



ANNUAL REPORT

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Content

PART A: GENERAL INFORMATION	3
1. List of Abbreviations/Acronyms	4
2. Public entity's general information	5
3. Foreword by the Chairperson	6
4. Acting Chief Ombud's overview	8
5. Statement of responsibility and confirmation of accuracy for the Annual Report	9
6. Strategic overview	10
7. Legislative and other mandates	11
8. Organisational structure	12
PART B: PERFORMANCE INFORMATION	13
1. Auditor-Generals report on predetermined objectives	14
2. Operating environment	14
3. Performance information by objective	15
PART C: GOVERNANCE	27
1. Introduction	28
2. Executive Authority	28
3. Accounting Authority	28
4. The Board	29
5. Risk management	33
6. Internal Audit	33
7. Compliance with laws and regulations	34
8. Support functions	34
Information Technology	
Marketing and communications	
PART D: HUMAN RESOURCE MANAGEMENT	36
PART E: FINANCIAL INFORMATION	41
1. The Auditor-General to Parliament on the Community Schemes Ombud Service	43
2. Audit, Risk and Ethics Committee Report	48
3. Accounting Authority's Responsibilities and Approval	50
4. Accounting Authority's Report	51
5. Statement of Financial Position	52
6. Statement of Financial Performance	53
7. Statement of Changes in Net Assets	54
8. Cash Flow Statement	55
9. Statement of Comparison of Budget and Actual Amounts	56
10. Accounting Policies	57
11. Notes to the Annual Financial Statements	65

Part A:

GENERAL INFORMATION



1. LIST OF ABBREVIATIONS/ACRONYMS

CAE	Chief Audit Executive
CO	Chief Ombud
CFO	Chief Financial Officer
CoGTA	Cooperative Governance and Traditional Affairs
COM	Committees
CPI	Consumer Price Index
CSOS	Community Schemes Ombud Service
CSOS Act	Community Schemes Ombud Service Act, 2011 (Act 9 of 2011)
Dev	Development
DG	Director General
DPSA	Department of Public Service and Administration
DRDLR	Department of Rural Development and Land Reform
DRO	Dispute Resolution Officer
EXCO	Executive Committee
GP	Gauteng Province
HOA	Home Owners' Association
HR	Human Resources
HRD	Human Resources Development
HRM	Human Resources Management
IT	Information Technology
KPA	Key Performance Area
KPI	Key Performance Indicator
KZN	Kwa-Zulu Natal
M&E	Monitoring and Evaluation
MoHS	Minister for Human Settlements
MP	Member of Parliament
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
NDHS	National Department of Human Settlements
NT	National Treasury
PDI	Previously Disadvantaged Individuals
PFMA	Public Finance Management Act, 1999 (Act 1 of 1999)
SALGA	South African Local Government
SCM	Supply Chain Management
STA	Sectional Titles Act, 1986 (Act 95 of 1986)
STSM	Sectional Titles Schemes Management Act, 2011 (Act 8 of 2011)
SLA	Service Level Agreement

2. PUBLIC ENTITY'S GENERAL INFORMATION

Official Name	Community Schemes Ombud Service ("CSOS")
Physical Address	63 Wierda Road East Wierda Valley Sandton, Johannesburg 2196
Postal Address	Postnet Suite 163 Private Bag X9924 Sandton 2196
Contact Numbers	Telephone 010 593 0533 Facsimile 010 590 6154
Website	www.csos.org.za
Executive Authority	The Minister for Human Settlements
Auditors	Auditor General of South Africa (AGSA)
Bankers	First National Bank

RP398/2018

ISBN: 978-0-621-46830-4



3. FOREWORD BY THE CHAIRPERSON



This report is a narration of the Community Schemes Ombud Service's (hereinafter "CSOS") organisational, operational and financial performance, including the audited financial results for the period 1 April 2017 to 31 March 2018 in terms of section 55(1) of the Public Finance Management Act. It is the fifth Report to be presented since the genesis of the organisation and the appointment of its first Board on 01 January 2013.

The report is presented at a time when government is reviewing its five-year, 2014-2019 Medium Term Strategic Framework (MTSF). As an entity of government, the CSOS's contribution is located in Outcome 8 which talks to Sustainable Human Settlements and Improved Quality of Household Life. By nature, the CSOS's role is to ensure greater social cohesion between property owners and managers of community schemes.

I think it safe to say that the CSOS has established itself in the industry. The Service is increasingly being utilised by disgruntled home owners and property managers who previously, did not have a central body to whom they could address their grievances. It is comforting that since the proclamation of the Act, the organisation is finally able to adjudicate matters.

During the 2018 Budget Vote of the Department of Human Settlements, the honourable Minister Nomaandia Mfeketo acknowledged, "One of the cardinal pillars of the golden era of Human Settlement's expansion is building formidable institutions." I am of the firm belief that the CSOS is one of

those institutions. The creation of the regulatory body for modern day living arrangements where there is shared use of and responsibility for land and buildings is a legacy, one that will be appreciated years after our tenure as the Board.

In the period under review, the Board has had to apply itself to the organisation's capacity constraints, gaps in executive positions, financial controls and balance these with stakeholder expectations. This is the now. But what of the future? For the benefit of the industry as a whole, one area that needs review is the question of Transformation of the industry. How does the CSOS meaningfully engage all key stakeholders to ensure a common vision and greater participation of PDI's? An approach to training managing agents with a focus on PDI's and the establishment of a transformation fund to leapfrog diversity in the sector are one of few considerations that the Board is looking into.

Strategically, a key focus for the organisation going forward is capacitating industry. A mandate of the COS is the provision of effective quality training, advocacy and outreach programs to Adjudicators and Conciliators, as well as other stakeholders with interests in Community Schemes.

In conclusion, I would like to extend a note of appreciation to Members of the Board, the CSOS employees and our shareholder, the Minister of Human Settlements. It has been a privilege for me to serve in this area and to be part of a lasting legacy.

A handwritten signature in dark ink, appearing to read 'Vukile Mehana', written over a horizontal line.

Rev. Dr. Vukile Mehana
Chairperson of the Board



4. ACTING CHIEF OMBUD'S OVERVIEW



I joined the CSOS on 01 April 2017 at a time when the organisation was facing serious capacity and financial challenges. I knew that to steer the organisation into full operational mode was not going to be easy. In this regard, I thank the Board for their strategic direction and counsel.

In the period under review, two out of three vacant executive positions were filled, one of which being the position of Chief Audit Executive (CAE). This was to ensure that a remedial plan to address and tighten up internal controls was put in place as quickly as possible. The CSOS came into operation on 07 October 2016. This meant that the organisation could commence with adjudications, a critical aspect of the dispute resolution model that the CSOS could not provide until the CSOS Act was proclaimed. With the Act fully established in law, a key focus was to secure a panel of independent, external and part-time adjudicators to assist with the backlog of conciliated cases. Our performance in terms of dispute resolution tripled from the previous year, as shown in PART B of this report, with Gauteng attending to 57% of all new applications received.

In respect of the regulation of community schemes we have registered close to thirty-three thousand schemes. According to the Deeds Office, this represents 27% of the total number of schemes that they have on record. Our focus as an organisation will on ensuring greater sector compliance. This will require us working even closer with industry bodies, who are our strategic partners.

A highlight for the year was a national roadshow and presentation to community schemes where the legal team and I clarified aspects of the Regulations. Of most concern to industry were issues around the application of the CSOS levy, governance of annual general meetings, the reserve fund and the ten-year maintenance plan. Further operational guidelines on the implementation of the Sectional Titles Schemes Management Act, 2011 (Act 8 of 2011) and the Sectional Titles Schemes Management Regulations (2016) (the Regulations) were published in Circular 1 of 2017.

There are a number of issues which the Auditor General has raised around our financials and the lack of a system to enable the organisation to account for revenue better. For me this and other issues raised by the Auditor General are of grave concern. My focus going forward will be to put measures in place to assist in our accounting.

It has been a tough and at times challenging year. I would like to thank the employees of the CSOS who welcomed me and supported Management efforts to lead the organisation. There is an idiom that says one has to crawl before you walk. The organisation has weathered its challenges, there have been points of learning along the way, there are truths we have to confront however, I trust that the organisation will overcome.

A handwritten signature in black ink, appearing to read 'Shetele', is positioned above a horizontal orange line.

Adv. Seeng Letele
Chief Ombud (Acting)

5. STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY FOR THE ANNUAL REPORT

INTRODUCTION

To the best of our knowledge and belief, we confirm the following:

All information and amounts disclosed in this annual report are consistent with the annual financial statements and performance information audited by the Auditor-General.

The annual report is complete, accurate and is free from any omissions.

The Annual Report has been prepared in accordance with the Guidelines on the Annual Report as issued by National Treasury.

The Annual Financial Statements (Part E) have been prepared in accordance with the Generally Recognised Accounting Practice (GRAP) standards applicable to the CSOS.

The Accounting Authority is responsible for the preparation of the Annual Financial Statements and for the judgements made in this information.

The Accounting Authority is responsible for establishing and implementing a system of internal control that is designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the Annual Financial Statements.

The external auditors were engaged to express an independent opinion on the Annual Financial Statements.

In our opinion, this Annual Report fairly reflects the review of operations, the performance information, the human resources information and the financial affairs of the CSOS for the financial year ended 31 March 2018.

Yours faithfully



Rev. Dr. Vukile Mehana
Chairperson of the Board



Adv. Seeng Letele
Chief Ombud (Acting)

6. STRATEGIC OVERVIEW

South Africa is a young but growing democracy with the fourth largest concentration of community schemes in the world. The environment within which the CSOS operates is complex, involving technical requirements, legal processes and procedures to regulate and harmonise interdependent relations between parties in shared living arrangements such as sectional title schemes, homeowners' associations, share-block companies, housing schemes for retired persons and housing co-operatives.

Mandate

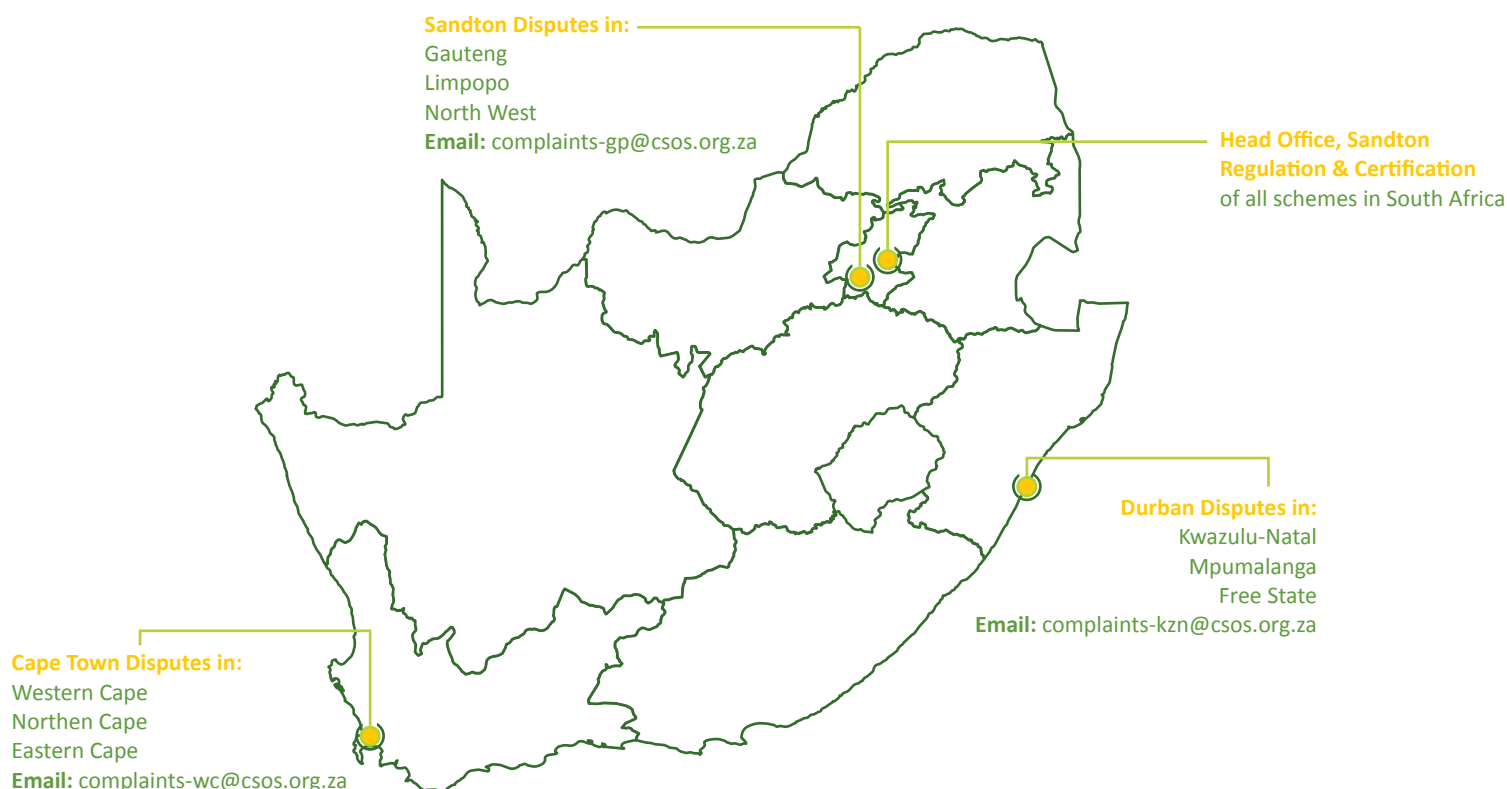
The CSOS is a juristic person established by an Act of Parliament, namely the Community Schemes Ombud Service, 2011 (Act 9 of 2011). It commenced operations on 07 October 2016 after the proclamation of the Act by the President of the Republic of South Africa.

Primarily, the mandate of the CSOS is to regulate, monitor and to control the quality of all schemes governance documentation and to provide an affordable, alternative dispute resolution service.

The CSOS service is applicable to all owners, occupiers, executive committees and other persons or entities who have rights and obligations in community schemes. According to the Act, the term "community scheme" refers to any scheme or arrangement where there is shared use of and responsibility for parts of land and buildings including sectional titles development schemes, share block companies, home or property owners' associations, housing schemes for retired persons and housing co-operatives.

Service Delivery Footprint

The CSOS is now present in three regional centers which service all nine provinces:



6. STRATEGIC OVERVIEW (Continued)



Vision

A reliable, transparent and recognised regulatory authority for community schemes in South Africa.



Mission

To regulate community schemes and to support their good governance through the provision of education and training and to provide an accessible dispute resolution service.



Objectives

- To regulate all Community Schemes in South Africa
- To control and provide quality assurance of Community Scheme governance documentation
- To provide a dispute resolution service
- To provide stakeholder training, consumer education and awareness for property owners, occupiers and other stakeholders
- To ensure that the CSOS is an effective and sustainable organisation

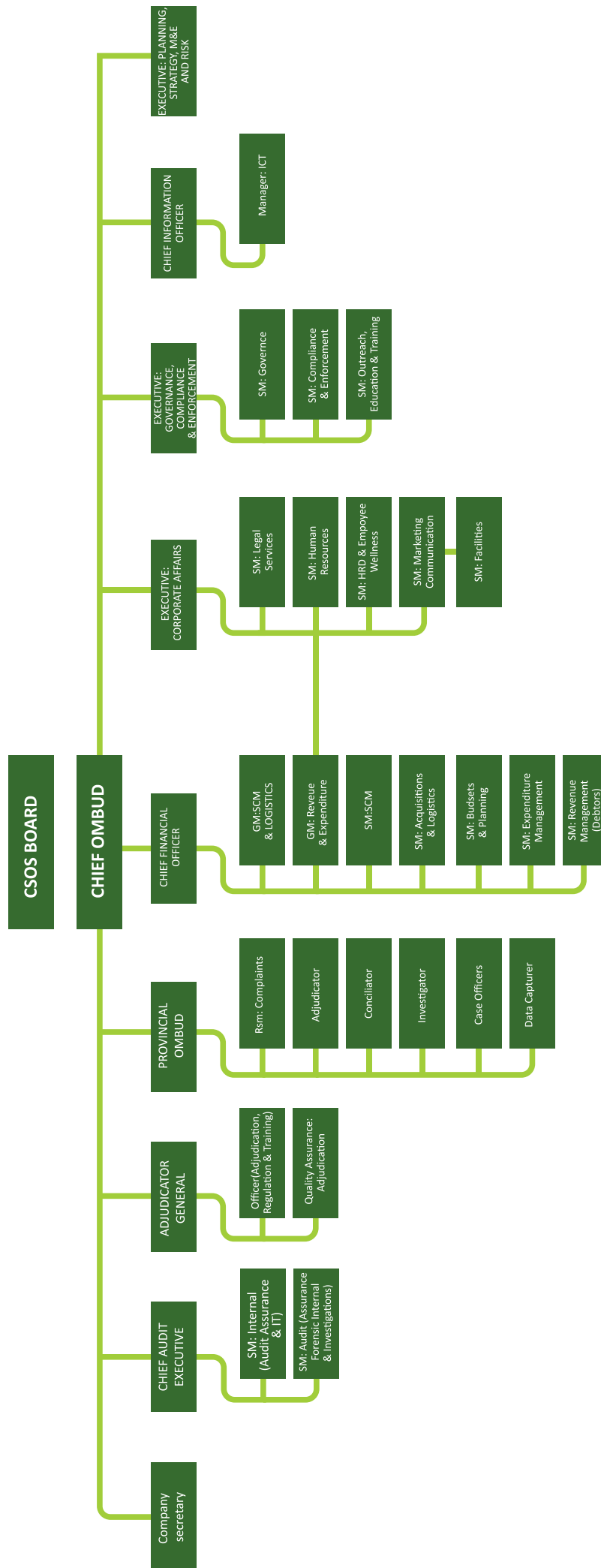
7. LEGISLATIVE AND OTHER MANDATES

The primary mandate of the CSOS is to:

- Regulate, monitor and to control the quality of all schemes governance documentation
- Provide a dispute resolution service
- Provide training for conciliators, adjudicators and other employees of the CSOS
- Take custody of, preserve and provide public access (electronically or by other means) to schemes governance documentation.

In performing its functions, the CSOS:

- Must promote good governance of community schemes
- Must provide education, information, documentation and such services as may be required to raise awareness to owners, occupiers, executive committees and other persons or entities who have rights and obligations in community schemes, as regards those rights and obligations
- Must monitor community schemes governance; and
- May generally, deal with any such matters as may be necessary to give effect to the objectives of the Act.



Part B:

PERFORMANCE INFORMATION



1. AUDITOR-GENERAL'S REPORT: PREDETERMINED OBJECTIVES

The Auditor-General of South Africa (AGSA) currently performs the necessary audit procedures on the performance information to provide reasonable assurance in the form of an audit conclusion. The audit conclusion on the performance against predetermined objectives is included in the report to Management, with material findings being reported under the Predetermined Objectives heading in the Report on Other Legal and Regulatory Requirements section of the Auditor-General's report. Refer to page 43 of the Annual Report for the Auditor's Report, published in Part E: Financial Information.

2. OPERATING ENVIRONMENT

The Political Environment

Politically, the CSOS is accountable to the Minister for Human Settlements. The CSOS reports regularly to the Minister on progress made in implementing its mandate and tables periodic reports to Parliament as required by the PFMA, and at the instruction of the Parliamentary Portfolio Committee on Human Settlements.

The Economic Environment

The principle of affordability of the dispute resolution services is key to the purpose of the CSOS. The organisation employs various funding models to enable the organisation to be self-sustainable, in a manner that ensures that the cost is minimal to the beneficiaries of the service. Funding streams include a government grant appropriated by Parliament, a CSOS levy payable by community schemes, dispute resolution services fees and charges applied to access schemes governance documentation.

The social environment

The rapid growth of community schemes in South Africa is a reflection of population migration trends to larger urban areas. This is due to a number of reasons such as the impact of urbanisation, affordability, heightened needs for security, and a desire for a more communal way of life. As more people flock to the large urban centres of the country in search of economic - work and business – opportunities, it is likely that this growth trend will continue rather than abate. The CSOS will have to take the potential growth in applications for dispute resolution and the regulation of an increasing number of community schemes in its organisational design.

The technological environment

Appropriate technological case management and customer relationship management, as well as an integrated Enterprise Resource Planning (ERP) and Revenue Management System and capabilities, will be implemented by the organisation to effectively discharge its mandate.

Data and information will, from time to time, be gathered, collated and captured in a developed CSOS database. That database will form the cornerstone in capturing and delivering technology to be adopted and utilised by the entity when performing its mandate which includes taking custody of schemes documentation and providing access to that information to the public. CSOS information and communications technology (ICT) will be compatible with public and private sector entities' ICT systems that it will be interacting with in implementing its mandate. The existing ICT of the modern world can, therefore, be used by the CSOS as a planning and a service delivery enabler.

3. PERFORMANCE INFORMATION BY OBJECTIVE

The 2017/18 financial year was the first year to operate after the proclamation of the CSOS Act and the STSMA. Further, it was the first year of tenure for Adv Seeng Letele after a change in the CSOS leadership. There were also key legislative changes that were approved by the Board. It was realised just after the proclamation that, for CSOS to operate optimally, certain amendments to both the CSOS Act and the STSMA are required. The amendments will address concerns relating to governance of other community schemes, such as Home Owners Association and Share Block Schemes Company. With the amendments CSOS will be in a position to regulate all forms of community schemes effectively and ensure that their schemes governance documentations are adequately quality assured and there is compliance by community schemes with their obligations set out in the applicable legislations.

STRATEGIC OBJECTIVE 1

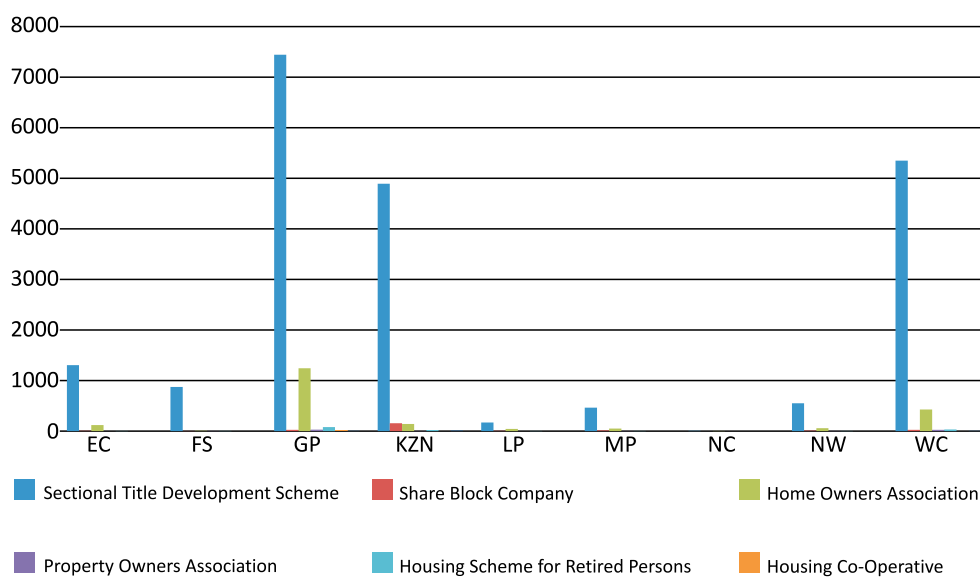
Regulation of community schemes within south africa

The main objective for CSOS to regulate community scheme is to ensure that all community schemes are registered with the CSOS. The registration information enables the CSOS to create a database of all community schemes. The number of schemes and distribution throughout the country allows CSOS to focus service delivery where there more concentration of schemes.

CSOS has on obligation to ensure the community scheme comply with the legislative obligation under the CSOS act and the STSMA. It then follows than in the event of non-compliance, CSOS will have to implement enforcement measures as provided for in the CSOS Act, STSMA, Regulations and Practice Directive.

Registration of community schemes

Between 01 April 2017 to 31 March 2018, a total of 17 446 of community schemes were registered and issued with registration numbers. CSOS has recently seen the decrease in the number of new registration submissions.



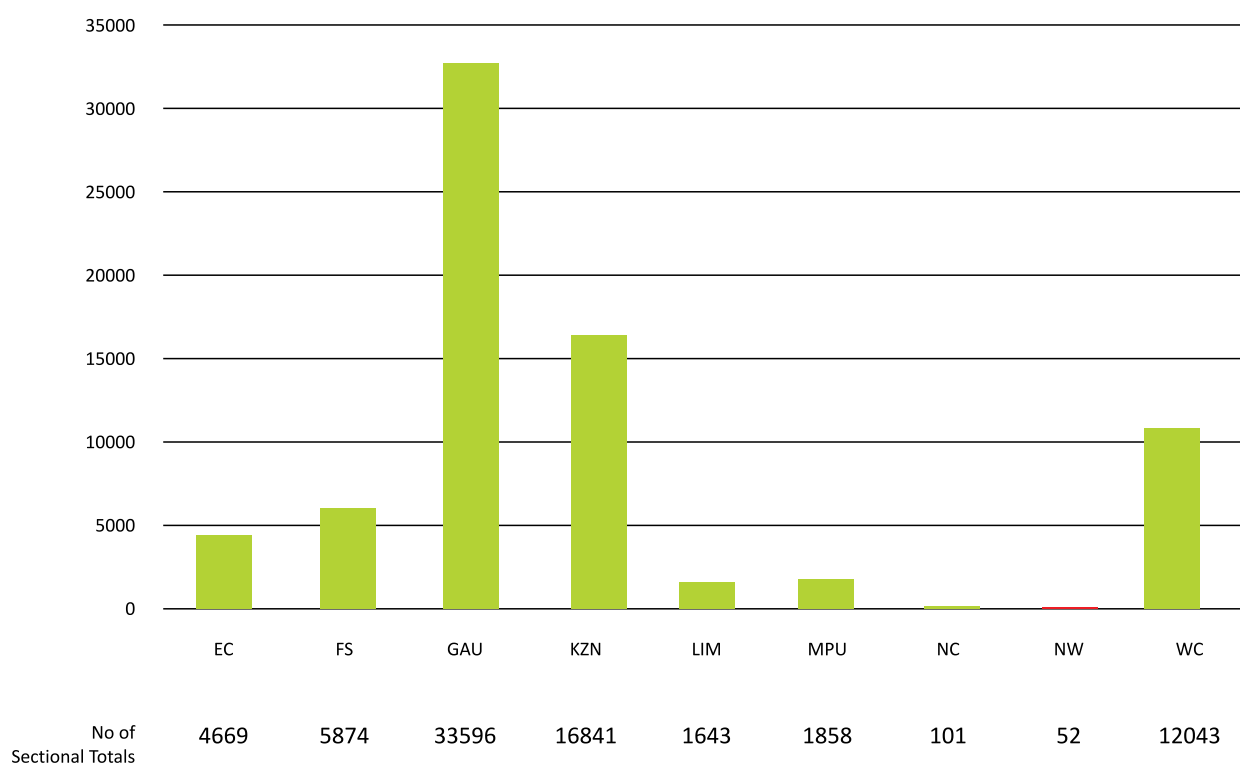
Number of schemes registered and categories of community schemes registered.

Compliance and enforcement

Having regard the decline in the number of schemes submitting documentation for registration, the CSOS will have to implement enforcement measures to ensure compliance with the registration requirement.

The CSOS has obtained a database of all registered Sectional Titles from Deeds Office. The information is being analysed to assess which of the schemes on the Deeds database has not registered. Once that is completed, the CSOS will go on a drive to issues non-compliance notices to all schemes not registered.

The information obtained from Deeds Office indicates that there is a total of 76 677 registered Sectional Titles in South Africa. The breakdown per province is set out below:



Sectional Title Data From The Deeds Office

The total number of Sectional Titles registered with the CSOS is 20 969 with the remainder of 56 705 not registered with the CSOS. The total registered with CSOS represent 27,7% of total Sectional Titles Schemes in South Africa.

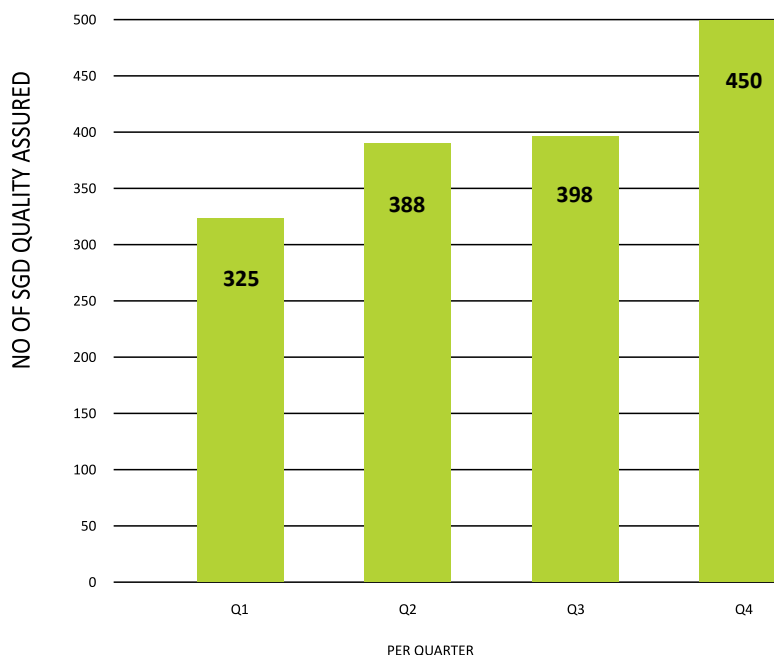
STRATEGIC OBJECTIVE 2

Control and provide quality assurance of community schemes governance documentation

The main objective under this Strategic Objective is to ensure that there is proper Governance within community schemes. To this end, the CSOS provides quality assurance to the schemes governance documentation received by the CSOS, record all existing and new schemes governance documentations as received from the community schemes and other entities on the database, implement a schemes governance records management and documentation system and ensure that the documentation is adequately secured, protected and accessible to the public.

Quality Assurance of Community Schemes Governance Documentation

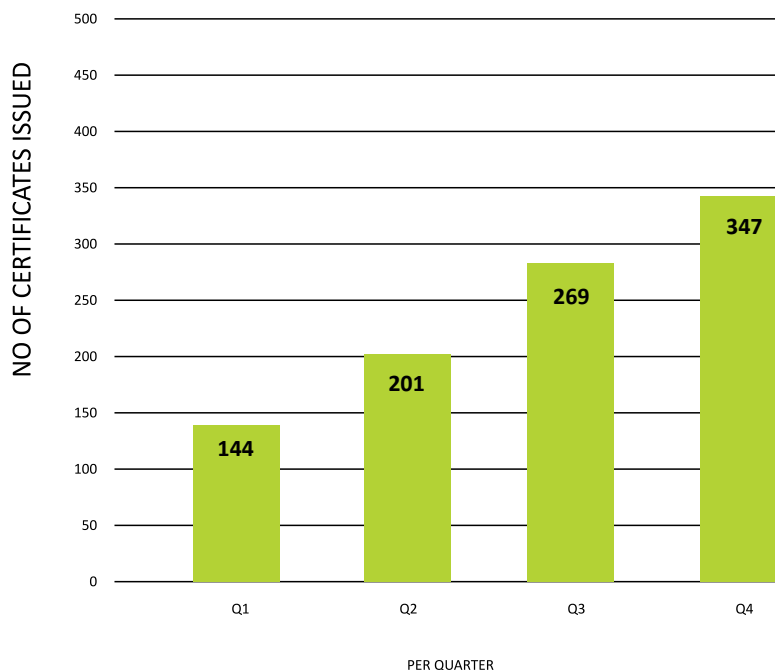
During this Financial Year, the CSOS quality assured a total of 1561 community schemes governance documentations. The challenge is that most of the community schemes do not respond to the request for amendments suggested by the CSOS. The graph below sets out the number of scheme governance documentation quality assured per province.



Number of Schemes Governance Quality Assured

Certificates issued for schemes governance documentation quality assured

A total of **961** certificates were issued for schemes governance documentation approved by the Chief Ombud after quality assurance. A graph below sets out the total number of certificates issued per province.



Certificates issued

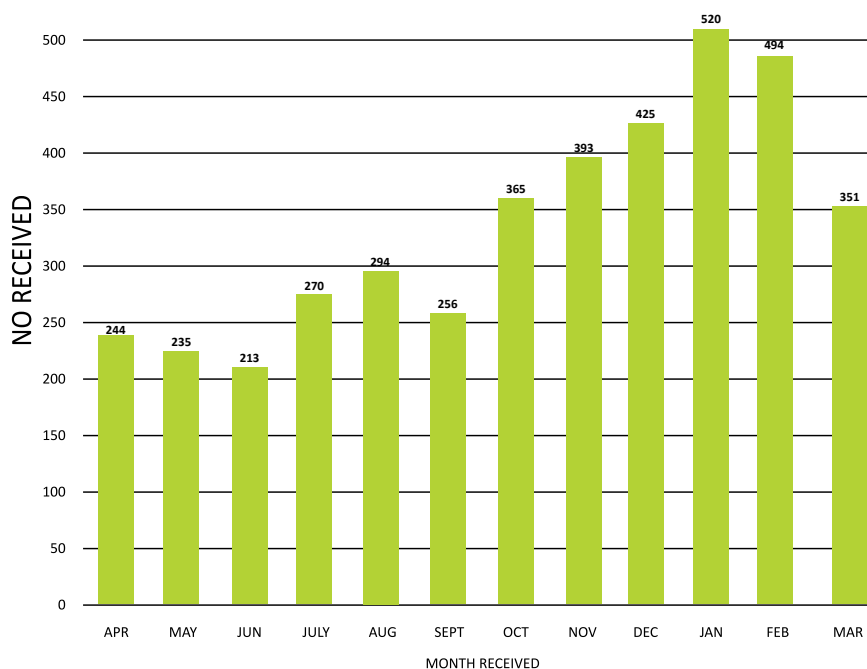
STRATEGIC OBJECTIVE 3

Dispute resolution process

The 2017/18 financial period saw an increase in the number of dispute referred to the CSOS for conciliation. The increase in the workload put a strain on the resources and this had an impact on efficiency in the rendering of services. To address this challenge, the CSOS appointed Part-Time Adjudicators to handle and address the backlog on matters referred to Adjudication.

New applications received

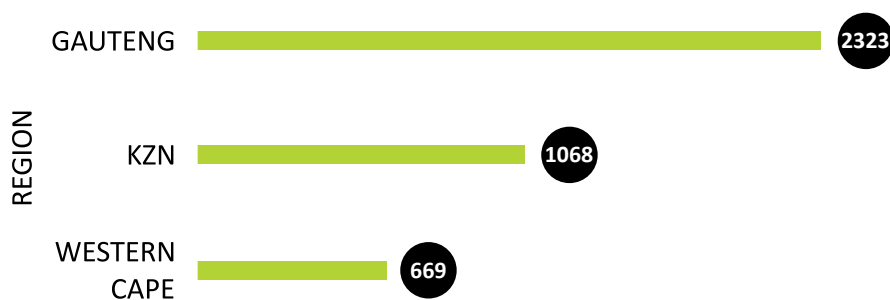
During the financial year under review, a total of 4060 disputes were lodged with the CSOS. This number has increased from the number of application received from the previous financial year which number was 1 282.



New Applications Received 2017/2018

Provincial coverage

The Gauteng Region received 2323, new applications for dispute resolution during the period under review, the Kwazulu-Natal Region processed 1068 new applications and Western Cape Provincial Region only received 669 new applications.



NO OF APPLICATIONS PER REGIONAL OFFICE

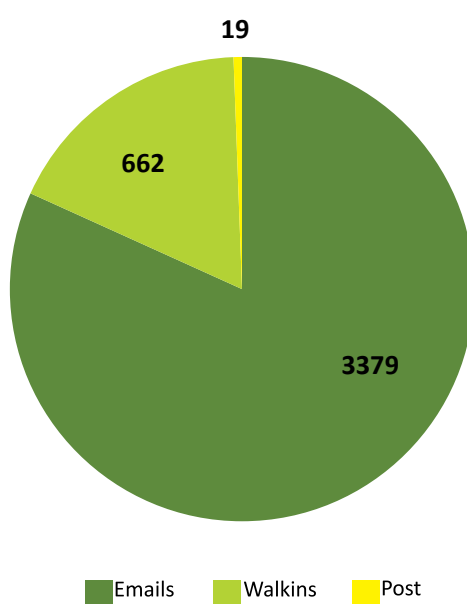
Provincial Coverage

Mode of contact

Applications for dispute resolution are received through e-mail, walk-ins, and post. It is important to note and document the number of applications received through various modes of contact for the following reasons:

- To keep track on the accessibility of the CSOS to the public,
- To monitor the applications intake process,

The table, and diagram below depict the number of applications for dispute resolution received through e-mail, walk-ins, or post during the 2017/18 financial year.

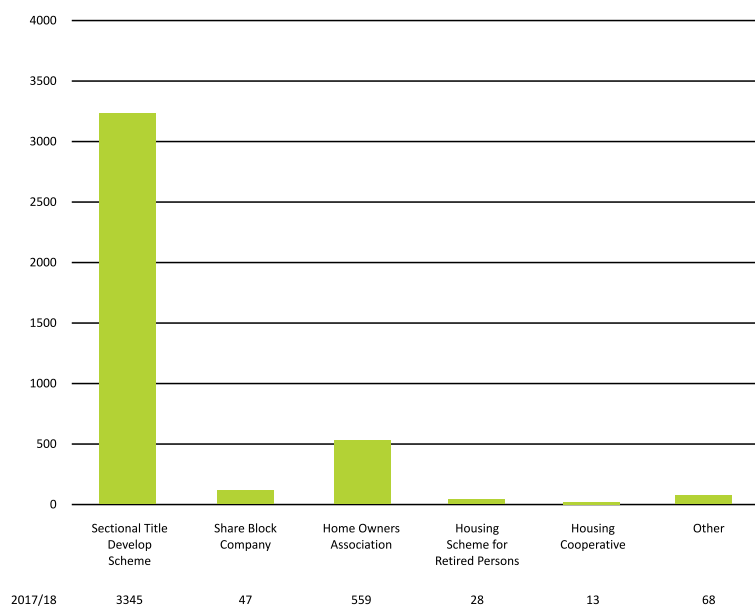


Mode of Contact

Type of schemes

Section 1 of the Community Schemes Ombud Service Act, No. 09 of 2011, defines the type of schemes

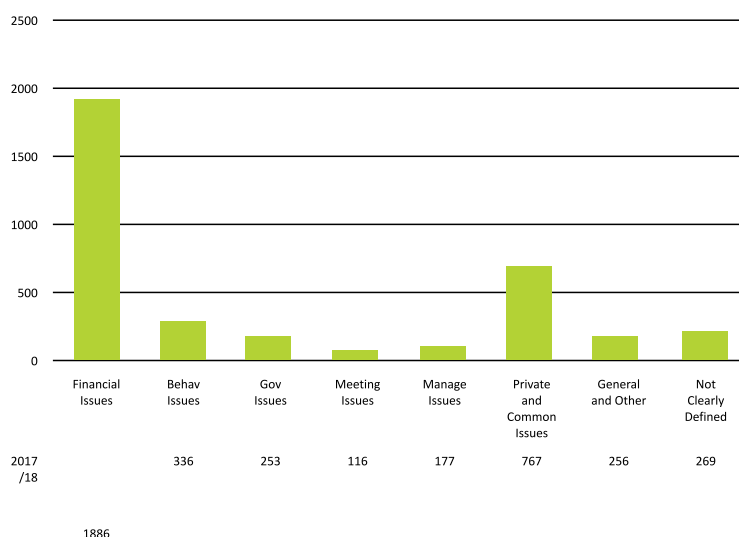
It is important for the CSOS to understand, and record the various scheme types that disputes are prevalent so that the CSOS is able to address those issues with a particular community scheme. The numbers per scheme type are depicted in the graph below:



Type of schemes

Classification of disputes

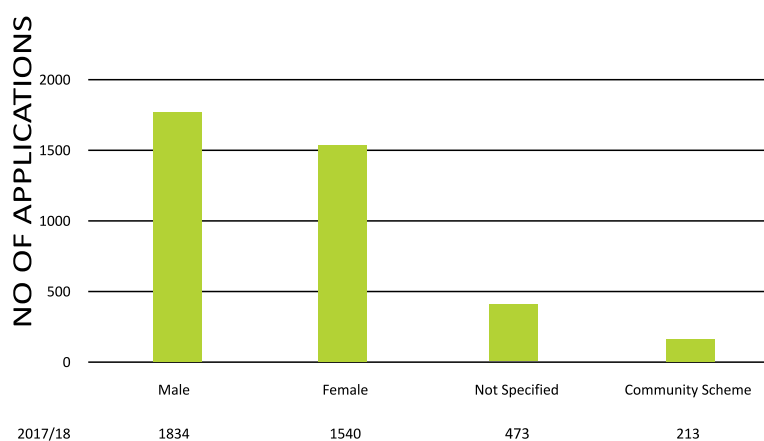
Section 39 of CSOS Act, sets out prayers for relief that can be sought by applicant in dispute resolution process. This information allows the CSOS to tailor training on areas where most disputes are prevalent.



Classification of disputes

Gender

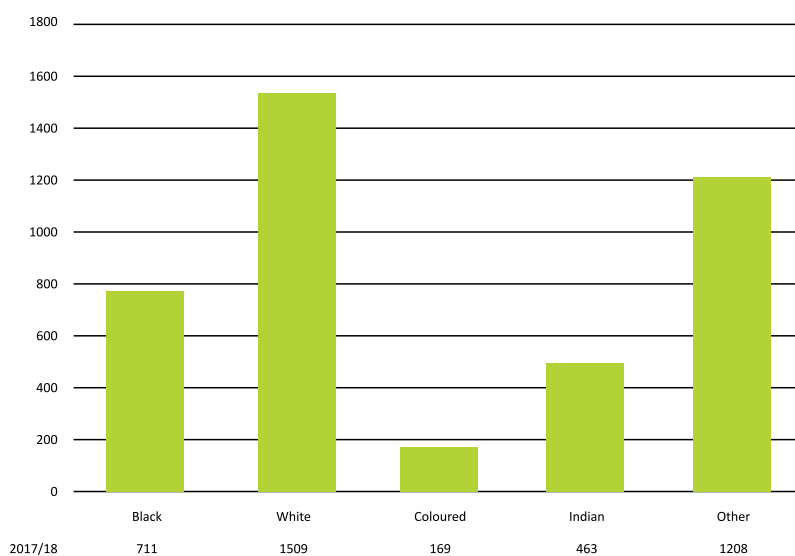
The number of applicants per gender, who submitted applications for dispute resolution, is depicted in the graph below:



Gender

RACE CLASSIFICATION

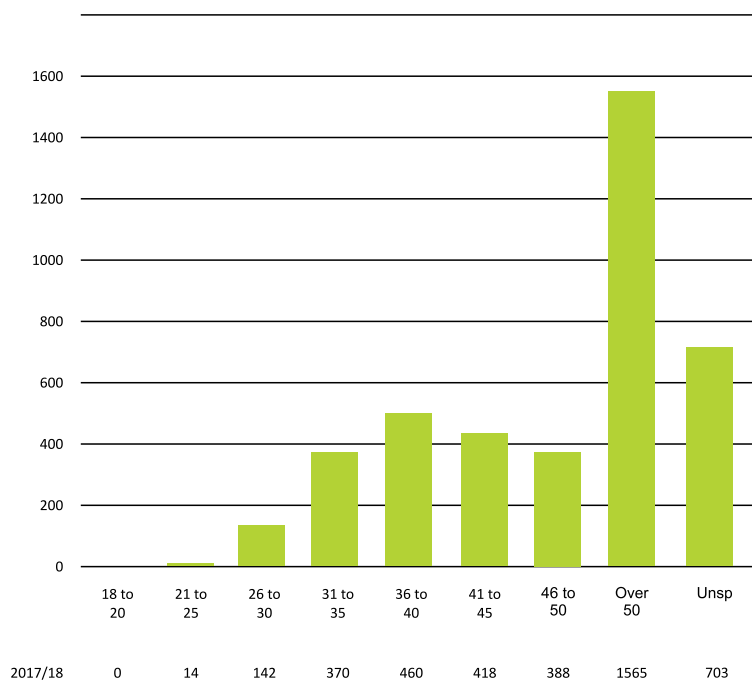
The number of applicants per race, who submitted applications for dispute resolution, is depicted in the diagram below:



Race

Age

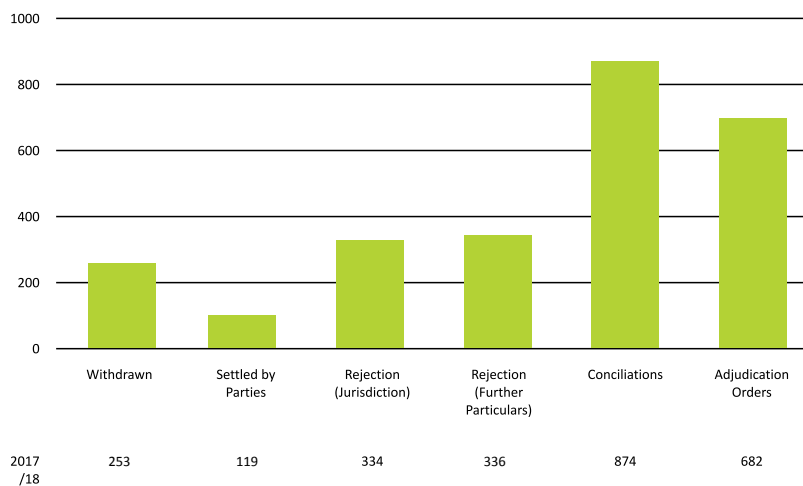
The number of applicants per age range, who submitted applications for dispute resolution, is depicted in the diagram below:



Age

Disputes resolved

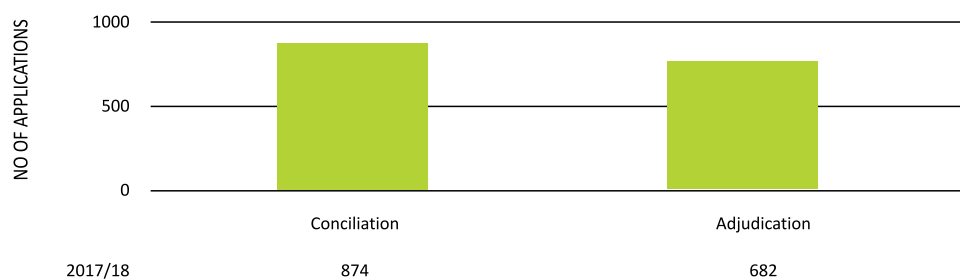
The CSOS Dispute Resolution Model (DRM) maps out the steps followed in the dispute resolution process, including, but not limited to, the manner, and instances, of finalization of matters received by the CSOS. The total number of matters finalised during the 2017/18 financial year is 2598. This constituted 64% of dispute resolved.



Disputes resolved

Manner finalised

The number of matter finalised through conciliation and adjudication, is depicted in the diagram below. The CSOS will endeavour to have 80% of the matters referred for dispute resolution finalised through conciliation as set in the ADR Model. This goal can be achieved with more effort and cooperation from community schemes.



Manner finalised



All targets relate to the 2017/18 Annual Performance Plan

STRATEGIC OBJECTIVE 1: REGULATE ALL COMMUNITY SCHEMES WITHIN SOUTH AFRICA

Key Performance Indicators	Baseline (Actual) 2016/17	Target 2017/18	Actual Q1	Actual Q2	Actual Q3	Actual Q4	Actual 2017/18v	Variance	Comment on variance
Number of schemes registered	7434 Schemes and Managing agents registered	[1] 30 000 schemes registered	8039	6257	2159	991	17 446	-12 554	There was a decline in the number of schemes submitting the registration documentation. CSOS will implement penalty provisions in the CSOS Act to enforce compliance with the registration process

STRATEGIC OBJECTIVE 2: CONTROL AND PROVIDE QUALITY ASSURANCE OF COMMUNITY SCHEMES GOVERNANCE DOCUMENTATION

Number of Governance Documentation Quality Assured (New Schemes and Amendments of rules)	208 Schemes governance documentation for new sectional titles approved and Approved Schemes governance framework	[2] 5000 governance documentation quality assured	325	388	398	450	1561	-3439	There were challenges with capacity to handle request for quality assurance. CSOS has since appointed more officers within
Number of Certificates issued for community schemes governance documentation that has been quality assured	New Indicator	[3] 5000 Certificates issued for community schemes governance documentation that has been quality assured	144	201	269	347	961	-4039	There were challenges with capacity to handle request for quality assurance. CSOS has since appointed more officers the unit to conduct quality assurance

STRATEGIC OBJECTIVE 3: PROVIDE A DISPUTE RESOLUTION SERVICE FOR COMMUNITY SCHEMES

Percentage of disputes resolved	36% Conciliations were finalised within 40 days	[4] 60% of Disputes received resolved	67%	66%	59%	64%	64%	4%	The appointment of Part-Time Adjudicators ensured that more cases are resolved.
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STRATEGIC OBJECTIVE 4: PROVIDE STAKEHOLDER TRAINING, CONSUMER EDUCATION AND AWARENESS FOR PROPERTY OWNERS, OCCUPIERS AND OTHER STAKEHOLDERS IN COMMUNITY SCHEMES

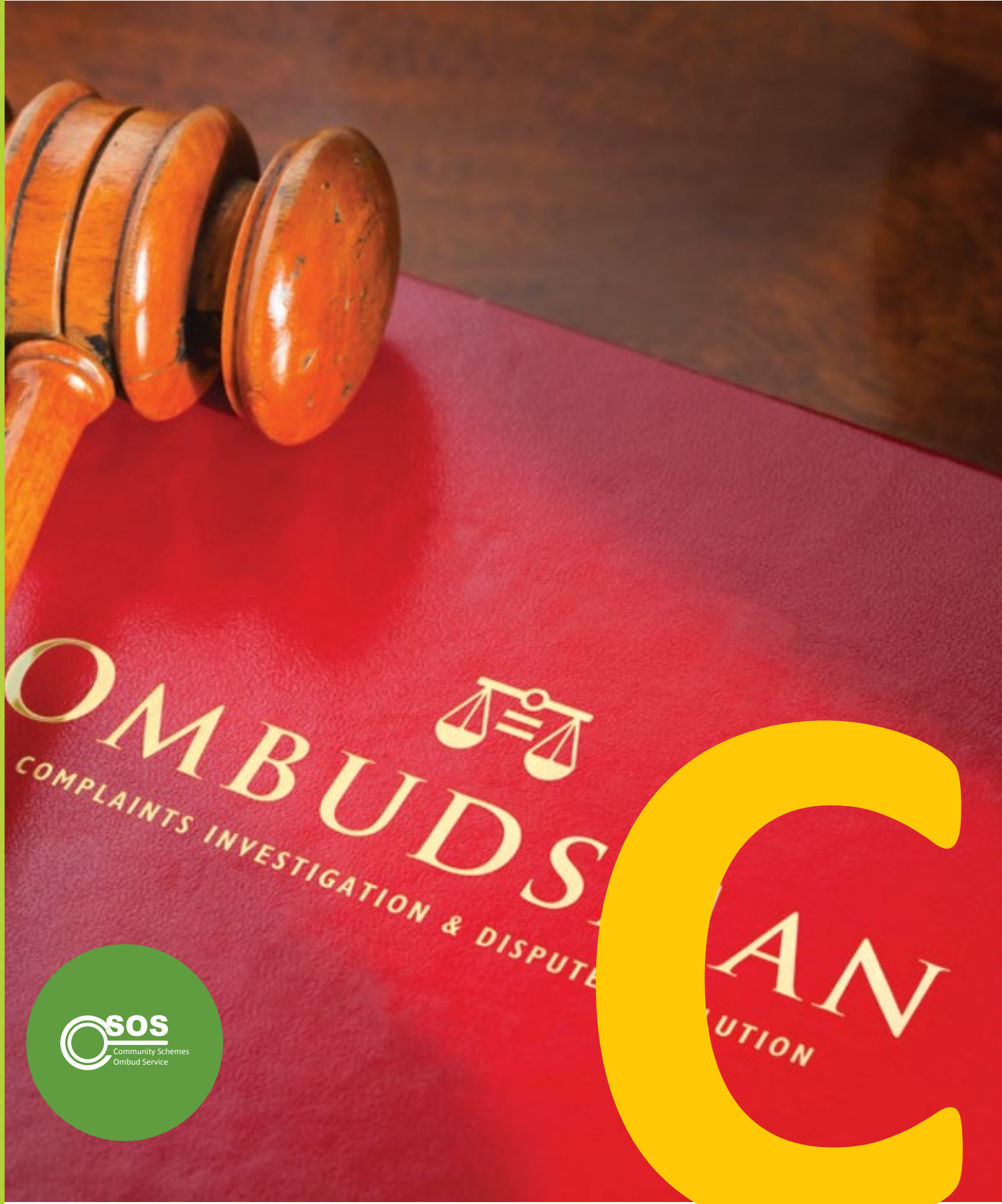
Key Performance Indicators	Baseline (Actual) 2016/17	Target 2017/18	Actual Q1	Actual Q2	Actual Q3	Actual Q4	Actual 2017/18v	Variance	Comment on variance
Number of consumer awareness campaign and activations	2 consumer awareness campaigns	[5] Four (4) consumer awareness campaigns with 2 activations	No Target	One (1) bulk Email/SMS campaign activation; One (1) radio live read campaign activation; One (1) print advert campaign	One (1) bulk Email/SMS campaign activation; One (1) radio live read campaign activation; One (1) print advert campaign	One (1) radio live read activation; One (1) print advert campaign, One (1) social media campaign	Four (4) consumer awareness campaigns with 2 activations	None	Consumer awareness campaigns were conducted nationally according to plan. Results in terms of stakeholder reach reported on the quarterly reports
Number of national consumer / stakeholder activations	New Indicator	[6] Nine (9) national consumer / stakeholder activations	No Target	Three (3) national consumer / stakeholder activations	Three (3) national consumer / stakeholder activations	Three (3) national consumer / stakeholder activations	Nine (9) national consumer / stakeholder activations	None	Stakeholder activations were conducted nationally according to plan. Results in terms of stakeholder reach reported on the quarterly reports
Number of stakeholder e-newsletter publications	New Indicator	[7] Three (3) stakeholder e-newsletter publications	No Target	One (1) stakeholder e-newsletter publications	One (1) stakeholder e-newsletter publications	One (1) stakeholder e-newsletter publications	Three (3) stakeholder e-newsletter publications	None	e-newsletters were distributed to all CSOS stakeholders in the current databased as planned
Number of stakeholder engagement campaigns	New Indicator	[8] Twelve (12) Stakeholder engagement events	Four (4)	Six (3)	Six (2)	Zero (0)	Nine (9)	-3	The effort was on the Roadshows which were held in all Provinces, reported under Nine (9) national consumer / stakeholder activations.

STRATEGIC OBJECTIVE 5: ENSURE THAT THE CSOS IS AN EFFECTIVE AND SUSTAINABLE ORGANISATION

Key Performance Indicators	Baseline (Actual) 2016/17	Target 2017/18	Actual Q1	Actual Q2	Actual Q3	Actual Q4	Actual 2017/18v	Variance	Comment on variance
Number of functional facilities available and accessible to members of the public, to deliver the CSOS services	CSOS Business Model drafted, developed and approved.	[9] Three (3) CSOS points of presence established	No Target	No visible CSOS point of presence established	No visible CSOS point of presence established	No visible CSOS point of presence established	No visible CSOS point of presence established	-3	The revised budget was approved in the second quarter and the organisation focused more on capacitating the current understaffed offices. Negotiations were conducted with other entities for points of presence but no agreements were signed.
% of uptime of ICT systems	New Indicator	[10] Achieve 99% uptime of ICT systems	99%	99.86%	99.80%	100%	99.67%	0.67%	System uptime effectively managed as a result of redundancy within the server infrastructure.
Developed and approved Revenue Management model	CSOS funding model is being implemented for levies collections and service fees.	[11] Implemented Revenue Management Model in Collection arrangement R90 000 000 Levies Collection)	R 31 405 551 collected as CSOS Levy Income	R 33 577 906 collected as CSOS Levy Income	R 47 349 328 collected as CSOS Levy Income	R 58 491 587 collected as CSOS Levy Income	R 170 824 372 collected as CSOS Levy Income	R 80 824 372 collected over the projected R 90 000 000	Levy collection exceeded the projected amount as the industry has responded well to the paying of levies since the CSOS started collecting

Part C:

GOVERNANCE



1. INTRODUCTION

The CSOS's corporate governance is applied through the precepts of the Public Finance Management Act (PFMA). The Executive Authority and the Accounting Authority of the CSOS are responsible for its corporate governance.

2. EXECUTIVE AUTHORITY

The Minister of Human Settlements is the Executive Authority of the CSOS and is concerned with the organisation's deliverables as contained in the Annual Performance Plan (APP) and the Medium Term Strategic Framework (MTSF), its financial viability, risks and policies. The CSOS, through the Executive Authority, is required to provide Parliament with full and regular reports on its performance.

In terms of the CSOS Act, the Executive Authority can appoint or dismiss members of the Board, including the Chairperson, Vice-Chairperson and Non-executive Board members. The Minister also appoints the CEO on terms and conditions as may be determined by the Board. Whenever it is necessary to appoint a member to the Board, the Minister, by notice in the Government Gazette and national news media, invites persons or bodies who have an interest in the operations of the CSOS to nominate candidates who comply. The Minister then publishes a list of appointed (or reappointed) Board members in the Government Gazette. If a position on the Board becomes vacant before the expiry of the term of office, the Minister may appoint any other competent person to serve for the unexpired portion of the term of office of the previous member, irrespective of when the vacancy occurs.

In line with National Treasury Regulations 26.1.1 and 30.2.1, the CSOS has submitted quarterly reports on actual performance against predetermined objectives, including a statement of management accounts, to the Executive Authority.

3. ACCOUNTING AUTHORITY

The CSOS Board acts as the Accounting Authority of the CSOS, exercising overall authority and control over the financial position, operation and management of the CSOS and is accountable to the Executive Authority for the performance of the CSOS. The Board is representative in terms of race, gender and geographic spread. Its skills profile and experience include financial management, risk management, people management, experience in dispute resolution in community schemes, public education and training, management of community schemes, compliance and Law.

4. THE BOARD

The CSOS Board consists of seven (7) non-executive members and two (2) executive members i.e. the Chief Ombud and the Chief Financial Officer. The Minister appoints the non-executive members including the Chairperson and the Deputy-Chairperson. The non-executive members hold office for a term not exceeding three (3) years. However, any non-executive member of the Board may be re-appointed but may not serve for more than two (2) consecutive terms. The non-executive members are appointed on a part-time basis and receive allowances as determined by the Minister from time to time in consultation with the Minister of Finance as required by Section 7(7) (d) of the CSOS Act, No. 9 of 2011.



Rev Vukile Mehana
CHAIRPERSON

B. Theology; AMP; Top Management Program on Public Enterprises; MBA; D.Phil



Adv Nomazotsho Memani
DEPUTY CHAIRPERSON

BA; LLB; Certificate in Legal Writing; Certificate in Numeracy Skills



Adv. Seeng Letele
EXECUTIVE

BA (Law), LLB, LLM, MBA



Themba Mabuya
EXECUTIVE

B.Com; B.Admin (Hons)



Taurean Holmes
NON-EXECUTIVE

CA (SA)



Rajesh Jock
NON-EXECUTIVE

B.Com; Postgraduate Diploma in Marketing; Postgraduate Diploma Company Law; National Diploma in technology; Master of Philosophy



Marina Constas
NON-EXECUTIVE

BA (Law); LLB; Mediation Certificate



Thandile Sunduza
NON-EXECUTIVE

National Diploma in Sports Administration; National Diploma in Marketing



Bhekumusa Dlamini
NON-EXECUTIVE

B.Proc (Admitted Attorney)

BOARD ATTENDANCE REPORT 2017/2018

Member Name	Total Number of Scheduled Meetings	Total Meetings Attended
Board Meetings 2017-18		
Grant Rev Dr Mehana	8	8
Adv N Memani	8	7
Mr T Holmes	8	7
Mr B Dlamini	8	6
Mr R Jock	8	7
Ms M Constat	8	7
Ms T Sunduza	8	8

CSOS Board Committees

In compliance with corporate governance principles, the CSOS has established the following Board Committees:

- Human Resources and Remuneration Committee;
- Audit, Risk and Ethics Committee;
- Legislation, Regulation and Adjudication Committee; and
- Finance Committee.

Functions of the Human Resources and Remuneration Committee:

- To ensure the organisation's financial and economic viability through the application of appropriate human resource systems and controls;
- To facilitate the development and implementation of best human resources practices, employment equity, skills development and employee relations to ensure efficient and effective delivery of services;
- To determine the remuneration policy in accordance with job grading and job evaluation system;
- To ensure organisational and individual performance through the application of performance and monitoring systems;
- To facilitate the development and implementation of a viable human resource funding model;
- To review and recommend any significant expenditure for approval to the board;
- To review and recommend any significant human capital expenditure programme;
- To review and recommend the HR budget for approval by the board; and
- To review and recommend policies for approval by the board.

COMMITTEE MEETINGS

Member Name	Total Number of Scheduled Meetings	Total Meetings Attended
Mr R Jock	6	5
Ms M Constas	6	5
Adv N Memani	6	5
Ms T Sunduza	6	6

Functions of the Audit, Risk and Ethics Committee:

- To create a conducive working environment for the undertaking of the audit function;
- To manage and mitigate risk by facilitating the development and implementation of appropriate systems and controls;
- To ensure organisational compliance with applicable laws and regulatory frameworks;
- To monitor implementation of the audit plan, risk management plan and fraud prevention plan;
- To ensure the implementation and adherence to CSOS values and promote ethical behaviour; and
- To act as a channel of communication between the CSOS Board, management and the Internal and External Auditors.

AUDIT, RISK AND ETHICS COMMITTEE MEETINGS

Member Name	Total Number of Scheduled Meetings	Total Meetings Attended
Mr T Holmes	3	3
Mr R Jock	3	3
Mr B Dlamini	3	3
Ms M Constas	3	3
Ms T Sunduza	3	3

Functions of the Legislation, Regulation and Adjudication Committee:

- To assist the Board to discharge its responsibility relating to the governance of community schemes and the adjudication of community scheme dispute;
- To develop and implement guidelines for the promotion of good governance of community schemes;
- To co-ordinate dispute resolution services;
- To co-ordinate the conducting of research and monitoring and evaluation of the activities of the organisation to assess its impact; and
- To coordinate the provisioning of general legal advice and contract management and administration.

LEGISLATION AND ADJUDICATIONS COMMITTEE (LAC COM) MEETINGS

Member Name	Total Number of Scheduled Meetings	Total Meetings Attended
Mr T Holmes	4	3
Adv N Memani	4	3
Mr B Dlamini	4	4
Ms M Constas	4	4

Functions of the Finance Committee:

- Review management's plans to manage the service's exposure to financial risk;
- Review the CSOS' cash plan, balance sheet, and budget allocation;
- Review the CSOS' capital allocation strategy, including the cost of capital;
- Recommend investment actions to the Board of Directors;
- Review the CSOS's investment strategy, financial performance and funding; and
- Oversee ICT operations and governance.

FINANCE COMMITTEE MEETINGS

Member Name	Total Number of Scheduled Meetings	Total Meetings Attended
Mr B Dlamini	8	8
Adv N Memani	8	7
Mr R Jock	8	8
Mr T Holmes	8	8
Ms T Sunduza	8	6

5. RISK MANAGEMENT

The CSOS has implemented an integrated internal risk management strategy through which risks and opportunities are identified on an ongoing basis. This strategy is underpinned and guided by the following key principles:

- A strong and solid risk culture is a critical pillar of good governance;
- Consideration of real and potential risks in decision making processes;
- The acceptance that risk management is mandatory;
- Continuously monitoring of the risk exposure as impacted by the changing internal and external environments;
- Acceptance that accountability for risk management cannot be deferred or shifted; and
- The importance of maintaining appropriate balance between risk and control.

The CSOS's risk management unit reports to the Audit, Risk and Ethics Committee that reviews and monitors the strategic risk register: this body has satisfied itself of the risk mitigating measures employed to ensure that risks are within tolerable levels.

6. INTERNAL AUDIT

Key Activities and Objectives of Internal Audit

The CSOS's Internal Audit Activity is an integral part of corporate governance. It provides an independent, objective assurance and consulting service designed to add value and improve the CSOS's operations. It helps the CSOS accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, compliance and governance processes. Ultimately, the assurance provided by Internal Audit serves to assist the Board in fulfilling its disclosure obligations under its corporate governance codes and to report annually to the Minister of Human Settlements.

The Internal Audit Activity assesses and makes appropriate recommendations for improving risk and governance processes to accomplish the following objectives:

- Promote appropriate ethics and values within the organisation;
- Achieve effective organisational performance management and accountability;
- Communicate risk and control information to appropriate areas of the organisation;
- Assist Management in achieving the organisation's strategic objectives;
- Secure reliability and integrity of financial and operational information;
- Operate effectively and efficiently;
- Safeguard assets; and
- Comply with laws, regulations, policies, procedures, and contracts.

CSOS Internal Audit endeavours to conform to the International Standards for Professional Practice of Internal Auditing and performs its activities in compliance with the PFMA and Treasury Regulations. Accordingly, Internal Audit adopted a risk-based approach in executing its mandate within the organisation.

Internal Audit assists Management in identifying, evaluating and assessing significant organisational risks and provides reasonable assurance as to the adequacy and effectiveness of related internal controls, i.e. whether controls are appropriate and functioning as intended. Where controls are found to be deficient or not operating as intended, recommendations for enhancement or improvement are provided.

7. COMPLIANCE WITH LAWS AND REGULATIONS

The Community Schemes Ombud Service Act, 2011 (Act No. 9. of 2011) and the Sectional Titles Schemes Management Act, 2011 (Act No. 8 of 2011) with respective Regulations, were proclaimed on 07 October 2016. This means that CSOS became officially and legally operational. Other Primary legislations that apply to CSOS are:

- Public Finance Management Act, 1999 (Act No. 1 of 1999)
- Community Schemes Service Act, 2011 (Act No. 9 of 2011)
- Sectional Titles Act, 1986 (Act No. 95 of 1986)
- Sectional Titles Schemes Management Act, 2011 (Act No. 8 of 2011)
- Share Blocks Control Act, 1980 (Act No. 59 of 1980)
- Housing Development Schemes for Retired Persons Act, 1988 (Act No. 65 of 1988)
- South African Co-operatives Act, 2005 (Act No. 14 of 2005)
- Companies Act, 2008 (Act No. 71 of 2008)

8. SUPPORT FUNCTIONS

Information Technology

Governance

The IT Governance practices continue to be maintained and improved to ensure matured IT Governance processes. The business unit has continued with the implementation and improvement on IT Governance processes and practices as prescribed by the Department of Public Services and Administration, Corporate Governance of ICT Policy Framework and in alignment with the King IV code of best practice on IT Governance. As stated, IT Governance processes and practices are well entrenched at the CSOS and IT performance reports are tabled at the EXCO, Board and Board Committees to enable these governance structures to judiciously measure IT Performance and fulfill their oversight IT Governance roles and responsibilities.

ICT Business Related Risk and Information Security

CSOS is developing the IT Security Framework that is meant to protect the Confidentiality, Integrity and Availability of Information and Information Resources. The Framework is aligned to the Code of Good Practice Information Security Standard (ISO/IEC 27002). Information security processes and controls have been implemented in accordance with the approved Information Security policies in order to:

- Ensure that critical information is withheld from those who should not have access to it and that business transactions can be trusted;
- Protect the confidentiality, availability and integrity of GEP information and information resources ;
- Ensure that IT services are usable, can appropriately resist attacks and recover from failures;
- Comply with the legislative, contractual and statutory requirements regarding GEP information and information resources.

The continuous improvement of the processes and controls is an ongoing process and has resulted most of the Auditor General Findings successfully addressed, However, plans are in place to mitigate all Audit Findings. In addition, successful implementation of risk mitigation strategies and processes have seen a real reduction in both the number of IT-related business risks and the impact (likelihood and frequency) of the residual risks.

Marketing and Communication

During the year under review, the Marketing and Communication unit continued to pursue its APP targets of creating awareness and enhancing the image and reputation of the CSOS. Conversation and engagement with housing consumers and stakeholders on marketing platforms focussed on introducing the service (who we are, contact points) and unpacking the benefits of the service. The promotion of the CSOS was undertaken on Radio, Print Media, Social Media and a national Stakeholder Roadshow.

The CSOS ran a radio campaign on MetroFM, SAFM, Radio 2000, 702 and Cape Talk. The objective of the campaign was to create brand awareness with an underlying message to encourage community scheme registration. The campaign was executed in phases across the various radio platforms, with an effective reach of 859 216 radio listeners.

To assist registered community schemes to understand CSOS processes, a national roadshow was undertaken in all nine provinces reaching 612 stakeholders. The key issues that the CSOS needed to provide clarity on were the process of registration, the application and payment of levies, the reserve fund and governance issues in respect of scheme meetings.



Part D:

HUMAN RESOURCE MANAGEMENT



1. INTRODUCTION

The Human Resources' ultimate goal is to provide service excellence and support the CSOS' functions by attracting and retaining suitably qualified individuals who will add value to the organisation.

During the past year, we concentrated mainly on a holistic approach to the human resources management, including performance management, induction, remuneration management and employee relations.

The CSOS' performance management system aims at facilitating the attraction and retention of high performing individuals. It provides the basis within which the CSOS can measure, monitor and reward performance.

The next financial year's focus will be on programmes aimed to enhance the quality of work-life balance for employees.

We are continuously reviewing our policy environment to ensure compliance with the labour legislation and current HR trends. The future human resources plan will focus on a holistic approach in managing talent to build high performing and diverse workforce.

2. HUMAN RESOURCE STATISTICS

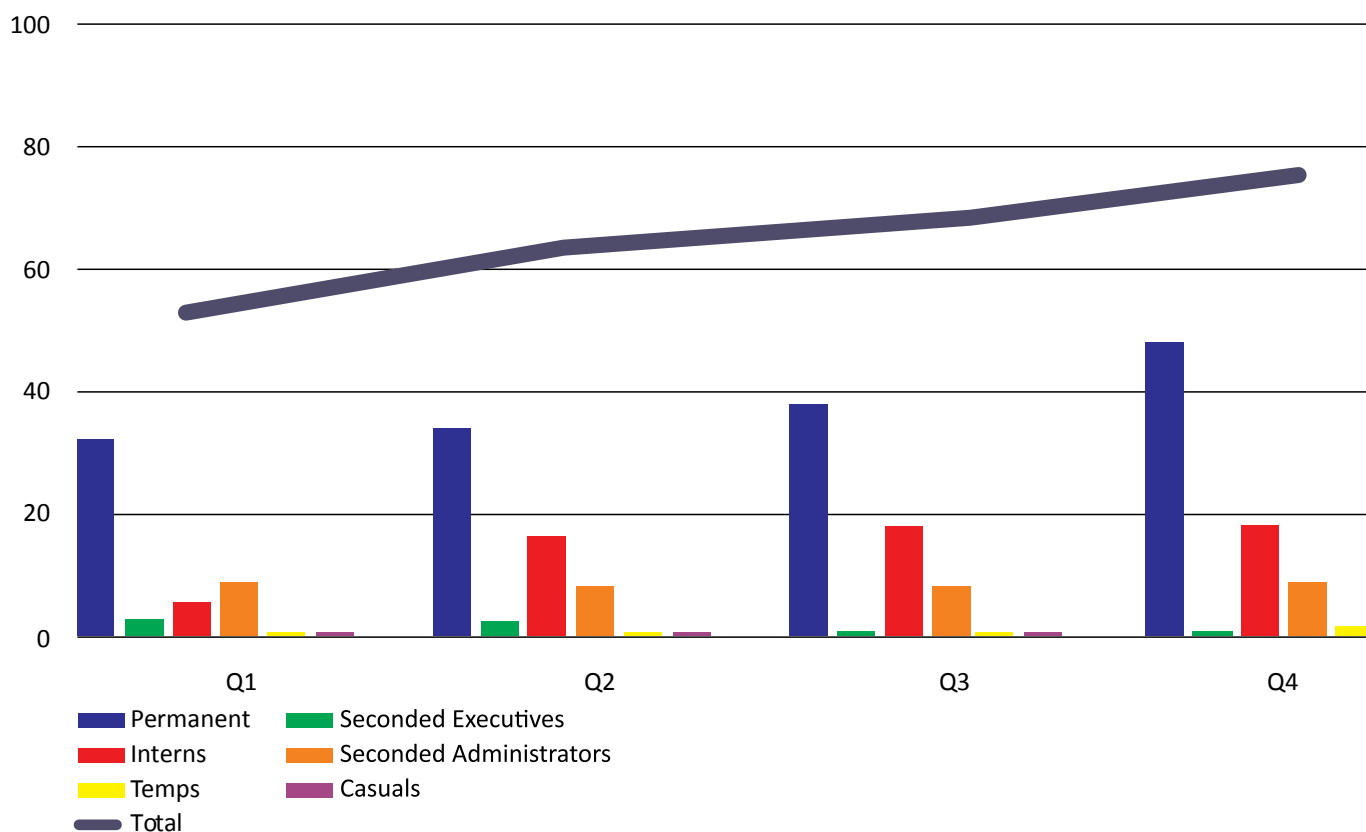
2.1 Total employment and vacancies

The total staff complement as at the end of the financial year, is demonstrated on the Table 1 below;

	PERMANENT	SECONDED EXECUTIVES	INTERNS	SECONDED ADMINISTRATORS	TEMPS	CASUALS	TOTAL
Q1	32	3	6	9	1	1	52
Q2	33	3	16	9	1	1	63
Q3	37	1	18	9	1	1	67
Q4	43	1	18	9	2	0	73

Staff compliment as at the 31 March 2018

The following graph captures the total CSOS staff complement as at 31 March 2018, the end of Quarter four (Q4),



Staff compliment growth within 2017-18

- There has been a remarkable 41% growth in the staff complement within the 2017-18 financial year
- There were two (2) resignations, representing a staff turnover rate of 4% during the year.

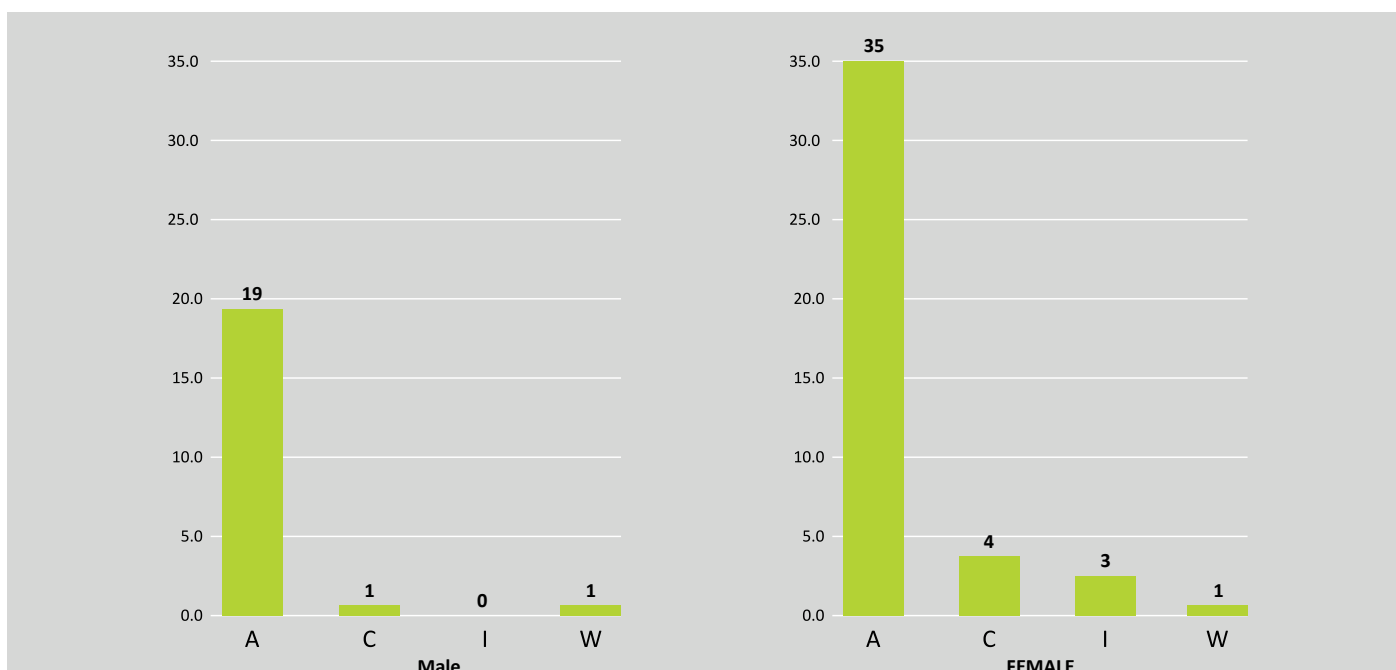
3. EMPLOYMENT EQUITY

The CSOS is committed to the Code of Good practice on Employment Equity.

Quarterly updates are provided to Senior Management and to the CSOS Board on a quarterly basis on the implementation and to monitor progress.

The actual EE breakdown as at the 31 March 2018 was as follows:

CSOS EE statistics



The graph below indicates how the CSOS has proceeded in terms of the alignment to the National demographics and aim to source and recruit from the under-represented groups.

Statistics SA Demographic of SA population vs CSOS actuals						CSOS proposed EE targets against plan	
	Male	CSOS actual	Female	SA Total	CSOS total		Target
African	80.8%	19 (25%)	39 (57%)	80.8%	73 (83%)	African	89 %
Coloured	8.7%	2 (1%)	2 (6%)	8.8%	5 (8%)	Coloured	4%
Indian	2.6%	0 (0%)	2 (5%)	2.5%	3 (5%)	Indian	4%
White	7.9%	1 (1%)	1 (1%)	8.0%	2 (3%)	White	3%
Disabled		0 (0%)	0 (0%)	2%	0	Disabled	2% (not implemented)

CSOS vs national demographics

4. TALENT ACQUISITION

The CSOS recognises that attracting and retaining talented, skilled and suitably qualified employees is a pre-requisite for achieving business growth and for meeting its strategic goals and in fulfilling its mandate.

Competency assessments for Executives and Managers are conducted to ensure the placement of suitable candidates for the roles.

Despite the human resources capacity problems from the previous financial year, the CSOS achieved its set organisational targets. Furthermore, the staff vacancy rate has decreased significantly over the last financial year.

5. INTERSHIP PROGRAMME

In line with the national effort to broaden skills development as prescribed in the Skills Development Act of 1998, the CSOS has a successful internship programme which assists young South Africans to make a practical contribution to the advancement of the organisation.

During the period under review, eighteen tertiary graduates were enrolled for the CSOS Internship Programme, in various departments within the organisation.

6. POLICY DEVELOPMENT

The Human Resources Department updated its policies to ensure alignment to the current labour legislation and to accommodate the ever evolving CSOS' operations.

The following policies were approved by the CSOS Board during the year under review:

- Compensation Management Policy;
- Revised Acting Policy;
- Revised Leave Management Policy.

7. HUMAN RESOURCES DEVELOPMENT (TRAINING)

Training and development are key components of CSOS' employee's value proposition.

Building skills and behaviours which promote a culture of continuous learning and leadership is key to achieving the CSOS' strategic goals and objectives.

A Training and Development policy was developed, which takes into consideration an Accelerated Leadership Development Programme (ALDP) for Executives and Managers, as well as a Continuous Professional Development Programme (CPDP) for junior and entry-level management staff.

During the year under review, a skills audit exercise was conducted and the results thereof supported that the CSOS has a highly qualified workforce.

8. EMPLOYEE WELLNESS

A safe and healthy workplace is critical for an organisation. To this fact, an Occupational Health and Safety policy was developed and approved. The terms of reference for an employee wellness service provider has been initiated and a service provider will be appointed in the next financial year.

9. HUMAN RESOURCES ACHIEVEMENTS

- The placement of Executives, especially for the core functions;
- The development and revision of some HR policies;
- The appointment of a service provider to re-evaluate and grade all the CSOS roles and to conduct a salary parity exercise;
- The awarding of performance bonuses, for the first time which is aimed to encourage good performance;
- A Value's programme, which aimed amongst other things, to set the tone of the CSOS' culture, as a unique professional organisation, to provide an opportunity for staff to set the behaviours attached to each value and to build team morale and the sense of oneness within the CSOS, was held in Q3.

Part E:

FINANCIAL STATEMENTS



Community Schemes Ombud Services

Annual Financial Statements for the year ended 31 March 2018

CONTENTS

The reports and statements set out below comprise of the annual financial statements presented to the National Department of Human Settlements:

The Auditor-General Report to Parliament on the Community Schemes Ombud Service	43
Audit, Risk and Ethics Committee Report	48
Accounting Authority's Responsibilities and Approval	50
Accounting Authority's Report	51
Statement of Financial Position	52
Statement of Financial Performance	53
Statement of Changes in Net Assets	54
Cash Flow Statement	55
Statement of Comparison of Budget and Actual Amounts	56
Accounting Policies	57
Notes to the Annual Financial Statements	65

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE COMMUNITY SCHEMES OMBUD SERVICE

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Adverse opinion

1. I have audited the financial statements of the Community Schemes Ombud Services set out on pages 52 to 80, which comprise the statement of financial position as at 31 March 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, because of the significance of the matter described in the basis for adverse opinion section of this auditor's report, the financial statements do not present fairly, in all material respects, the financial position of the Community Schemes Ombud Service as at 31 March 2018 and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Basis for adverse opinion

Non-exchange revenue and non-exchange receivables from levies

3. I was unable to obtain sufficient appropriate audit evidence for non-exchange revenue relating to levies due to the status of the accounting records. The public entity did not have adequate systems of internal control for the recording of all transactions and events and could not reconcile the transactions and events to the financial statements. I could not confirm revenue relating to levies by alternative means. The entity did not measure revenue on an accrual basis as required by GRAP 23, Revenue from non-exchange transactions. Consequently, I was unable to determine whether any adjustment was necessary to non-exchange revenue from levies stated at R170 824 000 (2017: R30 392 000) and trade and other receivables from non-exchange transactions stated at R16 854 000 (2017: R14 137 000) in the financial statements.

Context for the opinion

4. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
5. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Emphasis of matter

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

Material impairment

8. As disclosed in note 6 to the financial statements, material impairment to the amount of R81 765 000 was incurred as a result of write-off of irrecoverable investments.

Responsibilities of the accounting authority for the financial statements

9. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
10. In preparing the financial statements, the accounting authority is responsible for assessing the Community Schemes Ombud Service's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

11. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
12. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
14. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
15. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2018:

Strategic objectives	Pages in annual performance report
Objective 1 – regulate all community schemes within South Africa	24
Objective 2 – control and provide quality assurance of community schemes governance documentation	24
Objective 3 – provide a dispute resolution service for community schemes	24
Objective 4 – provide stakeholder training, consumer education and awareness for property owners, occupiers and other stakeholders in community schemes	25

16. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:
 - Objective 1 – regulate all community schemes within South Africa.
 - Objective 2 – control and provide quality assurance of community schemes governance documentation.
 - Objective 3 – provide a dispute resolution service for community schemes.
 - Objective 4 – provide stakeholder training, consumer education and awareness for property owners, occupiers and other stakeholders in community schemes

Other matters

18. I draw attention to the matters below.

Achievement of planned targets

19. Refer to the annual performance report on pages 24 to 26 for information on the achievement of planned targets for the year and explanations provided for the under achievement of a significant number of targets.

Adjustment of material misstatements

20. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Objective 2: control and provide quality assurance of community schemes governance documentation; Objective 3: provide a dispute resolution service for community schemes and Objective 4: provide stakeholder training, consumer education and awareness for property owners, occupiers and other stakeholders in community schemes. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

21. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

22. The material findings on compliance with specific matters in key legislations are as follows:

Annual Financial Statements

23. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1)(a) and (b) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving an adverse opinion.

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

Revenue management

25. Effective and appropriate steps were not taken to collect all revenue due, as required by section 51(1)(b)(i) of the PFMA.

Expenditure management

26. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R26 757 000 as disclosed in note 28 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by the entity overspending on the approved budget.

27. Expenditure was incurred in excess of the approved budget, in contravention of section 53(4) of the PFMA.

Asset management

28. Funds were invested with banking institutions that are not approved by the National Treasury, as required by Treasury Regulations 31.2.1.

Procurement and contract management

29. Some of the quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

Other information

30. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

31. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

32. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

33. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

34. I considered internal controls relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the adverse opinion and the findings on compliance with legislation included in this report.

Leadership

35. There are inadequate financial reporting processes in place to ensure that all errors in the financial statements are prevented and/or detected, thereby ensuring that no material misstatements are identified in financial statements submitted for audit.
36. There was inadequate review of the financial statements and the annual performance report prior to submitting them for auditing, as evidenced by the material misstatements identified in both the financial statements and annual performance report which were corrected due to the audit process.
37. Leadership did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities as evidenced by the lack of approval by the accounting authority in investing surplus funds.

Financial and performance management

38. Financial statements submitted for audit contained uncorrected material errors that resulted in the entity obtaining a modified audit opinion. This was due to inadequate processes established to ensure that the entity's transactions are accounted for in terms of the relevant prescripts.

Other reports

39. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
40. A forensic investigation was performed by the Auditor-General of South Africa based on allegations of possible tender irregularities and irregular appointments of service providers in the 2015-16 financial year. The investigation has not been finalised at the date of the auditor's report, with preliminary findings presented to the public entity. The investigation is expected to be finalised by 31 August 2018.

Auditor - General

Pretoria
14 August 2018



Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority.
 - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Community Schemes Ombud Service ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

AUDIT, RISK AND ETHICS COMMITTEE REPORT

Responsibility of audit, risk and ethics committee

The Audit, Risk and Ethics Committee reports that it has complied with its responsibilities arising from Section 38 (1) (a) (ii) of the Public Finance Management Act (PFMA) and National Treasury Regulation 27.1. The Audit, Risk and Ethics Committee also reports that it has adopted appropriate formal terms of reference as its Audit, Risk and Ethics Committee Charter, it has regulated its affairs in compliance with its charter and it has discharged all of its responsibilities as contained therein.

Key Activities and Objectives of the Audit Committee

Among other matters, the Audit Committee is responsible for monitoring and reviewing the effectiveness of the CSOS's Internal Audit function. Each year it considers and approves the Internal Audit Plan, receives and reviews Internal Audit progress reports and approves any changes or shortfalls in the Internal Audit Plan.

Governance of risk management

The Audit, Risk and Ethics Committee is responsible for the oversight of the risk management function. Management has designed and implemented controls to manage the risks faced by the CSOS. The Risk Management Unit reported to the Audit, Risk and Ethics Committee on CSOS's management of risk, and has advised management on a continual basis on the best risk management practices. This included monitoring the progress on the implementation of future mitigation strategies to provide assurance that CSOS is effectively managing their risks. The Audit, Risk and Ethics Committee has reviewed the strategic risk register, considered new and emerging risks, and has satisfied itself of the risk mitigating measures employed to ensure risks are within tolerable levels, they are partially adequate and partially effective .

The CSOS ensures progress in the management of risks through its risk monitoring activities. It is committed to improving its risk performance on an ongoing basis, where high risk areas are targeted through focused resources and effort.

The effectiveness of internal control

The system of controls within the CSOS is designed to provide reasonable assurance that assets are safeguarded and that liabilities and working capital are properly managed in line with the PFMA and the protocol on corporate governance. This is achieved by a risk-based Internal Audit plan as approved by the Audit, Risk and Ethics Committee (ARECo), Internal Audit assessing the adequacy of controls mitigating the risks and the Audit, Risk and Ethics Committee monitoring the implementation of corrective actions.

From our review of the reports of the Internal Auditors, the Audit Report on the Annual Financial Statements and the Management Report of the Auditor-General of South Africa (AGSA), we are of the view that the system of internal control as applied over financial and non-financial matters and enterprise risk management at the CSOS is partially satisfactory. The Committee has noted management's commitment to address the lack of control effectiveness, where they exist. The Committee will be monitoring management's progress in resolving these issues on an on-going basis.

The effectiveness of internal audit

In the period under review, the Audit, Risk and Ethics Committee assured itself of the internal controls applied over financial and non-financial operational matters and processes. Although the operational plan was implemented late in the year due to capacity constraints, the CSOS is satisfied that the Internal Audit Activity has operated effectively and that it has addressed the risks pertinent to the internal environment.

In the period under review, the Unit completed 80% of projects planned for the 2017-2018 financial year including ad-hoc projects as listed below:

Completed projects including ad-hoc

- Audit of Performance Information
- Revenue Management (including receivables)
- Leave Management
- Supply Chain Management Quarter 3
- Quarter 3 Financial statements review
- Expenditure Management
- Follow-up Audit:
Auditor General Management letter x 2
- Information Communication Technology (ICT)

- Marketing, Communication and Stakeholder Relations
- Annual Financial statements review

Ad-hoc Projects

- Izani Travel-Irregular Expenditure

Deferred Projects

- Dispute Resolution Process
- Assets Management
- Legal & Compliance Management
- Supply Chain Management Quarter 4
- Audit of Performance Information Quarter 4

In year management and monthly/quarterly report

The Chief Ombud and the Chief Financial Officer presented quarterly financial and performance information for review by the Audit, Risk and Ethics Committee and we were satisfied with the content and quality of the quarterly reports prepared and issued by the them. All the reports were submitted on time to the Executive Authority and National Treasury.

Evaluation of financial statements

Committee outcomes for the period:

- Reviewed and discussed the audited Annual Financial Statements to be included in the Annual Report with the AGSA and the Chief Ombud;
- Reviewed the AGSA's Management Report and Management's response thereto;
- Reviewed accounting policies and practices as reported in the Annual Financial Statements;
- Reviewed the CSOS's processes for compliance with legal and regulatory provisions;
- Reviewed the information on predetermined objectives as reported in the Annual Report;
- Reviewed adjustments resulting from the audit of the CSOS; and
- Reviewed, and where appropriate, recommended changes to the Annual Financial Statements as presented by the CSOS Management for the year ending 31 March 2018.

Report of the Auditor-General South Africa (AGSA)

The Committee has reviewed the CSOS's remedial implementation plan for audit issues raised in the prior year by the AGSA and is satisfied on the progress made on the implementation of the corrective actions. The remedial implementation plan on the detailed findings raised by the AGSA will continue to be monitored by the Audit, Risk and Ethics Committee on a quarterly basis.

The Audit, Risk and Ethics Committee concurs and accepts the conclusions of the AGSA on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the AGSA.



Mr Taurean D. Holmes

Chairperson of the Audit, Risk and Ethics Committee

ACCOUNTING AUTHORITY'S RESPONSIBILITIES AND APPROVAL

The Accounting Authority is required by the Public Finance Management Act, 1 of 1999 and related Treasury Regulations to maintain adequate accounting records and are responsible for the conduct and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with Statements of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Public Finance Management Act.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Authority acknowledges that it is ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. In order to enable the Accounting Authority to meet these responsibilities, the Board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner.

The Accounting Authority is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Accounting Authority has assessed the entity's ability to continue as a going concern and have no reason to believe that the entity will not continue to operate in the foreseeable future.

The Accounting Authority has reviewed the entity's cash flow forecast for the year to 31 March 2019 and, in the light of this review and the current financial position, it is satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 52 to 80, which have been prepared on the going concern basis, were approved by the Accounting Authority on 30 May 2018 and were signed on its behalf by:



Rev. Dr. V. Mehana
Chairperson of the board



Adv. S. Letele
Chief Ombud (Acting)

ACCOUNTING AUTHORITY'S REPORT

The Accounting Authority submits its report for the year ended 31 March 2018.

1. REVIEW OF ACTIVITIES

Main business and operations

The Community Schemes Ombud Service (CSOS) was established in terms of the Community Schemes Ombud Service Act, 2011, Act 9 of 2011 (CSOS Act), to regulate the conduct of parties within community schemes and to ensure good governance.

In order to deliver on its mandate, key amongst the priorities of the organization during the duration of the Strategic Plan are:

- To establish a world-class dispute resolution service within community schemes characterized by organizational excellence and a conducive organizational culture;
- To promote good governance of community schemes by developing and implementing appropriate guidelines to enhance stability and harmonious relations amongst the parties;
- To roll-out massive educational campaigns to educate and train stakeholders within community schemes and the public at large;
- To enhance community schemes tenure as alternative tenure option; and
- To develop and implement appropriate organizational systems, controls and measures to enhance financial, economic and organizational efficiency.

The CSOS regulations were proclaimed in October 2016. The dispute resolution and the levy funding model were finalised and approved by the Board.

CSOS has strived to ensure full compliance with all legislative requirements. Statutory reporting has been expeditiously executed in terms of legislations. All other codes relating to good governance i.e. PFMA, CSOS Act, have been largely practised and adhered to by the Board and the Executive.

2. ACCOUNTING AUTHORITY

The directors of the entity during the year and to the date of this report are as follows:

Non executive directors

Rev. Dr. V. Mehana (Chairperson)

Adv. N. Memani (Deputy Chairperson)

Mr. T. Holmes

Mr. R. Jock

Mr. B. Dlamini

Ms. M. Constas

Ms. T. Sunduza

Executive directors

Adv. S. Letele (Chief Ombud)

Mr. T. Mabuya (Chief Financial Officer)

3. SECRETARY

The secretary of the entity is Adv. R. Maruma of:

Business address 63 Wierda Road East
Wierda Valley
Sandton
2196

4. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The government grant for the year under review is R29,4 million (2016/17: R30,02 million).

The Regulations were approved by the Minister in the previous financial year. The CSOS Act and Sectional Titles Schemes Management Act were proclaimed by the President on 07 October 2016.

5. IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

Irregular, fruitless and wasteful expenditure incurred for the period under review are disclosed in notes 28 and 29 of the financial statements.

6. OTHER SIGNIFICANT MATTERS

CSOS has invested R100 million of its funds with VBS Mutual Bank (R80 million) and ABSA (R20 million). On 11 March 2018, the South African Reserve Bank in conjunction with the Minister of Finance, placed VBS Mutual Bank under curatorship in terms of Section 69 of the Banks Act, 1990. From that date, the control of VBS Mutual Bank was vested with the curator and the board of directors of VBS Mutual Bank was relieved of its duties.

Statement of Financial Position as at 31 March 2018

	Notes	2018 R '000	2017 R '000
Assets			
Current Assets			
Cash and cash equivalents	3	55,003	16,890
Receivables from exchange transactions	4	1	-
Receivables from non-exchange transactions	5	16,854	14,137
Other financial assets	6	20,371	-
Prepayments	7	712	112
		92,941	31,139
Non-Current Assets			
Other receivables - deposit	8	452	452
Intangible assets	9	83	122
Property, plant and equipment	10	3,724	4,520
		4,259	5,094
Total Assets		97,200	36,233
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	3,123	2,677
Provisions	12	2,682	1,140
Operating lease liability	13	265	770
		6,070	4,587
Non-Current Liabilities			
Payables from exchange transactions	11	-	80
Total Liabilities		6,070	4,667
Net Assets		91,130	31,566
Accumulated surplus		91,130	31,566

Statement of Financial Performance

		2018	2017
	Notes	R '000	R '000
Revenue			
Revenue from exchange transactions			
Operational revenue			
Dispute resolution income	15	217	28
Interest income	14	5,738	537
Total revenue from exchange transactions		5,955	565
Revenue from non-exchange transactions			
Other income (Non-exchange)			
Donations received		-	9
Operational revenue			
Government grants & subsidies	16	29,400	30,020
Levies - Allocated	17	97,430	-
Levies - Unallocated	17	73,394	30,392
Total revenue from non-exchange transactions		200,224	60,421
Total revenue		206,179	60,986
Expenditure			
Employee related costs	18	(35,522)	(28,624)
Depreciation and amortisation	19	(1,704)	(4,326)
Finance costs	20	(4)	-
Impairment of financial assets	6	(81,765)	-
Loss on disposal of assets and liabilities		(3)	(15)
General Expenses	21	(27,617)	(12,216)
Total expenditure		(146,615)	(45,181)
Surplus for the year		59,564	15,805

Statement of Changes in Net Assets

	Accumulated surplus R '000	Total net assets R '000
Balance at 01 April 2016	15,761	15,761
Changes in net assets		
Surplus for the year	15,805	15,805
Total changes	15,805	15,805
Balance at 01 April 2017	31,566	31,566
Changes in net assets		
Surplus for the year	59,564	59,564
Total changes	59,564	59,564
Balance at 31 March 2018	91,130	91,130

Cash Flow Statement

	Notes	2018 R '000	2017 R '000
Cash flows from operating activities			
Receipts			
Levies		168,107	16,586
Grants		29,400	30,020
Interest income		3,601	537
Other receipts		217	28
		201,325	47,171
Payments			
Employee costs		(33,980)	(28,413)
Suppliers		(28,276)	(11,953)
Finance costs		(4)	-
		(62,260)	(40,366)
Net cash flows from operating activities	23	139,065	6,805
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(872)	(314)
Investments acquired	6	(100,000)	-
Net cash flows from investing activities		(100,872)	(314)
Cash flows from financing activities			
Movement in short-term borrowings		(80)	-
Net increase in cash and cash equivalents		38,113	6,491
Cash and cash equivalents at the beginning of the year		16,890	10,399
Cash and cash equivalents at the end of the year	3	55,003	16,890

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R '000	R '000	R '000	R '000	R '000	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Other income	450	-	450	217	(233)	31.1
Interest income	5,976	-	5,976	5,738	(238)	31.2
Total revenue from exchange transactions	6,426	-	6,426	5,955	(471)	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	29,400	-	29,400	29,400	-	
Levies - Allocated	90,000	-	90,000	97,430	7,430	31.3
Levies - Unallocated		-	-	73,394	73,394	31.3
Total revenue from exchange transactions	119,400	-	119,400	200,224	80,824	
Total revenue	125,826	-	125,826	206,179	80,353	
Expenditure						
Personnel	(56,934)	-	(56,934)	(35,522)	21,412	31.4
Depreciation and amortisation	(6,000)	-	(6,000)	(1,704)	4,296	31.5
Finance costs	-	-	-	(4)	(4)	
Impairment of financial assets	-	-	-	(81,765)	(81,765)	31.6
General Expenses	(58,892)	-	(58,892)	(27,617)	31,275	31.7
Total expenditure	(121,826)	-	(121,826)	(146,612)	(24,786)	
Operating surplus	4,000	-	4,000	59,567	55,567	
Profit / (loss) on disposal of assets	-	-	-	(3)	(3)	
Surplus before taxation	4,000	-	4,000	59,564	55,564	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	4,000	-	4,000	59,564	55,564	

Accounting Policies

1. BASIS OF PRESENTATION

CSOS is established in terms of the Community Schemes Ombud Service Act 9 of 2011, and is classified as Schedule 3 A of the Public Finance Management Act (Act 1 of 1999). The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act 1 of 1999).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

1.1 REVENUE RECOGNITION

Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by CSOS.

When, as a result of a non-exchange transaction, CSOS recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of the acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Revenue from recovery of expenditure, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Public Finance Management Act (Act No. 1 of 1999) and is recognised when the recovery thereof from the responsible Board members or officials is virtually certain.

Government grants and subsidies CSOS Government grants

and subsidies revenue is derived in terms of Section 22 of the Community Schemes Ombud Service Act 9 of 2011 as approved by the Minister of Human Settlements.

Revenue from exchange transactions

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

1.1 REVENUE RECOGNITION (CONTINUED)

Recognition

An inflow of resources from an exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As CSOS satisfies a present obligation recognised as a liability in respect of an inflow of resources from an exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Levy income is recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transactions will flow to the entity; and
- the amount of revenue can be measured reliably;

Measurement

Revenue from an exchange transaction is measured at the amount of the increase in net assets recognised by CSOS.

When, as a result of an exchange transaction, CSOS recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of the acquisition, unless it is also required to recognise a liability.

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Revenue from recovery of unauthorised expenditure, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Public Finance Management Act (Act No. 29 of 1999) and is recognised when the recovery thereof from the responsible board members or officials is virtually certain.

1.2 INTEREST INCOME

Accounting Policies (continued)

Interest income is recognised on a time-proportion basis using the effective interest method.

1.3 OTHER INCOME

Other income includes dispute resolution, donations received and a nominal fee for administration of tenders.

1.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services and for administrative purposes, and are expected to be used for more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

When significant components of an item of property, plant and

equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Furniture and fittings	Straight line	8 years
Office machinery and equipment	Straight line	6 years
Computer equipment	Straight line	5 years
Leasehold improvements	Straight line	Based on the lesser of lease period and useful life of the asset

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit

Accounting Policies (continued)

when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.5 INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or
- exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
- A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.
- An intangible asset is recognised when: it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.
- The economic entity assesses the probability of expected future economic benefits or service potential using reasonable and
- supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets with finite useful lives shall be reviewed at least at each reporting date. If the expected useful lives of the assets are different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortisation method shall be changed to reflect the changed pattern.

Such changes shall be accounted for as changes in accounting estimates in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

The amortisation charge for each period shall be recognised in surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset. Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 years

1.6 TAX

Tax expenses

Community Schemes Ombud Service is a Schedule 3A Public Entity and is therefore, exempt from VAT and Income tax. The CSOS thus pays all tax invoices to suppliers at total value, and has no recourse to claim any input tax related thereto.

1.7 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Lease payments are apportioned between the finance charge and reduction of the outstanding liability so as to achieve a constant rate of interest on the remaining balance of the liability. The finance charge are charged directly to surplus or

Accounting Policies (continued)

deficit, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the entity's general policy on borrowing costs.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 EMPLOYEE BENEFITS

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected bonus payments are recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined benefit plans

CSOS is a member of the Government Employee pension fund and makes contributions on behalf of its staff to the defined benefit scheme.

1.9 PROVISIONS AND CONTINGENCIES

Provisions are recognised when:

- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

Provision for leave pay is determined by dividing the employees annual salaries by 21,67 and multiplying by the number of days accruing to the employees at the reporting date.

1.10 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as other income in the statement of financial performance.

1.11 IRREGULAR EXPENDITURE

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) Public Finance Management; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Accounting Policies (continued)

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the annual financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the annual financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.12 BUDGET INFORMATION

Economic entity are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by programmes linked to performance outcome objectives.

The approved budget covers the fiscal period from 01 April 2017 to 31 March 2018.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.13 FINANCIAL INSTRUMENTS

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Financial instruments at fair value
- Financial instruments at cost
- Financial instrument at amortised cost
-

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

Financial instruments at fair value are subsequently measured at fair value based on the quoted prices in an active market, unless the market for a financial instrument is not active, in which case the entity establishes a fair value using a valuation technique.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Financial instruments at cost are subsequently measured at cost.

Accounting Policies (continued)

1.13 FINANCIAL INSTRUMENTS (CONTINUED)

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments (more

than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Receivables from non-exchange transactions

Levy receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the receivable is impaired.

The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When the levy receivable is uncollectible, it is written off against the allowance account for levy receivables.

Levy receivables are classified as receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash held at the bank and is subject to an insignificant risk of changes in value. This is initially and subsequently measured at amortised cost.

Other financial assets

Other financial assets comprise of fixed-term investments with banks. These investments are initially and subsequently recognised at amortised cost.

Accounting Policies (continued)

1.13 FINANCIAL INSTRUMENTS (CONTINUED)

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.14 PREPAYMENTS

The entity recognises a prepayment as an asset when:

- it is probable that future economic benefits or service potential associated with the prepayment will flow to the entity; or
- the prepayment will lead to a reduction in future payments or a cash refund; and
- the cost of the prepayment can be measured reliably.

1.15 USE OF ESTIMATES

The preparation of the entity's financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements.

Although these estimates are based on the management's best knowledge of the current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.16 SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of non-financial assets

The entity assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangibles are tested for impairment annually and other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and residual values

The useful lives and residual values of property, plant and equipment are reviewed at each balance sheet date. These useful lives and residual values are estimated by management based on historic analysis and other available information and any changes noted are accounted for as changes in accounting estimates.

Accounting Policies (continued)

1.17 RELATED PARTIES

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged. Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

The entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate. Where the entity is exempt from the disclosures in accordance with the above, the entity discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

2. NEW STANDARDS AND INTERPRETATIONS

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the entity has not adopted any standards and interpretations that are effective for the current financial year and that are relevant to its operations:

2.2 Standards and Interpretations early adopted

The entity has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 20: Related parties	01 April 2019	The impact of the Standard is not material.

2.3 STANDARDS AND INTERPRETATIONS ISSUED, BUT NOT YET EFFECTIVE

The entity has not applied the following standards and

interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 April 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
GRAP 26 (as amended 2016): Impairment of cashgenerating assets	01 April 2018	Unlikely there will be a material impact
GRAP 108: Statutory Receivables	01 April 2018	Unlikely there will be a material impact
GRAP 109: Accounting by Principals and Agents	01 April 2018	Unlikely there will be a material impact

Notes to the Annual Financial Statements

	2018	2017
	R '000	R '000

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Bank balances	55,003	16,890
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4. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Staff debtors	1	-
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The staff debtors relate to monies owed to CSOS by employees.

The fair value of receivables from exchange transactions approximates the carrying amount.

5. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Levies receivables - Allocated	6,971	-
Levies receivables - Unallocated	9,883	14,137
Bank balances	16,854	14,137

Levies receivables relate to levies that were payable to CSOS at the reporting date.

The fair value of receivables from non-exchange transactions approximates the carrying amount.

6. OTHER FINANCIAL ASSETS

At amortised cost

Short-term investments	100,000	-
Interest accrued on short-term investments	2,136	-
	102,136	-
Impairments	(81,765)	-
	20,371	-

Notes to the Annual Financial Statements

	2018 R '000	2017 R '000
Financial assets at amortised cost		
Nominal value of financial assets at cost		
ABSA	20,322	-
The investment bear interest at a rate of 8,08% per annum. The maturity date is 16 January 2019.		
VBS Mutual Bank	50	-
The two investments of R50 million and R30 million bear interest at a rate between 9% and 9,25%, respectively. The maturity dates are 16 November 2018 and 16 January 2019, respectively.		
	20,372	-

Financial assets at amortised cost impaired

CSOS has invested R80 million of its funds with VBS Mutual Bank. On 11 March 2018, the South African Reserve bank in conjunction with the Minister of Finance, placed VBS Mutual Bank under curatorship in terms of Section 69 of the Banks Act, 1990. From that date, the control of VBS Mutual Bank was vested with the curator. A provision for impairment loss on the investment with VBS Mutual Bank has been recognised to impair the investment to R50 thousand which is the maximum amount secured by National Treasury on deposits made to VBS Mutual Bank.

The amount of the provision was R81,765 million as of 31 March 2018 (2017: R Nil).

Reconciliation of provision for impairment of financial assets at amortised cost

VBS Mutual Bank

Provision for impairment	81,765	-
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7. PREPAYMENTS

Prepaid expenses	712	112
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Prepaid expenses relate to licences paid for the use of software.

The fair value of prepaid expenses approximates the carrying amount.

8. OTHER RECEIVABLES - DEPOSIT

Rental deposits

Head office	249	249
KwaZulu Natal office	203	203
	452	452

Notes to the Annual Financial Statements

	2018 R '000	2017 R '000
8. OTHER RECEIVABLES - DEPOSIT (CONTINUED)		
Current (0 – 30 days)	-	-
31 - 60 Days	-	-
61 - 90 Days	-	-
91 - 120 Days	-	-
121 + Days	452	452

9. INTANGIBLE ASSETS

	2018			2017		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software (finite)	2,372	(2,289)	83	2,372	(2,250)	122

RECONCILIATION OF INTANGIBLE ASSETS - 31 MARCH 2018

	Opening balance	Amortisation	Total
Computer software (finite)	122	(39)	83

RECONCILIATION OF INTANGIBLE ASSETS - 31 MARCH 2018

	Opening balance	Amortisation	Total
Computer software (finite)	1,281	(1,159)	122

10. PROPERTY, PLANT AND EQUIPMENT

	2018			2017		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Furniture and fittings	1,067	(376)	691	903	(267)	636
Plant, machinery & equipment	551	(227)	324	425	(139)	286
Computer equipment	4,833	(3,162)	1,671	4,253	(2,570)	1,683
Leasehold improvements	4,603	(3,565)	1,038	4,603	(2,688)	1,915
Total	11,054	(7,330)	3,724	10,184	(5,664)	4,520

Notes to the Annual Financial Statements

	2018	2017
	R '000	R '000

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliation of property, plant and equipment - 31 March 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fittings	636	167	(3)	(109)	691
Plant, machinery & equipment	286	126	-	(88)	324
Computer equipment	1,683	579	-	(591)	1,671
Leasehold improvements	1,915	-	-	(877)	1,038
	4,520	872	(3)	(1,665)	3,724

Reconciliation of property, plant and equipment - 31 March 2017

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Total
Furniture and fittings	457	314	-	9	(144)	636
Plant, machinery & equipment	365	-	(9)	-	(70)	286
Computer equipment	3,109	-	(6)	-	(1,420)	1,683
Leasehold improvements	3,449	-	-	-	(1,534)	1,915
	7,380	314	(15)	9	(3,168)	4,520

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Vaccum cleaner	1	-
Office doors	3	-
Blinds	10	-
Windows	4	-
Cellphones	4	-
Laptop and battery	-	3
	22	3

Notes to the Annual Financial Statements

	2018	2017
	R '000	R '000

11. PAYABLES FROM EXCHANGE TRANSACTIONS

Current

Trade payables	2,922	2,562
PAYE - Withholding tax	75	18
Staff savings / 13th cheques	126	97
	3,123	2,677

Non-current

Trade payables	-	80
	3,123	2,757

The fair value of trade and other payables approximates the carrying amount.

12. PROVISIONS

Reconciliation of provisions - 31 March 2018

	Opening balance	Additions	Utilised during the year	Total
Provision for leave pay	1,140	655	(354)	1,441
Provision for performance bonus	-	1,241	-	1,241
	1,140	1,896	(354)	2,682

Reconciliation of provisions - 31 March 2017

	Opening balance	Additions	Utilised during the year	Total
Provision for leave pay	929	2,552	(2,341)	1,140

Notes to the Annual Financial Statements

	2018 R '000	2017 R '000
13. OPERATING LEASE ACCRUAL		
Operating lease accrual	265	770
The commitments under the non-cancellable operating leases are disclosed in note 30 - Commitments.		
14. INTEREST INCOME		
Interest revenue		
Bank	3,602	537
Other financial assets	2,136	-
	5,738	537
15. DISPUTE RESOLUTION INCOME		
Dispute resolution	217	28
16. GOVERNMENT GRANTS AND SUBSIDIES		
Operating grants		
Department of Human Settlements	29,400	30,020
17. LEVIES		
Levy income - Allocated	97,430	-
Levy income - Unallocated	73,394	30,392
	170,824	30,392
18. EMPLOYEE RELATED COSTS		
Salaries - Employees	34,407	27,321
Accounting authority expenses (Refer to Note 25)	1,115	1,303
	35,522	28,624
19. DEPRECIATION AND AMORTISATION		
Property, plant and equipment	1,665	3,167
Intangible assets	39	1,159
	1,704	4,326
20. FINANCE COSTS		
Interest paid	4	-

The amount relates to the interest charged by the supplier on late payment of the invoice. The amount is disclosed as fruitless and wasteful expenditure.

Notes to the Annual Financial Statements

	2018 R '000	2017 R '000
21. GENERAL EXPENSES		
Advertising	2,151	225
Auditors remuneration	1,556	993
Bank charges	62	24
Consulting and professional fees	1,522	649
Legal expenses	-	96
Donations	36	-
Equipment rental	153	292
Insurance (WCA – IOD)	-	36
Conferences and seminars	1,022	52
Marketing	622	24
Staff uniform	24	-
Recruitment costs	269	-
Postage and courier	41	13
Printing and stationery	1,131	331
Subscriptions and publication	48	12
Telephone cost	1,600	1,268
Transport and freight	8	-
Training	142	-
Travel and subsistence- local	2,101	1,135
Travel and subsistence - international	1,875	-
Repairs and maintenance	22	3
Water and electricity	353	277
Admin expenses	4,676	3,158
Licences	643	30
Adjudication costs	3,928	-
Rentals of buildings	3,248	3,272
Staff bursaries	29	-
Enterprise resource	355	326
	27,617	12,216

Notes to the Annual Financial Statements

	2018 R '000	2017 R '000
22. NET SURPLUS		
Revenue		
Government grant	29,400	30,020
Levies	170,824	30,392
Interest earned	5,738	537
Other income from exchange transactions	217	28
Other income from non exchange transactions	-	9
Total Revenue	206,179	60,986
Expenses		
Expenses	(146,615)	(45,181)
Net surplus	59,564	15,805

23. CASH GENERATED FROM OPERATIONS

Surplus	59,564	15,805
Adjustments for:		
Depreciation and amortisation	1,704	4,326
Loss on sale of assets and liabilities	3	15
Impairment of financial assets	81,765	-
Movements in operating lease accrual	(505)	(118)
Movements in provisions	1,542	211
Assets donated	-	(9)
Interest income - other financial assets	(2,136)	-
Changes in working capital:		
Receivables from exchange transactions	(1)	331
Other receivables from non-exchange transactions	(2,717)	(14,137)
Prepayments	(600)	77
Payables from exchange transactions	446	304
	139,065	6,805

24. CONTINGENCIES

Contingent liabilities

Accumulated surplus*	65,288	-
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* Accumulated Surplus is subject to National Treasury approval in response to the CSOS appropriate application for such fund retention. The accumulated surplus amount is determined in terms of Paragraph 3.2 of the National Treasury Instruction No 6 of 2017/2018. In the prior year, the amount as determined in terms of Paragraph 3.2 was a loss of R22,5 million. The CSOS will apply to retain the unspent funds which have remained un-expensed at year end.

Notes to the Annual Financial Statements

	2018	2017
	R '000	R '000

25. DIRECTORS EMOLUMENTS

Executive

31 March 2018

	Emoluments	Other benefits*	Total
Adv. S. Letele (Chief Ombud)*	654	-	654
Mr. T. Mabuya (Chief Financial Officer)	1,859	120	1,979
Adv. R. Maruma (Company Secretary)	1,456	72	1,528
Ms. K. Mlotha (Adjudicator General)**	429	30	459
Mr. O. Masogo (Chief Audit Executive)**	442	72	514
Ms. N Rabuli (Executive: Governance, Compliance and Enforcement)**	753	38	791
	5,593	332	5,925

* Started on 01 April 2017.

** Started on 01 December 2017.

31 March 2017

	Emoluments	Other benefits*	Total
Mr. T. Mthethwa (Chief Ombud)****	1,647	360	2,007
Mr. T. Mabuya (Chief Financial Officer)	1,460	120	1,580
Ms. L. Less (Executive: Corporate Services)**	754	50	804
Adv. R. Maruma (Company Secretary)	1,086	72	1,158
Ms. D. Dube (Adjudicator General)***	601	60	661
	5,548	662	6,210

* Other benefits comprise travel allowance and medical benefits

** Resigned on 31 August 2016.

*** Resigned on 30 September 2016.

**** Resigned on 31 March 2017.

Notes to the Annual Financial Statements

25. DIRECTORS EMOLUMENTS (CONTINUED)

Non-executive

31 March 2018

	Number of board meetings	Board meetings R'000	Number of committee and other meetings	Commit- tees and other meetings R'000	Travel claims R'000	Total
Rev. Dr. V. Mehana	8	65	9	37	2	104
Adv. N. Memani	7	50	15	164	7	221
Mr. T. Holmes	7	35	13	109	31	175
Mr. R. Jock	7	35	16	108	31	174
Mr. B. Dlamini	6	30	15	110	10	150
Ms. M. Constas	7	35	12	77	5	117
Ms T. Sunduza	8	40	16	124	10	174
		290		729	96	1,115

31 March 2017

	Number of board meetings	Board meetings R'000	Number of committee and other meetings	Commit- tees and other meetings R'000	Travel claims R'000	Total
Rev. Dr. V. Mehana	9	53	5	76	2	131
Adv. N. Memani	8	32	21	162	9	203
Ms. B. Dambuza*	8	18	18	118	154	290
Mr. T. Holmes	7	23	15	128	16	167
Mr. R. Jock	9	28	23	193	13	234
Mr. B. Dlamini	9	32	15	131	15	178
Ms. M. Constas	5	28	12	50	3	81
Ms T. Sunduza ***	2	9	1	10	-	19
		223		868	212	1,303

* Resigned 31 October 2016

*** Started on 01 January 2017

Notes to the Annual Financial Statements

	2018	2017
	R '000	R '000

26. RELATED PARTIES

Relationships

Controlling entity

Entity under common control

National Department of Human Settlements

Estate Agency Affairs Board

Related party balances

Balances arising from services provided to related parties

Estate Agency Affairs Board	1,840	2,038
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Commitments

Estate Agency Affairs Board	1,681	1,681
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Related party transactions

Grants received from related parties

National Department of Human Settlements	29,400	30,020
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Amounts received (paid to) related parties

Estate Agency Affairs Board	(2,466)	(378)
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27. NON COMPLIANCE WITH NATIONAL TREASURY REGULATIONS

VBS Mutual Bank	80,000	-
ABSA	20,000	-
	100,000	-

CSOS has invested R100 million of its funds with VBS Mutual Bank (R80 million) and ABSA (R20 million). No approval from National Treasury was obtained for the investments.

28. IRREGULAR EXPENDITURE

Opening balance	9,144	8,363
Add: Irregular Expenditure - current year	26,757	9,144
Less: Amounts condoned	-	(8,363)
	35,901	9,144

The irregular expenditure of R8,363 million that was incurred in the 2015/16 financial year was approved by the Accounting Authority in the previous financial year. The irregular expenditure incurred in the 2016/17 financial year was due overspending on the approved budget (R9,081 million), as well as non-compliance with SCM processes (R63 thousand). Irregular expenditure of R26,757 million (2016/17: R9,144 million) was incurred in the current year for non-compliance with SCM processes (R1,971 million) and due to overspending on the approved budget (R24,786 million).

Izani Travel

The current year irregular expenditure relating to Izani Travel is due to CSOS failure to comply with National Treasury's instruction No 1 of 2017/18 which states that all month-to-month contracts be extended up to 30 September 2017. CSOS utilised Izani Travel's services after the cut-off date.

Overspending of the budget

The irregular expenditure incurred in the 2017/18 financial year was due to overspending on the approved budget by R24,786 million.

Notes to the Annual Financial Statements

	2018	2017
	R '000	R '000

28. IRREGULAR EXPENDITURE (CONTINUED)

Forensic investigation

A forensic investigation was conducted, based on allegations of possible tender irregularities and irregular appointments of service providers in the 2015/16 financial year. The investigation had not been finalised at the date of the auditor's report. The investigation is expected to be finalised by 31 August 2018. The possible irregular expenditure is R33 million.

Details of irregular expenditure – current year

	Treatment	
Izani Travel - Non compliance with National Treasury Circular	Consequence management will be implemented	1,971
Overspending on approved budget	Consequence management will be implemented	24,786
		<u>26,757</u>

Details of irregular expenditure condoned - prior year

	Condoned by Accounting Authority	
Rennies Travel - SCM procurement process not followed	Expenditure condoned by the Board	3,196
AMP Design - SCM procurement process not followed	Expenditure condoned by the Board	2,832
Various suppliers- SCM procurement process not followed	Expenditure condoned by the Board	2,335
		<u>8,363</u>

29. FRUITLESS AND WASTEFUL EXPENDITURE

Opening balance	32	12
Add: Fruitless and wasteful expenditure - current period	70	20
	<u>102</u>	<u>32</u>

In the previous financial year, cancellation fees were incurred in respect of cancelled bookings. The Supply Chain unit has started with the review of transactions to provide a report with recommendations.

Fruitless and wasteful expenditure in the current year was due to interest incurred on late payment of suppliers (R4 thousand), as well as cancellation fees relating to tender advertisements (R57 thousands) and the VAT that was paid to suppliers who were not VAT registered (R9 thousands).

Notes to the Annual Financial Statements

	2018 R '000	2017 R '000
30. COMMITMENTS		
Authorised capital expenditure		
Within 1 year		
Already contracted for but not provided for		
ICT Infrastructure	-	3,699
Authorised operational expenditure		
Already contracted for but not provided for		
Training- Dispute resolution	-	7,335
Enterprise resource planning	-	649
Audit fees	500	-
Operating leases	-	160
	500	8,144
In second to fifth year inclusive		
Minimum lease payments due		
- Offsite record storage	-	30,054
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	1,639	3,222
- in second to fifth year inclusive	2,459	3,831
	4,098	7,053

Notes to the Annual Financial Statements

31. BUDGET DIFFERENCES

Budget narrations are included for variations above R100 000.

Material differences between budget and actual amounts

31.1 Other income comprises primarily of dispute resolution income. The budgeted other income exceeds the actual amount. This is due to less cases (disputes) being referred to the entity than previously anticipated. As the entity's operations expand, it is expected that more cases will be referred to the entity, thus generating more income.

31.2 The budgeted investment revenue exceeds the actual investment revenue amount. This is due to less cash being invested as cash was utilised to cover operational costs, as well as investments being made later in the financial year.

31.3 The actual levies amount exceeded the budgeted levies income. This is due to more levies recognised in the current financial year, hence the positive variance. 2017/18 was the first full year of levy collection therefore there was no prior base for revenue collection. Increased number of registered schemes had a positive impact in the increase in levy collection.

31.4 The actual employee cost incurred was less than the budgeted amount. This is due to some positions that were not filled in the current year. Some of the vacancies were filled late in the financial year. It was expected that more employee costs would have been incurred due to more staff being employed.

31.5 Budgeted depreciation amount exceeded the actual amount. This is due to less assets being acquired during the year.

More assets will be acquired in the subsequent periods as more vacancies are filled.

31.6 The actual impairment loss relates to the impairment of the financial asset. There was no budget for the impairment loss in the year under review, hence a negative variance.

31.7 General expenses were expected to increase due to regional offices being established. This resulted in the budgeted general expenses exceeding the actual amount. The actual general expenses are expected to increase in the 2019 financial year as the entity expands its operations.

Notes to the Annual Financial Statements

	2018	2017
	R '000	R '000

32. RISK MANAGEMENT

Financial risk management

The entity's activities expose it to a variety of financial risks: interest rate risk, credit risk and liquidity risk.

Liquidity risk

Liquidity risk is the risk that the organisation may not be able to meet its financial obligations as they fall due. This risk is regarded as low considering the entity's current funding structures and management of available cash resources. The CSOS monitors its cash flow requirements which include its ability to meet financial obligations. The CSOS also analyses its financial liabilities based on the remaining period to contractual maturity. Liabilities fall due after 30 days

Trade and other payables	2,922	2,642
Operating leases	265	770
	3,187	3,412

At 31 March 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	2,922	-	-	-
Operating leases	265	-	-	-
At 31 March 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	2,562	80	-	-
Operating leases	770	-	-	-

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk consists mainly of cash deposits, cash equivalents, and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Trade receivables comprise of rental deposits and prepayment. Management evaluates credit risk on an ongoing basis

Financial instrument	31 March 2018	31 March 2017
Receivables from exchange transactions	1	-
Prepayments	712	112
Other receivables	452	452
Other financial assets	20,371	-
Receivables from non-exchange transactions	16,854	14,137

Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The entity is exposed to cash flow interest rate risk arising from cash on hand at commercial banks, which earns interest at floating rates based on daily bank deposit rates. In the period under review the entity held no finance lease contracts.

The Community Schemes Ombud services exposure to market risk (in the form of interest rates risk) arises as a result of the following:

- Possible interest on late payment by the CSOS.
- Interest on accounts held at banking institutions.

The entity's financial assets and financial liabilities are managed in such a way that the fluctuations in variable rates do not have material impact on the surplus/(deficit) as the CSOS settles its outstanding obligation within 30 days.

Notes to the Annual Financial Statements

32. RISK MANAGEMENT (CONTINUED)

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Cash and cash equivalents	Variable	55,003	-	-	-	-

33. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The government grant for the year under review is R29,4 million (2016/17: R30,02 million).

The Regulations were approved by the Minister in the previous financial year. The CSOS Act and Sectional Titles Schemes Management Act were proclaimed by the President on 07 October 2016.

34. CHANGE IN ESTIMATE

Property, plant and equipment

Management reviewed the estimated useful lives of property, plant and equipment at the end of the reporting period as required by GRAP 17 (Property, plant and equipment). The useful lives of certain assets were deemed to be longer and the effect of the reassessment, assuming the assets are held until the end of their useful lives, was to decrease the depreciation expense by:

Reassessment of property, plant and equipment useful lives	1,787	-
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Intangible assets

Management reviewed the estimated useful lives of intangible assets at the end of the reporting period as required by GRAP 31 (Intangible assets). The useful lives of certain assets were deemed to be longer and the effect of the reassessment, assuming the assets are held until the end of their useful lives is a decrease in the amortisation expense by:

Reassessment of intangible assets useful lives	83	-
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ISBN: 978-0-621-46830-4