.96 	Non-compliance • The service provider is a sole supplier/ it was impractical to follow the procurement processes	Approved by the CEO and board
Tenders above R200 000 to R10 million and long term contracts	Competitive Bidding (Advertised for 14 days in the website, notice board and 3 Newspapers). (90/10 Point system)	Accounting Officer	Accounting Officer	None.	None.	None.
Tenders above R10 million	Competitive Bidding (Advertised for 30 days in the website, notice board and 3 Newspapers).	Accounting Officer	Accounting Officer	None.	None.	None.

CHAPTER 3 SERVICE DELIVERY PERFORMANCE

INTRODUCTION

The HCT's performance rating has improved compared to the previous period in 2015/2016 in terms of meeting some pre-determined objectives of the entity. Even though some of the performance objective could not be achieved by the entity, The HCT for the first time since its inception, have appointed a main contractor for the construction of one of its Greenfield projects.

3.1 PERFORMANCE AGAINST SCORECARD FOR THE HOUSING COMPANY TSHWANE FOR 2016/17

The HCT has appointed a contractor for the construction of Townlands Social Housing. The contractor has managed to deliver 49 completed foundations compared to the target of 100 units. The entity has also managed to appoint the contractor to provide internal civil services reticulation for the development of Chantelle Social Housing and the progress was at 35% completion. The detailed design for Timberland Social Housing is at 90% completion.

The entity faced challenges which contributed to its non-performance. The objections received on the Timberland Social Housing Development, the delays caused by the person who occupied the land in Chantelle and the poor performance of the contractor in Townlands.

3.1.1 PERFORMANCE OVERVIEW

Department	Key performance indicator	Project Name	Q4 Target	Q4 Actual	Annual Target	Actual	Comments on work done / Reasons for non-performance	Mitigation plan
Property Development (Construction of Social Housing Units)	100 units completed in Townlands	Townlands	100 Units completed	0 units completed in Townlands	100 units completed in Townlands	0 units completed in Townlands	49 completed foundations in block A1, F2 and 3H (see item 9 of the attached report). Contractor's non-performance 49 completed foundations in block A1, F2 and 3H	Contractor to be put on terms starting July 2017 and applying penalties. Cession will be applied and a nominated sub-contractor will be appointed to assist expediting progress
	Detailed Designs completed in Timberland	Timberlands	Detailed designs 100% complete	Detailed design at 90% completed	Detailed Designs 100% completed in Timberland	0 detailed design completed	Detailed design at 90% completed A rezoning application was submitted to the City in October 2016 and there were objections relating to the density and the height of the building, thus affecting the finalization of the detailed designs.	The matter will be heard by the Municipal Planning Tribunal on 13 September 2017
	Bulk infrastructure provision completed in Sunnyside	Sunnyside Erf 708 and 709	Bulk Infrastructure provision completed	Bulk infrastructure provision is not completed	Bulk infrastructure provision completed in Sunnyside	0 bulk infrastructure completed	No work was done The BAC recommended that the tender should be re-advertised as it was non-	Management and the professional team is investigating alternative ways to reduce the costs in terms of design or looking for partnerships

Department	Key performance indicator	Project Name	Q4 Target	Q4 Actual	Annual Target	Actual	Comments on work done / Reasons for non-performance	Mitigation plan
							responsive due to price.	
	Internal reticulation completed in Chantelle X39	Chantelle X39	Internal reticulation 100% completed	Internal reticulation at 35% completion.	Internal reticulation completed in Chantelle X39	Internal reticulation at 35% completion. Not achieved	Internal reticulation at 35% completion. Delayed due to an illegal occupant in a building that has to be demolished to make way for construction.	A notice of eviction was given to the illegal occupant through his attorney. An agreement was reached to give the occupant 90days which expires on 16 September 2017.
Property Management (Management of Housing Stock)	Number of CoT's transferred to THE HCT for management(brownfields)	Ellofsdal(Silwerkroon)	N/A	N/A	120 rental units transferred from CoT to THE HCT	120 rental units were transferred from CoT to THE HCT effective on the 1st of July 2016	Performance will be sustained	N/A
	Occupancy level in units under management	Eloff	95%	97%	95%	98%	Performance will be sustained	N/A
		Clarina	90%	97%	90%	96%	Performance will be sustained	N/A

Department	Key performance indicator	Project Name	Q4 Target	Q4 Actual	Annual Target	Actual	Comments on work done / Reasons for non-performance	Mitigation plan
						Achieved		
		Silwerkroon	95%	98%	95%	97%	Performance will be sustained	N/A
						Achieved		
	Turnaround in resolving tenant complaints	Eloff, Clarina and Silwerkroon	90%	100%	90% of the complaints resolved within the approved timeframes	100%	Performance will be sustained	N/A
						Achieved		
Finance (Financial Management)	Development of BEE SMME's		31%	114%	31% of total expenditure spent on procurement from BEE & SMME's	48.45%	Performance will be sustained	
						Achieved		
	Manage budget processes of the entity in accordance with regulatory frameworks		25%	155%	Budget management and implementation: 90% of Budget spent	60.87%	The delay in the tender process for both Chantelle X39 and Sunnyside has impacted the budget spending.	A Procurement plan must be submitted to the Supply Chain Department in the beginning of the new financial year which will be utilised to plan projects properly.
						Not Achieved		

Department	Key performance indicator	Project Name	Q4 Target	Q4 Actual	Annual Target	Actual	Comments on work done / Reasons for non-performance	Mitigation plan
	Rental collection rate of billed units above baseline	Eloff	2.5%	6%	2.5% Rental collection rate of billed units above baseline of 94%	4.7% Achieved	Performance will be sustained	N/A
	% of Levies collection of billed units above baseline	Clarina	4%	-30.50%	4% of Levies collection of billed units above baseline of 46%	-23.9% Not achieved	<p>Tenants allocated at Clarina did not go through the normal HCT due diligence as Clarina is used as short-term alternative accommodation for ex-Schubart Park residents as per the Constitutional Court ruling of October 2012. HCT has been requested to manage the building on behalf of the City. A majority of the residents are unemployed and already 20 of them have been approved as indigents in terms of the City's Indigent Policy. Of those residents who are employed, some do not earn enough to even pay the levy. .</p> <p>There is also an inherent culture of non-payment with the ex-Schubart Residents</p>	Continuous engagements with the Residents sub-committee, working with them to drive through the message of complying with their obligation to pay the Levies. Re –education about levy payments and the consequences of non-payment. A junior credit controller has been appointed to engage the residents and facilitate payment arrangements. Furthermore, the residents who are employed and are intentionally defaulting on their payments are handed over to the lawyers for eviction
	Rental collection rate of billed units above baseline	Silwerkroon	2%	8.28%	2% Rental collection rate of billed units above baseline	8.99%	Performance will be sustained	N/A

Department	Key performance indicator	Project Name	Q4 Target	Q4 Actual	Annual Target	Actual	Comments on work done / Reasons for non-performance	Mitigation plan
					of 90%	Achieved		
	Maintaining entity asset liquidity to an acceptable level		Liquidity ratio of 1.1	Liquidity ratio of 1:1,2	Achieving Liquidity Ratio of 1:1	Liquidity ratio of 1:1,38 Achieved	Performance will be sustained	N/A
Governance	Review of Internal Governance Structures and Processes.	Entity annual strategic review and approval	N/A	N/A	Review	Reviewed and approved Achieved	Performance will be sustained	N/A
		Policy review and approval	Review	Policies reviewed and approved - Performance Management policy, Petty cash policy, Rent collection policy Cell phone and data Policy, Bad debts Write -off	Policy review and approval i.e. Supply Chain, Delegations of Authority, Human Resources, Marketing & Communication , Management , Financial and	Policies reviewed and approved – Supply Chain, Delegation of Authority, Performance Management policy ,Petty cash policy, Rent collection policy, Cell	Performance will be sustained	N/A

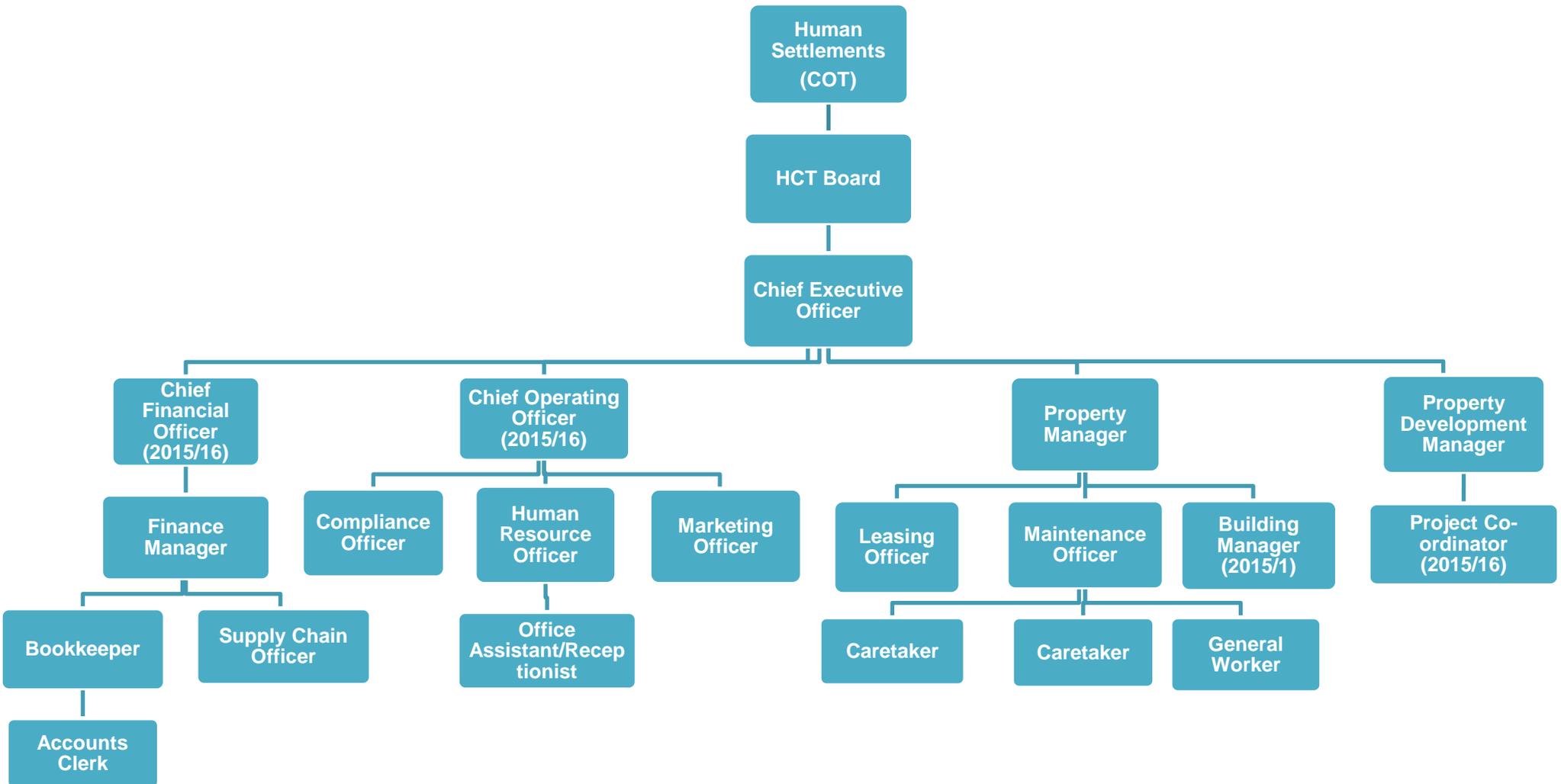
Department	Key performance indicator	Project Name	Q4 Target	Q4 Actual	Annual Target	Actual	Comments on work done / Reasons for non-performance	Mitigation plan
				Policy, Code of Conduct, Code of Ethics Policy,, Training and Development Policy, Arrears and Debtors Policies and Procedures, Anti-Corruption and Anti -Fraud Policy	Internal control	phone and data Policy ,Bad debts Write -off Policy, Code of Conduct, Code of Ethics Policy, Training and Development Policy ,Arrears and debtors Policies and Procedures, Anti-Corruption and Anti -Fraud Policy, Marketing and Communication Policy, Employee Rent Discount Policy, Travel & Subsistence Policy, Property Development Policy, Financial & Internal Control Policies and Procedures, Asset Management Policy, Leave Management Policy, Risk Management Policy		

Department	Key performance indicator	Project Name	Q4 Target	Q4 Actual	Annual Target	Actual	Comments on work done / Reasons for non-performance	Mitigation plan
						Achieved		

3.1.3 PERFORMANCE IMPROVEMENT MEASURES

- Develop a rental strategy
- Implementation of current policies and procedures
- Introduction of a performance management mechanisms
- Appointment of key personnel
- Improvement of levy collection at Clarina by appointing a debt collection agent and handing over to legal firms for possible evictions

4.1 THE HCT ORGANOGRAM AND STAFF COMPONENT



4.2 MANAGING THE ENTITY'S WORKFORCE

4.2.1 Employee expenditure

	FY 2012/2013	FY 2013/2014	FY 2014/2015	FY 2015/2016	FY 2016/2017
Total Salary Cost (inclusive of directors remuneration)	R 4,098,771	R 4,914,447	R 4,689,811	R 8,247,740.29	8,003,656.19

4.2.2 THE HCT'S employee totals, vacancies turnover

Employee total 2016/2017	Vacancies 2016/2017	Turnover 2016/2017
37	4	2

4.2.4 EEA report on (Female positions, people with disabilities)

Employment Equity figures					
	African	Coloured	Indian	White	Total
Male	16	1			17
Female	19			1	20
Total	35	1		1	37
Actual %	97.3%	2.5%	0%	2.5%	90%
Target %	86.05%	4.65%	4.65%	4.65%	100%
Gap	2	1	2	1	6
Target Total	37	2	2	2	43
Change Totals					
Staff Levels:					
Senior Management	4	1	0	0	5

4.2.5 No of approved positions & filled vacancies

No of approved positions	No of positions as per the amended structure not approved by the board, the positions were included in the adjustment budget	Filled positions	Vacancies
22	55	37	18

4.2.6 Highlights, challenges and interventions.

4.2.6.1 Highlights:

- The Townlands project and Chantelle x39 projects obtained capital grant funding for the implementation of the Social Housing Units. The development of 1200 units in Townlands has commenced. The contractor has been appointed and the projects has received the Restructuring Grant & Institutional Subsidy approval.
- Infrastructure Upgrade for the Chantelle x39 has commenced. The contractor has been appointed to install internal reticulation.
- The transfer of 284 self-sufficient was successfully completed and the lease agreements signed.
- Due to the improved reporting to the SHRA, the entity consequently received 2 years' conditional accreditation with the SHRA.

4.2.6.2 Challenges:

- The high Electricity & Water tariffs at the Eloff Complex, which is due to the building being zoned as Business Premises. This places an unfair financial strain and burden on the Tenants. The COO has for several months been engaging the City, to change the Electricity tariffs to mainly residential zoning.
- Management Structure that is not capacitated, there are key positions in the Entity that have not been field.
- Reliance on CoT Grants- Financial constraints experienced poses a great challenge in the implementation of new stock.
- Poor company marketing & branding- The entity has developed a negative reputation due to previous experience.
- Operational Inefficiencies- Poor implementation & management of policies & procedures

4.2.6.3 Interventions:

- Filling of key positions
- The CEO will further intervene with both City Planning and Finance Department in this regard regarding.
- Introduction of performance management mechanisms.

4.3 THE HCT'S TURN AROUND STRATEGY ON RECRUITMENT

The entity took a decision to implement a phased human capacitation approach. Firstly a decision was taken to upgrade contractual posts to permanent posts to create certainty and skills retention. The 2nd

phase was to undertake a proper skills gap analysis that led to the revision of the entire organizational structure which the Board approved in May 2017.

The Shareholder placed a moratorium on the filling of all vacant posts pending the review of the entities. The review has been concluded and recommended that HCT continues to function as a going concern and approved by Council on 29 June 2017.

Preparations for the recruitment processes will now commence for the following critical and vacant posts, in line with the organizational structure approved by the Board and Council, as part of the HCT's 2017/18 Business Plan.

- Chief Executive Officer
- Chief Financial Officer
- Supply Chain Manager
- Marketing and Communications Manager
- Accountant
- Clerk of Works
- Housing Officers
- PA to CFO

4.4 DISCLOSURES

4.1.1 Disclosures concerning THE HCT

In order to ensure good governance practices, the entity is required to make financial disclosures. Therefore; this section should disclose the remuneration packages of the entity's executives for the 2016/17 financial year.

4.5 REMUNERATION AND HUMAN RESOURCES COMMITTEE

- a. Providing the Board with the assurance that management and employees are fairly rewarded for their individual contributions to Housing Company Tshwane's Performance;
- b. Assessing the remuneration strategy of HCT by determining the incentive remuneration structures in both the short and long term in accordance with trends in local and international markets;
- c. Monitoring and development, alignment, satisfaction and productivity of the Company's employees in order to ensure competitive excellence; and
- d. Review and make recommendation to the Board regarding the total remuneration of the CEO and other senior managers.

4.6 DIRECTOR'S REMUNERATION

4.6.1 HCT's Board of Directors

Table 4: Table: THE HCT Board of Directors

Name	Designation	Q1 Meeting Fee	Q2 Meeting Fee	Q3 Meeting Fee	Q4 Meeting Fee	Total
Mr T.S Phetla	Chairperson	47,833.60	54,774.98	51,531.42	69,239.58	223,379.58
Dr M. Matlou	Non-Executive	52,728.56	47,203.24	39,583.30	35,896.66	175,411.76
Dr W Rowland	Non- Executive	47,110.94	37,784.92	22,619.20	39,790.46	147,305.52
Dr A.J Singh	Non-Executive	43,757.42	41,090.40	34,621.59	52,468.94	171,938.35
T.S Kholong	Non-Executive	39,684.94	54,761.50	54,730.34	62,365.95	211,542.73
Adv. E.M Mphahlele	Non-Executive	59,163.45	31,691.34	37,143.58	66,759.82	194,758.19
Ms D Masilela	Non-Executive	42,956.34	58,925.48	65,220.68	34,937.20	202,039.70
Total		333,235.25	326,231.86	305,450.11	361,458.61	1,326,375.83

4.7 HCT BOARD & COMMITTEE MEETINGS 2016/17 FINANCIAL YEAR

4.7.1 Board & Committee Meetings 2016/17 Financial Year

Table 5: Table: THE HCT Board Committee Meetings

Name of Board Member	Finance and Risk Committee	Development & Projects Committee	REMCO	Board	TOTAL	Challenges	Comments
T. Phetla (Chairperson)	-	-	-	8	8	The unpredictable & forever changing reporting times of the City made it difficult to	More cooperation between the City (Shareholder Operations Unit) APC

						stick to the scheduled meeting calendar	Secretariat and relevant departments in order to report and comply effectively
A. Singh		5		8	13		
S. Kholong	7	5		7	19		
W. Rowland			6	7	13		
D. Masilela	6			8	14		
E. Mphahlele		5	5	7	17		
M. Matlou	6		5	5	16		

Table 6: Human Resources Head count per unit

Units	Units	Nr posts	Nr of filled posts	Nr of vacancies	Vacancies %
Chief Executive Officer		1	0	1	
Office of the Chief Executive Officer		5	4	1	
Office of Chief Finance Officer		8	4	4	
Office of the Chief Operations Officer		6	3	3	
Office of the Property Development Manager		2	1	1	
Office of the Property Manager		24	22	3	
Office of the Client Service Manager		8	3	5	
TOTALS		55	37	18	

Table 7: Training and Development

Company Name	Degree or diploma	Male				Female				Total
		A	C	I	W	A	C	I	W	
Classic Seminars CC.	Training	x								1
Wits School of Governance	Training	x								1
Unisa	Training- Basic Project Management					X				1
Nosa	Training- Samtrac	x								2
Classic Seminars CC	Training- Projects MS	X								2

4.8 MANAGEMENT OF LEAVE

Table 8: Leave Records

Types of leave	2016/17			Days
	Description	Total Sick Leave	On special and sick leave (medical certificate provided, death certificate and study leave info)	
Sick		118	43	118
Vacation		740	0	740
Study		26	13	26
Special		0	0	0
Family responsibility		28	16	28

4.9 HUMAN RESOURCES

Table 9: Staff movements

Staff movements	African		Coloured		Indian		Whites	
	Male	Female	Male	Female	Male	Female	Male	Female
Appointments	1							
Resignations	2							
Suspension								
Sick leave	60	47	8					3

Table 10: Employee totals, vacancies and turnover

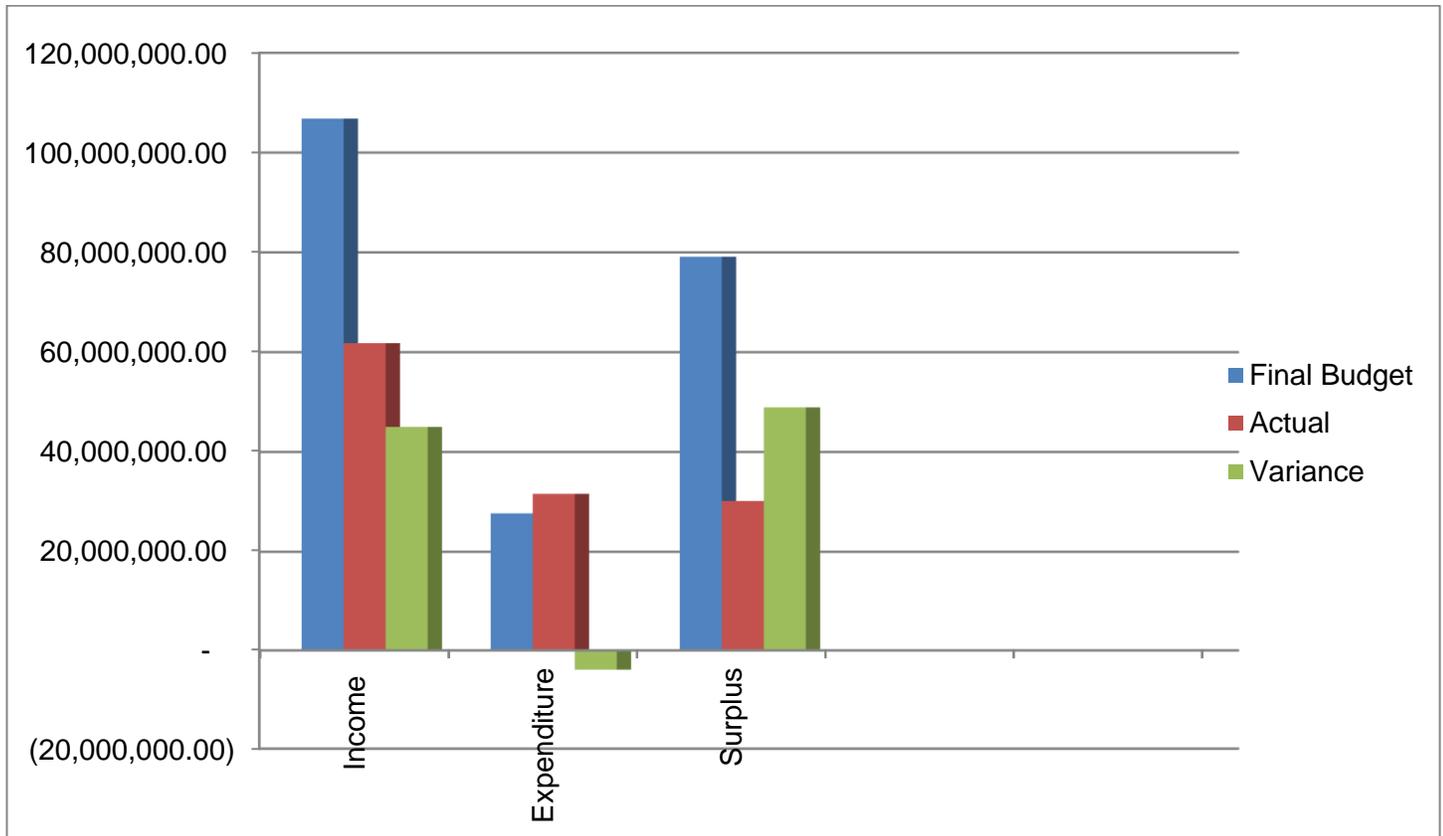
Position	Status	Plan
Chief Executive Officer	Vacant – CEO has resigned at the end of February 2017	Acting CEO in place. To be filled in 17/18.
Personal Assistant to CEO	Filled	N/A
Chief Finance Officer	Vacant	Strategic position. To be filled in 17/18
PA to CFO	Vacant	To be filled in 17/18
Property Development Manager	Filled	N/A
Project Support Officer	Filled (30 March 2017)	N/A
Chief Operations Officer	Filled	N/A
PA to COO	Filled	N/A
Supply Chain Officer	Vacant	Resigned after 6months. Position upgraded to Manager in the new structure. To be filled in 17/18
Finance Manager	Filled	N/A
Bookkeeper	Filled	N/A
Accounts Clerk	Filled	N/A
Human Resource Support Officer	Filled	N/A
Property Manager	Filled	N/A

Client Service and Office Supervisor	Vacant	To be filled in 18/19
Maintenance Officer	Filled (Internal Staff deployment)	N/A
Housing Supervisor 1	Filled (Internal Staff deployment)	N/A
Position	Status	Plan
Housing Supervisor 2	Filled (Internal Staff deployment)	N/A
Housing Supervisor 3	Filled (Internal Staff deployment)	N/A
Security Guard Supervisor	Filled	N/A
Security Guards x11	Filled	N/A
Security Guards x6	Vacant (new)	To be filled in 17/18
General Workers x6	Filled	N/A
General Workers x2	Vacant (new)	To be filled 17/18
Office Cleaner	Filled	N/A
Company Secretary	Filled	N/A
Community Development Officer	Vacant	N/A
Marketing and Communication Manager	Vacant	Strategic position. To be filled in 17/18
Office Assistant	Filled (Internal Staff deployment)	N/A
Supply Chain Manager	Vacant	Critical positions. To be filled 17/18
Information and Communications Technology (ICT) specialist (not in structure)	The HCT is currently utilizing the City's ICT infrastructure and resources	In future a permanent post must be created to oversee the ICT requirements of the entity.

5 FINANCIAL PERFORMANCE

5.1 FINANCIAL PERFORMANCE

The overall financial performance for the financial year period resulted into an accumulated surplus of R30 million. This was attributed to the capital grant expenditure on Townlands project for the development of 1,200 Social Housing units. Below is the graphical presentation of operating results:



5.2 Operating revenue

Recorded variances from the budget were from revenue categories such as rental revenue, operational grant, interest income, and other revenue and capital grant transfers. The variances can be explained as follows:

5.2.1 Rental income

For the financial period under review, the Company realized revenue of R5, 5 million as compared to the budgeted amount of R5, 2 million. The variance of R273, 789 is as a result of improved vacancy rate on buildings under management, the budgeted vacancy rate was 5% and the entity has reduced it to 2%. The performance will be maintained.

5.2.2 Operational grant

The Company recognized spent all the operational grant as per the budgeted amount of R31, 5 million. The performance will be maintained.

5.2.3 Interest Income

For the period under review, the Company earned interest income of R136, 232 as compared to the budgeted figure of R75, 600. The variance of R60, 662 is attributed to interest charged to Clarina tenants on outstanding levies payment. Clarina building is the complex transferred to Housing Company Tshwane by the City. The complex is utilized to provide alternative accommodation to ex-Schubart Park residents. The residents are charged levies of R566 per month for services offered by the entity i.e. security and cleaning. The collection rate at Clarina building is very poor. As a mitigation strategy towards non-payment of levies, residents have been handed over to Legal Service Providers for collection. In the new financial year 2017/2018, the report will be tabled to Council to rescind the Clarina Court order and introduce rental payments.

5.2.3 Other Income

The Company realized revenue of R271, 844 as compared to the budget figure of R82, 123. The variance of R189, 721 was as a result of a sale of tender documents for the advertised tenders. In the future, the entity will include the sale of tender documents as a revenue stream.

5.2.4 Capital Grant Transfers

The Company realized capital grant revenue of R24 million as compared to the budget figure of R70 million. The variance of R45 million was as a result of non-performance on projects. However, most of these projects did not perform due to various reasons.

- Timberlands projects were put on hold due to objections from the community on the development of Timberland Social Housing. These objections caused some delays in the completion of detailed design.
- There has been a delay in the completion of internal reticulation for Chantelle project as the existing building could not be demolished due to the current occupant refusing to vacate the building. Legal advice is sought from Attorneys to evict the person. The contractor has been instructed to re-schedule the portion of works to a later stage whilst the matter is been resolved.
- On the Sunnyside project, the BAC recommended that the tender be re-advertised due to high cost and the professional team is currently looking for alternative building technologies in order to reduce the high cost.

5.3 Operating expenses

5.3.1 Expenditure

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

5.3.2 Employee related costs

The Company has spent R7, 3 million as compared to the budgeted figure of R12 million. The variance of R4, 7 million is due to the resignation of the CEO at the end of February 2017 and unfilled vacant positions as a result of moratorium from City on the filling of vacant positions and the review process of entities. The review process has now been finalised and the City has taken a decision to keep the HCT. The process to fill the vacant positions will thus commence in the new financial year.

5.3.4 Remuneration Of Directors

The Company has spent R1, 3 million on Directors' remuneration as compared to the budgeted amount of R1, 4 million. Directors' remuneration is lower than the budgeted amount due to a reduction in the number of board and committee meetings hence the variance of R155, 401. Budget management will be maintained.

5.3.5 Debt Impairment

The provision for debt impairment is higher as a result of Clarina tenants who are not paying their levies. Tenants allocated at Clarina did not go through the normal HCT processes of affordability assessments as the city needed to abide by a Court ruling to find alternative accommodation to ex-Schubart Park residents. A majority of the residents are unemployed and of those who are employed some, do not earn enough to even pay the levied amount hence the variance of R157, 432. As a mitigation strategy towards non-payment of levies, residents have been handed over to Legal Service Providers for collection.

5.3.6 Depreciation

For the period under review, the entity has recorded depreciation of R582, 033 as compared to the budget amount of R376, 024. The variance of R206, 009 is as a result of reclassification of investment property to property, plant and equipment.

5.3.7 Finance Charges

For the period under review, the entity has paid R 285, 027 as compared to the budgeted amount of R284, 029 in finance charges with the variance of R998. This relates to the loan with National Housing Finance Corporation (NHFC).

5.3.8 Contracted Services

The Company has spent R13, 8 million on contracted services as compared to the budgeted amount of R3 million. The variance of R10 million was due to scope of work for pre-construction phase of Townlands project whose size was increased from 475 Social Housing units to 1,200 Social Housing units. A mitigation strategy was implemented by taking deviation report to the board for approval.

5.3.9 Other Expenditures

The Company has spent R7, 4 million on other expenditures as compared to the budgeted amount of R9, 8 million. The variance of R2, 3 million was as a result of tenders being cancelled for not being responsive in terms of pricing and less expenditure on maintenance of properties under management. To mitigate on cancellation of tenders and less maintenance expenditure, proper costing and bench-marking exercise will be performed once specifications are drafted and completed and property maintenance plan will be implemented as per the budget.

5.4 ENTITY'S FINANCIAL PERFORMANCE AS COMPARED TO PRIOR YEAR

5.4.1 Revenue

The entity posted revenue of R 61 million for the financial year 2016/2017, an increase of 154% (2016: R24 million) as compared to the previous financial year. The increase is attributable mainly to Silwerkroon building that was transferred to the entity by the City in the current financial year and utilizing more operational grant from the City for the management of buildings under its control as well construction of Townlands project and installation of reticulations services for Chantelle project. The operation grant from the City remains significantly high and contributes up to 90% of the total revenue, this being an increase of 183% as compared to the previous financial year. The revenue earned from interest income is R136, 262, an increase of 43% (2016: R 94,644) due to an increase on interest charged on defaulting tenants. The collection rate has improved at both Eloff (101%) and Silwerkroon (101%) but declined at Clarina building (23.92%).

5.4.2 Results of Operations

Operational costs increased by 23% as compared to the previous financial year to R31, 6 million (2016: R 25, 6 million). The key operational costs that contributed to an increase were mainly depreciation, debt impairment and contracted services. Depreciation increased as a result of reclassification of investment property to property, plant and equipment.. Debt impairment increased due to low collection rate at Clarina and tenants allocated at Clarina do not go through the normal HCT processes of affordability assessments as the city needed to abide by a Court ruling to find alternative accommodation to ex-Schubart Park residents. A majority of the residents are unemployed and of those who are employed some, do not earn enough to even pay the levied amount. Contracted services increased due to scope of work for pre-construction phase of Townlands project whose size was increased from 475 Social Housing units to 1,200 Social Housing units. Finance charges on the National Housing Finance Corporation (NHFC) decreased by 15% due to reduction in the capital portion of the loan.

Capital expenditure increased by 84% due construction and installation of reticulations services for both Townlands and Chantelle projects respectively. In terms of the target, the entity was supposed to have delivered 100 Social Housing units but only 49 foundations were completed due to contractor's non-

performance. The remedial action was implemented whereby the contractor was put on terms starting July 2017 and applied penalties. Cession will be applied and a nominated sub-contractor will be appointed to assist expediting progress. The entity has also received Restructuring Capital Grant (RCG) from SHRA for the construction of 767 units by the end of 2017/2018 but the money is not yet released pending financial closure.

The entity posted a surplus of R30 million for the period under review, against a deficit of R 2 million in the previous financial year.

5.4.3 Cash Flow

The entity received operational and capital grant to the value of R80 million from the City. The collection rate at Silwerkroon building is very good sitting at 8.71% above the targeted collection rate of 92%. The entity ended the financial year in a favourable cash position with cash on hand being R 39, 4million (2016: R 14, 1 million). The cash position of the entity has increased due to capital grant contribution from the parent Municipality. The entity is waiting for 10% of the grant contribution from SHRA for the construction of Townlands project.

5.4.4 Statement of Financial Position

The financial position reflects that the entity is capable of meeting its financial obligations given that the total assets exceed total liabilities by R 72 million. This is a reflection that the Company could not be plunged into insolvency as long as it receives the necessary support from the shareholder. Current assets exceed current liabilities by R 11 million which indicates that the entity is liquid. The current ratio is currently 1, 39:1 versus standard norm of 1:1.

5.5 REVENUE

Planned target 2016/17 : 36,867,008

Actual 2016/17 : 36,394,015

5.5.1 Rental Income

For the financial period under review, the Company realized revenue of R5, 5 million as compared to the budgeted amount of R5, 2 million. The variance is as a result of improved vacancy rate on buildings under management, the budgeted vacancy rate was 5% and the entity has reduced it to 2%. The performance will be maintained.

5.5.2 Operational Grant

The Company recognized an operational grant of R30, 6 million as compared to the budgeted amount of R31, 5 million. The variance was attributed to certain tenders that were cancelled due to not been

responsive in terms of pricing. The grant is recognized once the entity has fulfilled the mandate as per the Service Delivery Agreement between the City and the entity. The variance amounts to R912, 272. To mitigate cancellation of tenders, proper costing and bench-marking exercise will be performed once specifications are drafted and completed.

5.5.3 Interest Income

For the period under review, the Company earned interest income of R136 thousands as compared to the budgeted figure of R76 thousands. The variance of R60 thousands is attributed to interest charged to Clarina tenants on outstanding levies payment. Clarina building is the complex transferred to Housing Company Tshwane by the City. The complex is utilized to provide alternative accommodation to ex-Schubart Park residents.

The residents are charged levies of R566 per month for services offered by the entity i.e. security and cleaning. The collection rate at Clarina building is very poor. As a mitigation strategy towards non-payment of levies, residents have been handed over to Legal Service Providers for collection. In the new financial year 2017/2018, the report will be tabled to Council rescind the Clarina Court order to enforce rental payments on residents.

5.5.4 Other Income

The Company realized revenue of R208 thousand as compared to the budget figure of R82 thousand. The variance of R126 thousand was as a result of a sale of tender documents for the advertised tenders. In order to mitigate this, the entity will do a proper budgeting taking into account the sale of tender documents.

5.6 ASSETS

The fixed asset register is kept and maintained to safeguard the fixed assets of Housing Company Tshwane and to ensure the effective use of the existing resources.

The asset register contains different categories of assets and they are as follows:

a.	Land & Buildings	-	R21,800,000
b.	Office Equipment	-	R89,319
c.	Furniture and Fitting	-	R255,647
d.	Computer Equipment	-	R324,598
e.	Other Assets	-	R1,350,779
f.	Motor vehicle	-	R149,086
g.	Building under construction (Townlands)	-	R39,068,235

Total value of the assets excluding depreciation is - R63, 8037,662.

To ensure the reliability of the information on the asset register, management maintains a fixed asset identification system for easy reference to the fixed assets register. The practice of tagging or coding is used to accomplish the following goals:

- a. Provide accurate method of identifying individual assets;
- b. control the location of all physical assets; and
- c. Assist in maintaining fixed asset.

Tags or codes are assigned in chronological order as assets are acquired. To ensure the completeness and correctness of assets on the fixed asset register, all assets are physically verified as the end of the quarter and the resultant report is submitted to management declaring that all assets listed are on hand and are in a useful working condition.

5.7 EVENTS & INTERNATIONAL TRIPS

The entity did not have any events and international trips for the 2016/17 financial year

Table 11: Table: Economic Activity (Not applicable the entity)

Economic Activity by Sector R' 000				
Sector	2015/16	2016/17	Challenges	Comments
Marketing	N/A	N/A	N/A	N/A
Wholesale and retail trade	N/A	N/A	N/A	N/A
Travel and subsistence	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A
T3.11.2				

CHAPTER 6 AUDIT MATTERS

6.1 AUDITOR GENERAL

6.1.1 Findings for FY 2016/17

AGSA MR Ref. No.	Finding Details (Summary)	Identified Root Cause	Repeat Finding (Yes / No)	Mitigation Measure Developed	Responsible Official for Finalisation	Deadline for Resolution
1.	Understatement of commitment disclosure note	The amount disclosed in the financial statements under note no. 30 does not include some of the contracts that the entity entered into during the financial year under audit. The contracts have been included in the entity's contract register and not in the financial statements. This may lead to an understatement of the commitments disclosure note as per table below.	No	Amend the Annual Financial Statements to include commitments. Appoint the Supply Chain Manager to ensure compliance on contract management Appoint the Chief Financial Officer to provide quality assurance on the Annual Financial Statements	FM & ACEO	11 October 2017 01 February 2018
2.	Deviations not disclosed	There were instances where the entity deviated from official procurement processes during the year and the deviations were approved by the Accounting Officer however, they were not disclosed in the financial statements of the entity in note 42 of the financial statements. This may lead to a material misstatement of the deviations disclosure note.	No	Amend the Annual Financial Statements to disclose deviations.	Finance Manager	Immediately

3.	Completeness of payables and accruals at year end	<p>During the audit of consulting fees was noted that an invoice was received from MIH Projects before year end and it was not included in the payables schedule. The invoice was received for services rendered during the current year of assessment. The invoice relates to work done on the Townlands project and has not been capitalised to the buildings under construction costs as the work on the invoice relates to the stage 3 detail design.</p> <p>Furthermore, during the audit of and AOPO indicator internal reticulation completed in Chantelle X39 it was noted that management reported an achievement of 35% but no payable or accrual could be traced to the entity's financial statements for the work done. The work done on the project was verified during the AOPO verification processes and it was confirmed that the services were rendered and accrued before year end.</p>	No	The AFS has been amended to capture the invoices.	Finance Manager	Immediately
4.	Completeness of Assets (buildings under construction)	<p>During the audit of consulting fees and AOPO indicator Internal reticulation completed in Chantelle X39, it was noted that professional fees incurred and work done during the year was not capitalized in the property plant and equipment, buildings under construction. The expenditure relates to the Townlands Development Project and the Timberlands and thus meets the requirements of set out in GRAP 17 for capitalization.</p>	No	The AFS has been amended to capitalize assets under construction and expenditures on Timberlands and Chantelle projects	Finance Manager	Immediately

5.	Misstatement of Property, Plant and Equipment additions	<p>During the audit of PPE additions it was noted that the purchases amounts were capitalized at incorrect amounts. Management capitalized the purchases amounts exclusive of VAT whereas the entity is producing VAT exempt goods in as far as SARS rules are concerned and therefore the entity cannot claim input VAT on any purchases that relate to exempt supplies.</p> <p>Management has disclosed the PPE additions amounts in the cash flow statement to exclude VAT whereas the cash flow statement is meant to have figures that were actually paid to suppliers. Furthermore it was noted that the prior year purchases were also capitalized at incorrect amounts in the asset register. This may lead to material understatement of buildings under construction of R908 223 for the prior year and R504 874 for the current year and the misstatement of other assets.</p>	No	<p>Engage SARS for exemption/ condonation of ..</p> <p>The expenses will be analysed before being processed in the Accounting system to determine whether they are related to exempt supplies or taxable supplies.</p>	Finance Manager & Bookkeeper	Immediately
6.	Misstatement in the cash flow statement PPE additions	<p>During the audit of the cash flows from investing activities relating to property plant and equipment additions, it was noted that some of the supplier invoices that were not paid at year end have been included as paid invoices on the cash flow statement as table below. Furthermore, the below invoices have been correctly included as payables as at year end. This may lead to a material misstatement of the cash flow statement.</p>	No	<p>The cash flow statement will be reviewed on a monthly basis in order to ensure that at year-end the cash flow statement is accurate</p> <p>AFS will be amended to correct amounts paid from investing activities (PPE) on the cash flow</p>	Finance Manager	Immediately

7.	Bid awarded to a supplier who does not meet the administrative evaluation criteria	<p>During the audit of supply chain management processes, it was noted that bid no. HCT 08/2016 Development of a Social Housing Scheme on ERF 3525 & 3526 Marabastad for R366 969 297 was awarded to a supplier who does not meet the administrative evaluation criteria. The bid specification documents which were issued to all prospective bidders stated that the submission of certified audited financial documents for two (2) previous financial years is a compulsory administrative requirement for all bidders who submit bids. Upon the inspection of the winning supplier's audited financial statement it was noted that the supplier submitted the audited financial statement documents on the 19th of December and this is the same date that the bid was awarded by the bid adjudication committee. This indicates that the financial statements were not submitted on the closing date of the bids and the bid evaluation committee did not have the winning supplier's audited financial statements when the evaluation was conducted on the 14 October 2016.</p> <p>Furthermore, it was noted that on the bid evaluation documents the bid evaluators awarded 10 points to the winning bidder for the submission of the audited AFS under the administrative evaluation whereas the financial statements were not submitted.</p>	No	Drafting of the SOP for the approval process of the specifications document	Finance Manager & SCM Officer	30-Mar-18
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8.	Composition of the bid evaluation and bid adjudication committee	<p>During the audit of supply chain management bid evaluation committee for the bid no. HCT 08/2016 Development of a Social Housing Scheme on ERF 3525 & 3526 Marabastad for R366 969 297 it was noted that the committee did not comprise of at least three persons with the technical knowledge of the bid. The evaluation committee thus did not have at least three persons with the technical knowledge of the bid when the functionality of the submitted bids was evaluated.</p> <p>Furthermore, during the audit of supply chain management bid adjudication committee for the bid no. HCT 08/2016 Development of a Social Housing Scheme on ERF 3525 & 3526 Marabastad for R366 969 297 it was noted that the bid adjudication committee did not comprise a technical expert of the entity that being the property manager.</p>	No	<ul style="list-style-type: none"> • All committees' appointments will comply with the CIDB and SCM regulations. • Amend the SCM policy to align with the CIDB requirements for BEC composition of construction related tenders 	ACEO	01 November 2017 & 30 March 2018
9.	Payables with no supplier statements	<p>During the audit of trade and other payables it was noted that some of the balances disclosed as trade payables do not have the supporting supplier statements from the suppliers for the amounts disclosed. Furthermore as the auditors we could not obtain reasonable assurance for the balances disclosed below by the entity as there are no supplier statements available for audit purposes This may lead to a material under/overstatement of the trade payables balance as the invoices disclosed as outstanding might not be complete. Furthermore the entity might overpay suppliers if there is no statement of amount owing to suppliers.</p>	No	<p>The internal financial controls & procedures relating to trade payables to be reviewed and amended to include the submission of supplier statements or confirmation of supplier balances in written form at the end of the month.</p> <p>Suppliers will be requested to submit statements with each invoice</p>	Bookkeeper & SCM Officer	Dec-17

10.	SBD4 forms filled out inadequately	During the audit of the indicator Development of BEE SMME's it was noted that a supplier who was awarded a contract did not fill out the declaration of interest form (SBD4) satisfactory. The supplier did not indicate whether or not they are an employee of the state and if so then proof of authority to bid should have been attached but this was also not indicated.	No	Suppliers who do not fill out the declaration of interest form (SBD4) satisfactory will be eliminated at the compliance evaluation stage.	SCM Officer & Finance Manager	31-Dec-17
11.	Invoices from the same supplier mismatch	During the audit of consulting fees we noted inconsistencies in the same supplier invoices submitted by MIH Projects for the Townlands Development Project. Furthermore it was noted that the supplier does not issue monthly statements which indicate the amounts due and amounts paid. This may lead to a potential risk of invalid invoices being submitted and paid by the entity as in one of the invoices there is no MIH company logo on the invoice.	No	<ul style="list-style-type: none"> • The invoice that is being referred to was reversed and management will ensure that when a new invoice is submitted, it meets all the requirements • Suppliers will be notified of the requirement to submit regular monthly statement indicating amount due (on current invoice), amounts outstanding and amounts paid. 	Property Development Manager/AC OO/SCM Officer	31 November 2017

12.	Incorrect VAT apportionment rate	<p>During the audit of value added tax it was noted that the company has claimed VAT input on purchases that are to be used for exempt supplies. The company is in the process of building Townlands residential units and the units will be used exclusively for residential purposes, the company further has the Eloff building which is partly used for taxable and exempt supplies. The following are details of the buildings owned and used. Clarina has 160 units of which 158 are used for residential purposes and 2 for the caretaker, Silverkroon has 121, 120 used for residential and 1 for the caretaker and Eloff has 95 units, 90 used for residential units, 1 for the caretaker and the 4 used for taxable supplies. Based on our assessment four (4) units out of the total of 376 are used for commercial purposes, this equates to 1.06%, this translates to 98.94% exempt supplies. Furthermore no evidence could be obtained of the SARS approval of the apportionment rate that is used by management for VAT purposes as it was noted that the company has been claiming VAT input at an apportionment rate of 26.06%.</p>	No	<p>Management will reverse the input VAT claimed from July 2017 at an apportionment rate in the November 2017 books since 98.94% of the supplies is exempt and report this to SARS.</p>	Finance Manager & Bookkeeper	31 Jan-18
13.	Incorrect VAT returns submitted to SARS	<p>During the audit of VAT it was noted based on the reconciliations performed, input VAT is not claimed from SARS and management carries over the debit balance month to month. This is incorrect because a category A vendor the entity must do returns every two months and make payments or claims to or from SARS with no closing balance carried forward.</p>	No	<p>In future, when VAT return 401 reflects amount due to the entity, the output VAT due to SARS will be paid and be cleared from the reconciliation and the amount owed by SARS will not be carried over to the following vat period cycle.</p>	Bookkeeper	31 Jan-18

14.	Overstatement of the indicator 100 units completed in Townlands	During the audit of the strategic objective 1 Property Development it was noted that the number of completed units disclosed by management is incorrect. During the physical verification of the Townlands project it was noted that there were no completed units as the project is still under construction. Management has incorrectly disclosed 49 completed foundations as the achieved target for the indicator however the unit of measurement for the indicator is completed units.	No	Management will amend the Variance Report table under paragraph 6 of the APR	ACOO	Immediately
15.	Overstatement of the indicator detailed designs completed in Timberlands	During the audit of the strategic objective 1 Property Development it was noted that the detailed designs completed in Timberland disclosed by management is incorrect. The detailed designs have not yet been received by management as they are still with the engineers and thus it has been concluded that the risks and rewards of the detailed designs have not passed to management. The reported achieved 90% has been based on a narrative submitted by the engineers which cannot be supported by the actual design.	No	Management will amend the Variance Report table under paragraph 6 of the APR	ACOO	Immediately

CONCLUSION

Two maiden greenfields are underway and the 3rd one will resume as soon as the SCM processes resume. The shareholder also transferred properties to HCT to manage, with more to come in the future. That and a strong pipeline that is being developed with the Department of Housing and Human Settlements prepares HCT for greatness.

Although the entity didn't perform well in the year under review, there is considerable improvement which is attributed to internal capacity built as well as the support from the shareholder and SHRA. These are relationships that will be strengthened in the new financial year whilst new one are built with the industry.

The Board has reviewed a number of policies but of importance is the Contract Management Policy which will assist in improving controls in the management of contract and projects. In the new financial year, focus will be on the policies relating to Marketing and Communications as well as Tenant Management as the entity increases its rental stock.

Finally, all the above are premised on the filling of critical positions as per the new approved structure, especially the position of CEO and CEO to assist in the reduction on the number of findings and making HCT a social housing institution of choice in Tshwane.