

NATIONAL HOME BUILDERS

NHBRC

REGISTRATION COUNCIL

Mr. Mongezi Mnyani

Chief Executive Officer

Annual Report 2014 2015 financial year

**Portfolio Committee of Human
Settlements**

14 October 2015



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Background

NHBRC Mandate

- NHBRC established in terms of the Housing Consumers Protection Measures Act, 1998 (Act No 95 of 1998) (as amended)
- The objectives of the NHBRC as set out in the Act are to:
 - a) represent the interests of housing consumers by providing warranty protection against defects in new homes;
 - (b) regulate the home building industry;
 - (c) provide protection to housing consumers in respect of the failure of home builders to comply with their obligations in terms of this Act;
 - (d) establish and to promote ethical and technical standards in the home building industry;
 - (e) improve structural quality in the interests of housing consumers and the home building industry;
 - (f) promote housing consumer rights and to provide housing consumer information;
 - (g) communicate with and to assist home builders to register in terms of this Act;
 - (h) assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building;
 - (i) regulate insurers contemplated in section 23 (9) (a); and
 - (j) in particular, to achieve the stated objects of this section in the subsidy housing sector.

NHBRC Strategic Direction

Vision

A world class home builders warranty organization that ensures the delivery of sustainable quality homes.

Mission

To protect the housing consumer and regulate the home building environment by promoting innovative home building technologies, setting home building standards and improving the capabilities of home builders

Strategy

1. To improve visibility and accessibility in the market while enhancing interaction with our stakeholders.
2. To position the NHBRC as a leader in knowledge creation, technical and technological building solutions through strategic partnerships.
3. To provide diversified services and products in line with changing building requirements and needs

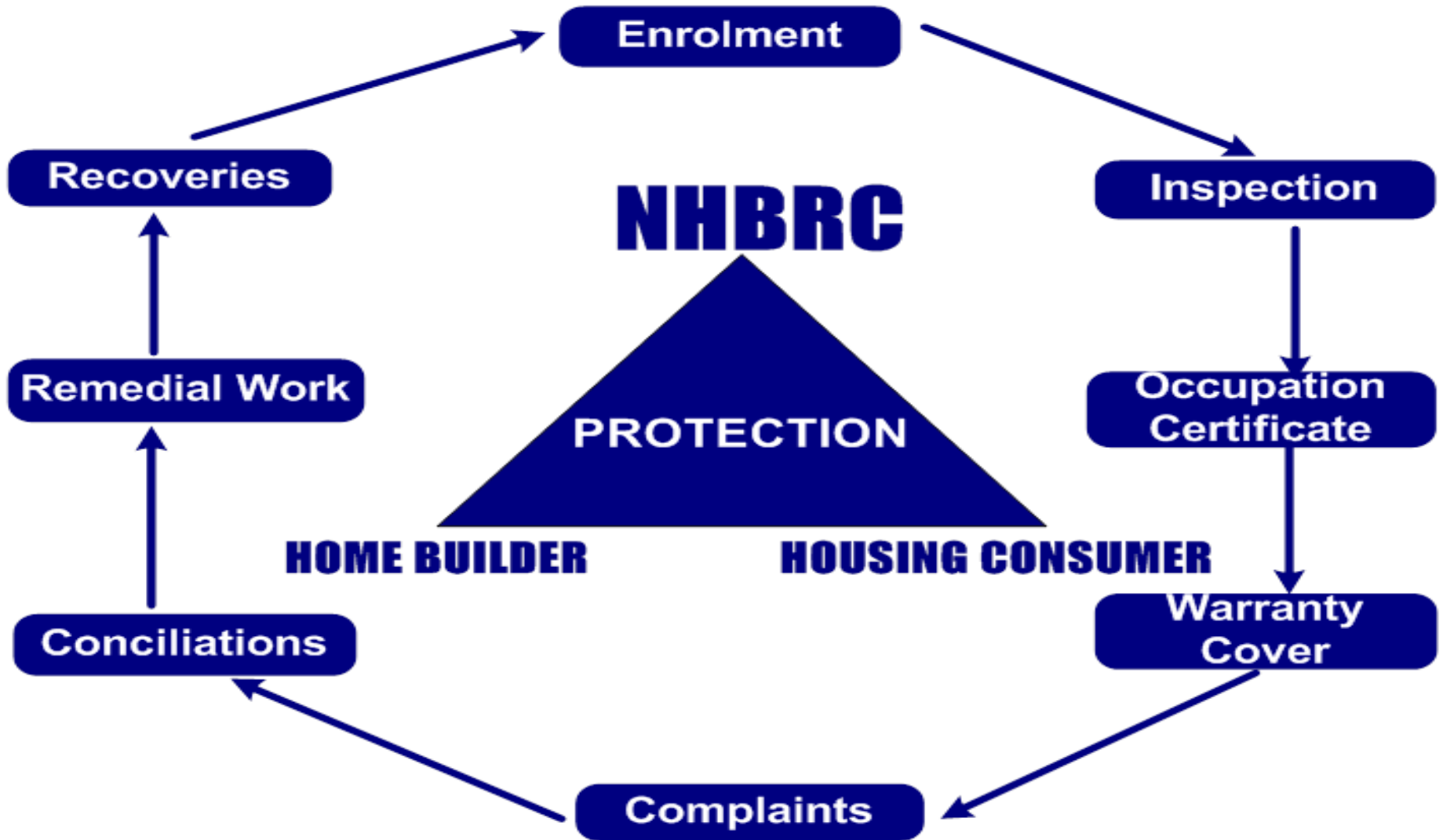
Strategic objectives

1. To grow, protect and sustain the NHBRC warranty fund
2. To provide innovative quality funds and services that will delight the customer
3. To strengthen the NHBRC operating processes, systems, and procedures
4. To create a learning environment produce products and services

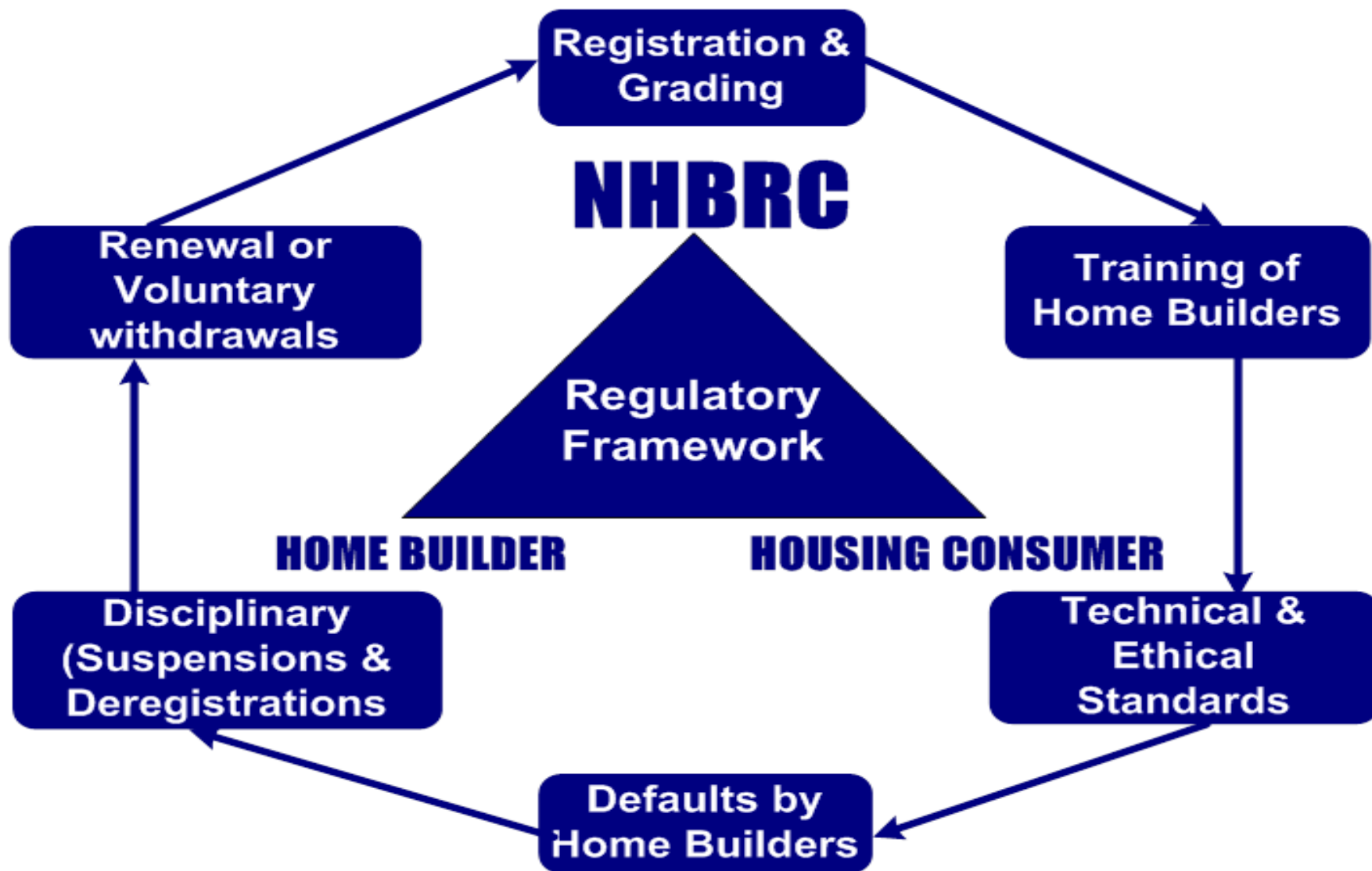
Products and Services

- Enrolment of new homes;
- Home builder registration and renewals;
- Home building inspections;
- Forensic engineering investigations;
- Assessment of houses for rectification;
- Home builder training and development;
- Home building dispute resolution;
- Litigation and legal advisory services; and
- Geo-technical and materials engineering.

HOUSING CONSUMERS PROTECTION PROCESS



Regulation process



Governance Structure of NHBRC

Committees of Council are as follows:

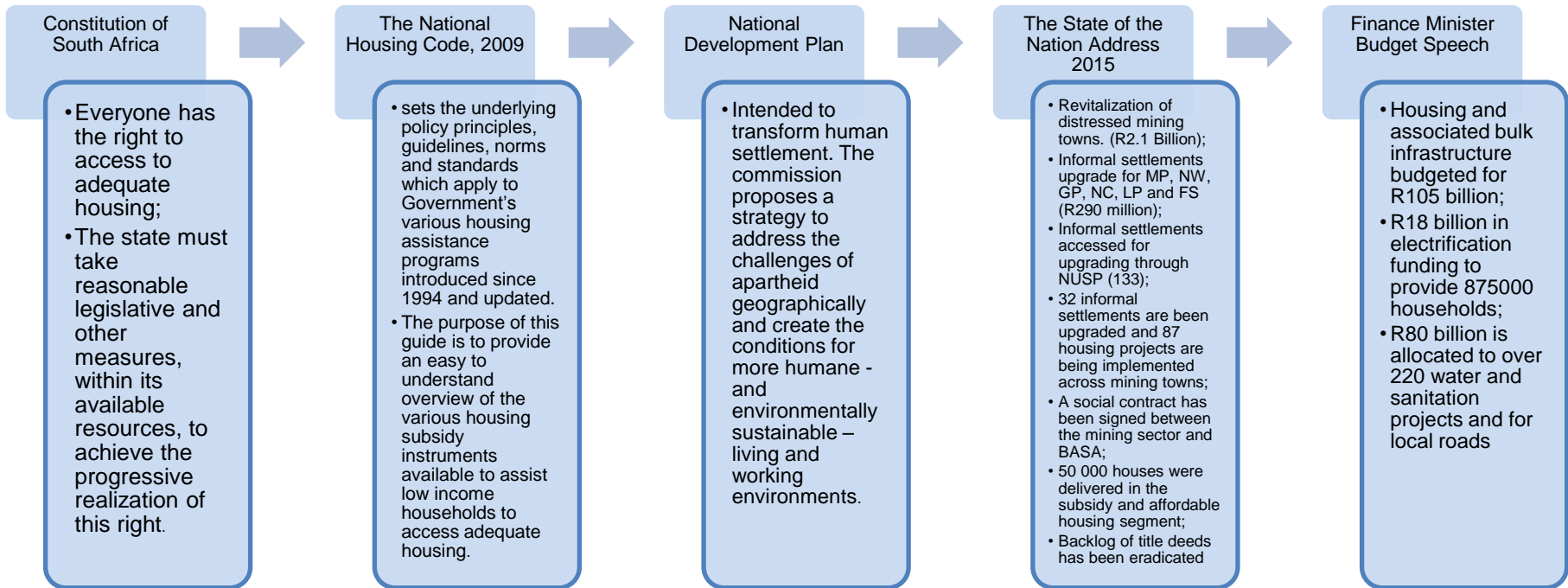
- Fund Advisory and Finance Committee
- Registration committee
- Audit and Risk Management Committee
- Technical Claims and Advisory Committee
- Disciplinary Steering Committee
- Human Capital and Remuneration Committee
- Industry Advisory Committee
- Bid Adjudication Committee (Tender Committee)
- Research and Housing Innovation Advisory Committee

Key focus for NHBRC

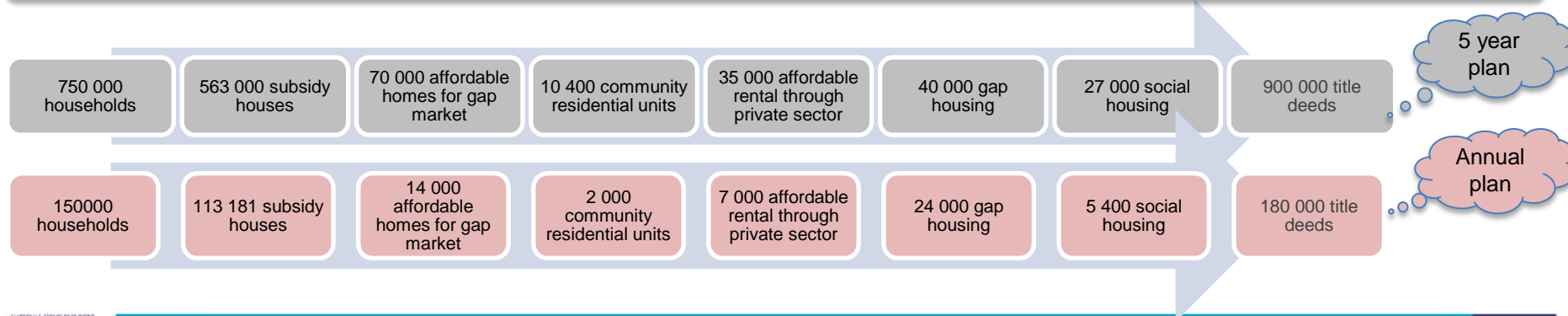
NHBRC has set itself short-term to medium term plans in order to address a number of short-comings in the execution of the mandate. That is to:-

- Implementation and full execution of the inspection model
- Alignment of NHBRC deliverables with the MTSF(Medium Term Strategic Framework) targets for 2014-2019
- Provide Technical Support within NHBRC and built environment Sector
- Enforcement and Compliance of the industry with provisions of the Housing Consumers Protection Measures Act,1998(Act No.95 of 1998).
- Full implementation of Training Strategy
- Grow and Sustain the Warranty Fund
- Operationalization of the Centre for Research and Housing Innovation

MTSF TARGETS



Delivery of 1.495 million housing opportunities for 2014 - 2019 MTSF period



ALIGNMENT OF NHBRC – MTSF?

- The Strategic Corporate Plan 2014 /2019 is based on the need to accentuate the NHBRC role as a regulator in the home building industry and the Human Settlement Ministerial directives.
- The NHBRC has seen a need to strengthen the inspection mandate through increasing the inspection staff over 202 and ensure maximum representation in all the nine provinces and satellite offices.
- The whole of the Business Services division has been restructured to ensure maximum synergy within the section.
- The technical section has been combined with the inspectorate section to reduce the span of control and ensure maximum delivery in order to offer maximum protection to the stakeholders.

ALIGNMENT OF NHBRC – MTSF

- The NHBRC is building internal capacity of competent staff (both technical and administrative) in order to meet the needs of housing consumers and the stakeholders.
- The NHBRC has strengthened and aligned its business processes and procedures to the home building environment so as to ensure that we do not stop progress on projects while we enforce compliance in terms of the homebuilding manual and the Act.
- Through the training and development section, the NHBRC is enhancing the building skills of home builders and have develop relevant course materials to promote excellence in the home building environment.

ALIGNMENT OF NHBRC – MTSF

- The NHBRC will be establishing a school of inspectors and a school of homebuilders to ensure that competent inspectors and homebuilders are produced which help improve quality delivery on the ground.
- The NHBRC is in the process of implementing a new Enterprise Resource Planning (SAP) in order to improve the efficiency and efficacy of the Organization in running its daily business.
- The Project Management Office has taken off and its main objective is to ensure that all the projects are enrolled and also to enforce project management standards on all projects of the NHBRC.
- PMO focuses its attention in the identification, monitoring and tracking of all NHBRC projects to ensure that these are completed within the specified timeframes and within budget

ALIGNMENT OF NHBRC – MTSF

- The PMO products direct to support Government initiatives so that projects are executed through to completion and overall delivery of projects in a consistence and structured manner.
- Engineers deployed full time to all nine provincial departments of Human Settlements to assist with planning and execution of projects at local level.
- NHBRC has established a Centre for Research and Housing Innovation (“The Centre”).
- The purpose of The Centre is to support the attainment of Technical Excellence in the home building industry, by encouraging innovation and facilitating the development and transfer of information, knowledge, best practice and standards relating to the industry.

ALIGNMENT OF NHBRC – MTSF

- Ongoing focus is on promoting housing consumer rights and to communicate housing consumer information, especially in the subsidy and gap markets.
- Strengthening partnership with provincial governments, municipalities and other key stakeholders during handover events of houses to beneficiaries will be one of our strategies to reach out to our housing consumers to deliver our message regarding NHBRC mandate and housing consumer rights education, including handover of warranty certificates for the houses to the beneficiaries.

ALIGNMENT OF NHBRC – MTSF

- To continuously increase our visibility and service excellence to customers through our Customer Service Centres and Contact Centres.
- Specific emphasis is on direct, one-on-one interaction and relationship building at all levels and in all provincial and local forums.
- NHBRC’s payoff line “Assuring Quality Homes” became a living microcosm of the vision and mission of the NHBRC.

Valuable Final products with targets

| VFP | TARGET | PERFORMANCE | VARIANCE | VARIANCE % |
|-------------------------------|---------|-------------|----------|------------|
| Registration of Home Builders | 2,886 | 4,742 | 1,856 | 64% |
| Renewal of Registration | 12,196 | 12,191 | (5) | (0,04%) |
| Enrolment | 45,965 | 51,149 | 5,184 | 11% |
| Late enrolment | 2,299 | 1,483 | 816 | 35% |
| Inspection (Subsidy) | 210,300 | 223,176 | 13,611 | 6,4 |

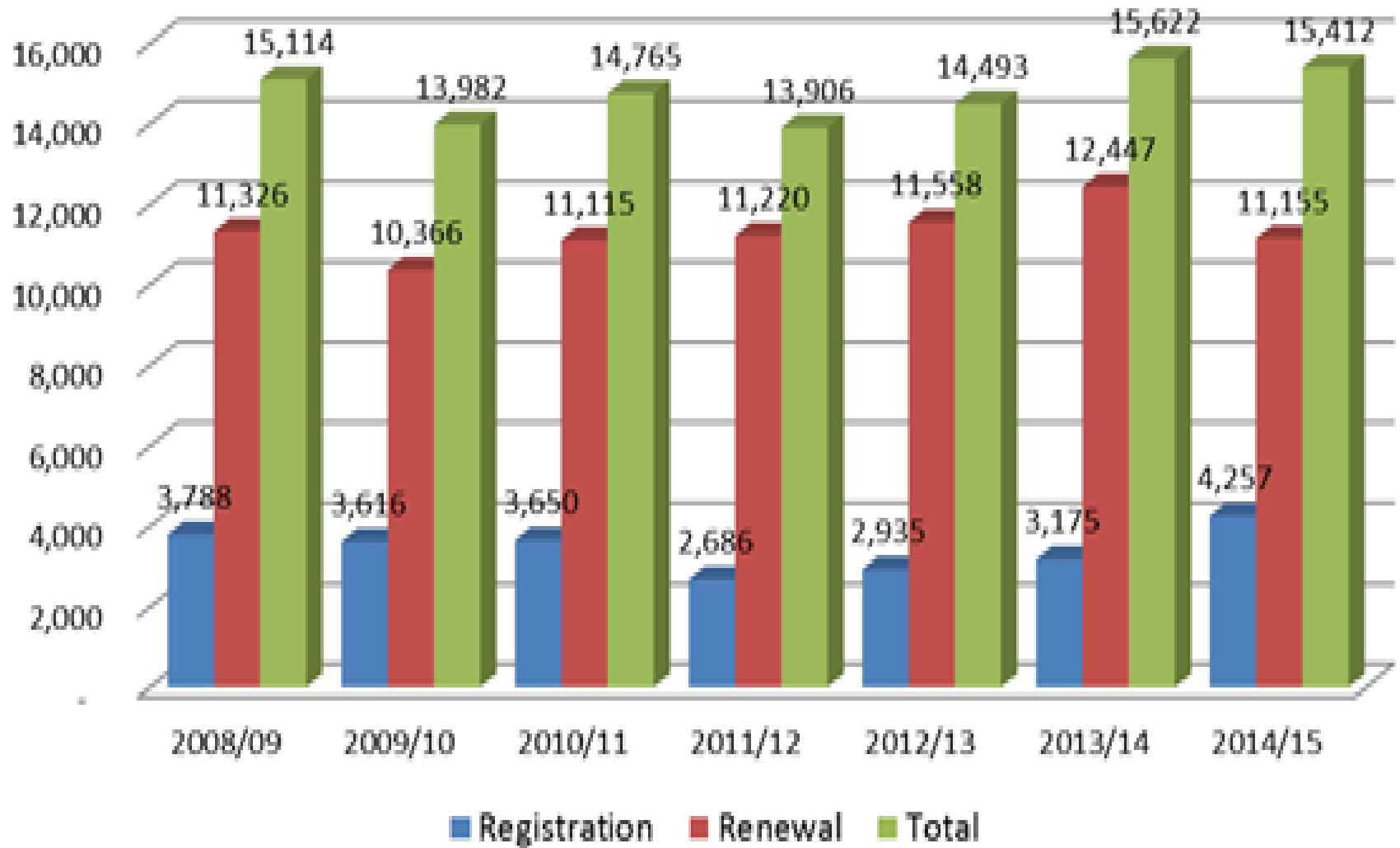
Valuable Final Products with targets

| VFP | TARGET | PERFORMANCE | VARIANCE | VARIANCE % |
|---------------------------|---------|-------------|----------|------------|
| Inspection (Non-Subsidy) | 160,377 | 304,261 | 143,884 | 90% |
| Training of Home Builders | 1,200 | 2,629 | 1,429 | 119% |
| Training of Youth | 2,000 | 1,184 | (816) | (41) |
| Project Enrolment | 45,100 | 32,347 | (12,753) | (28%) |
| Home Enrolment | 33,150 | 21,964 | (11,186) | (34%) |
| Consolidation | 91,970 | 146,789 | 54,819 | 60% |

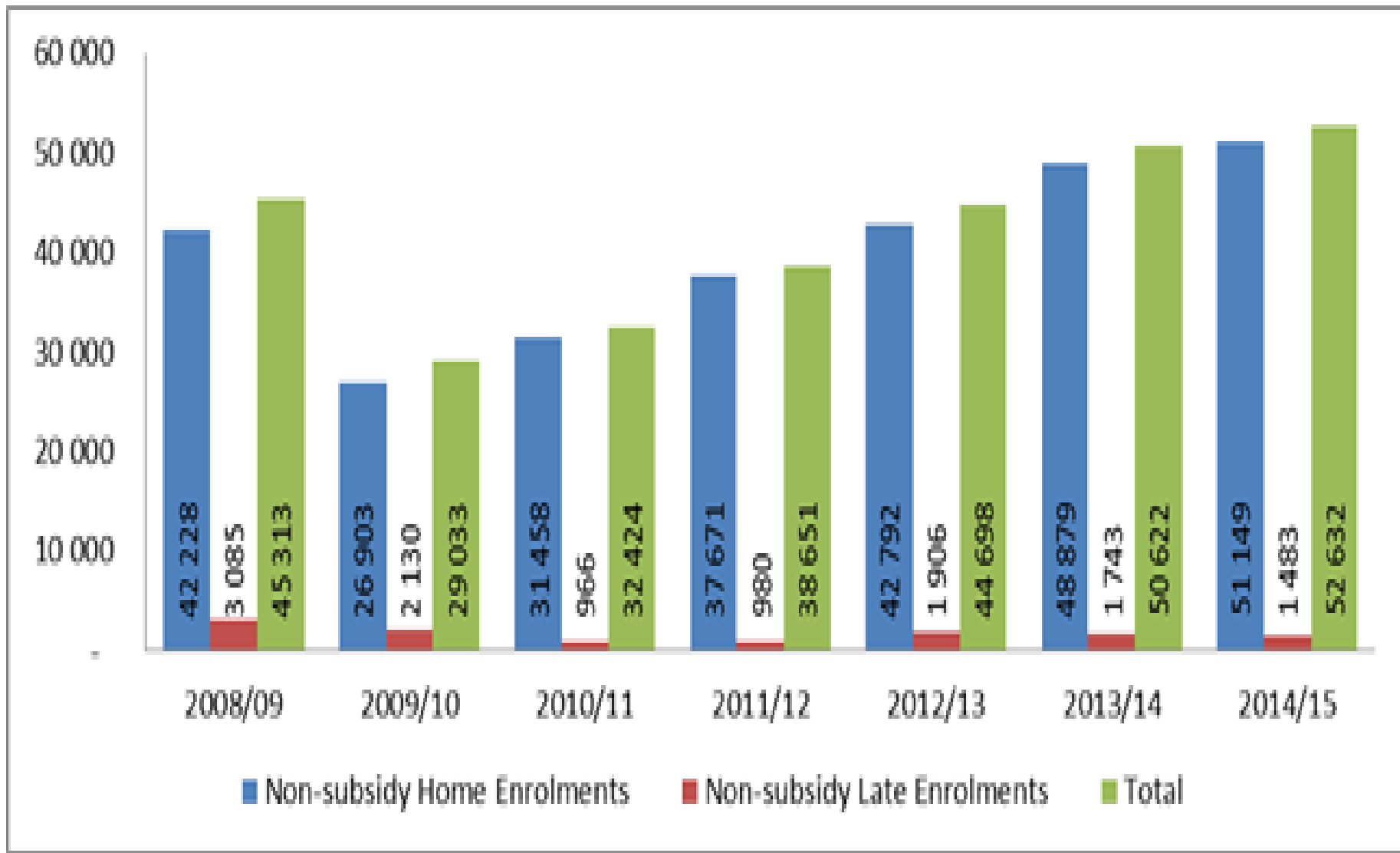
Builder Engagement roadshow

| Number | Place | Province | Date of Workshop |
|--------|----------------|----------------|------------------|
| 1 | Witbank | Mpumalanga | 8 October 2014 |
| 2 | Polokwane | Limpopo | 9 October 2014 |
| 3 | Cape Town | Western Cape | 21 October 2014 |
| 4 | Port Elizabeth | Eastern Cape | 22 October 2014 |
| 5 | Mahikeng | North West | 24 October 2014 |
| 6 | Kimberley | Northern Cape | 28 October 2014 |
| 7 | Bloemfontein | Free State | 29 October 2014 |
| 8 | Durban | Kwa Zulu-Natal | 05 November 2014 |
| 9 | Johannesburg | Gauteng | 06 November 2014 |
| 10 | East London | Eastern Cape | 19 November 2014 |
| 11 | Nelspruit | Mpumalanga | 22 November 2014 |

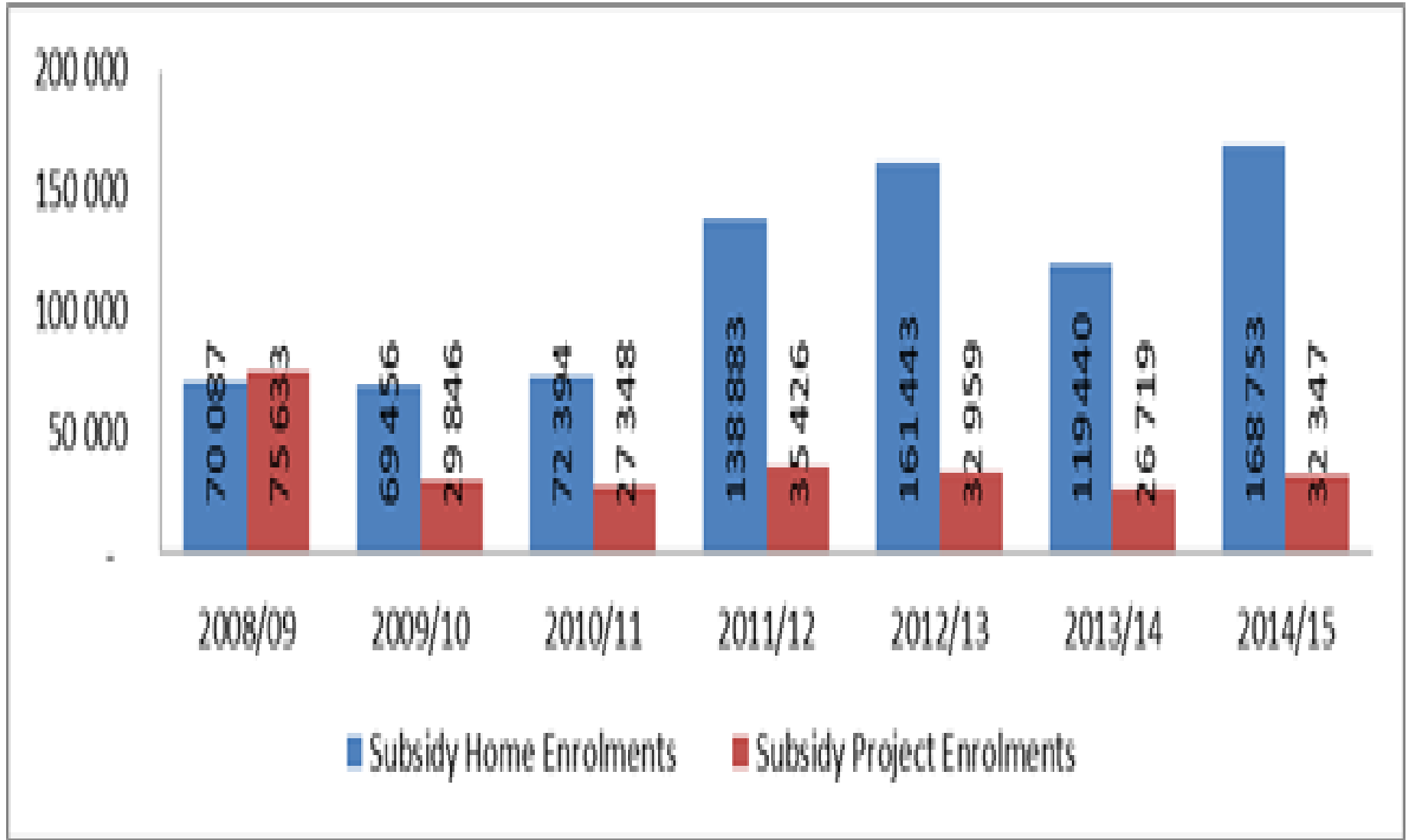
Registration and Renewal of registration



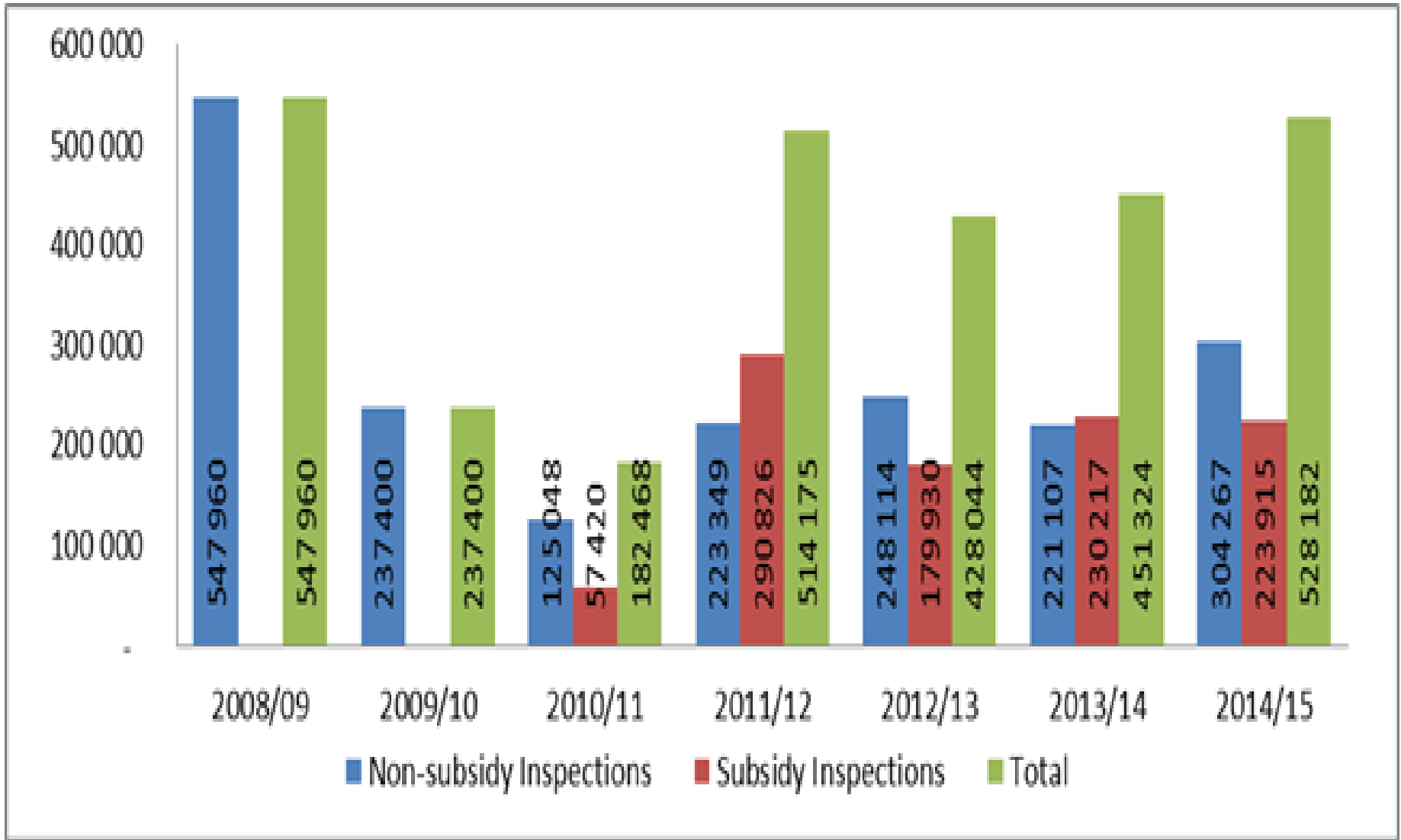
Enrolment and Late Enrolment of homes



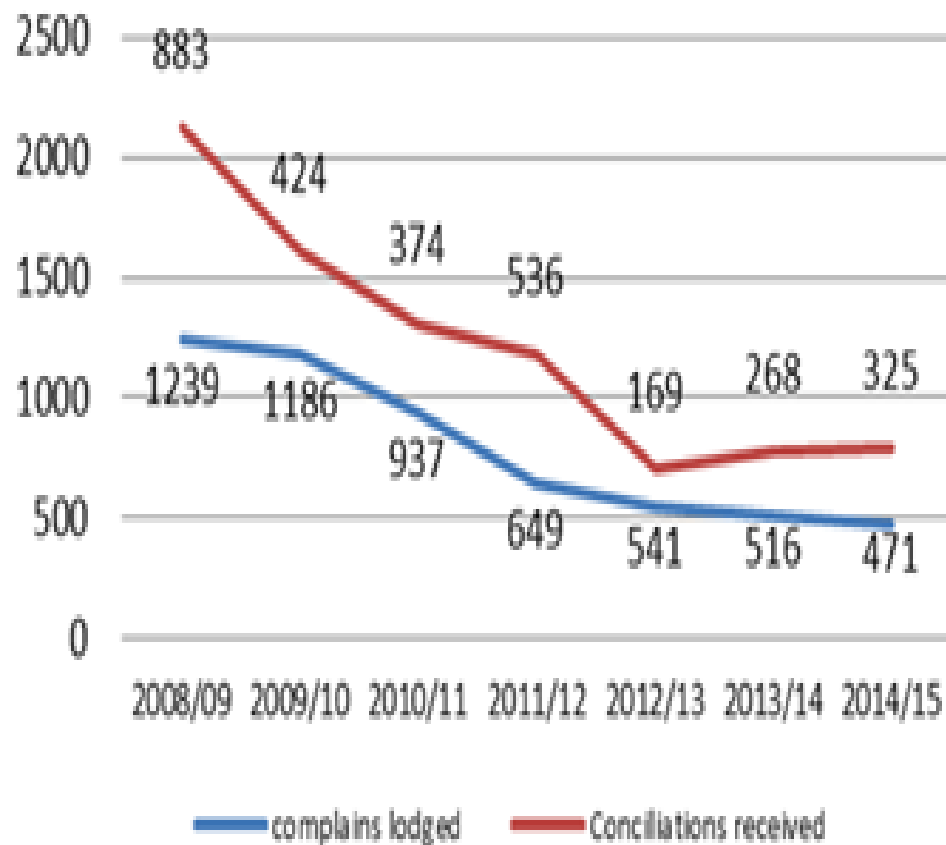
Project and Home Enrolment



Subsidy and Non-Subsidy Inspections

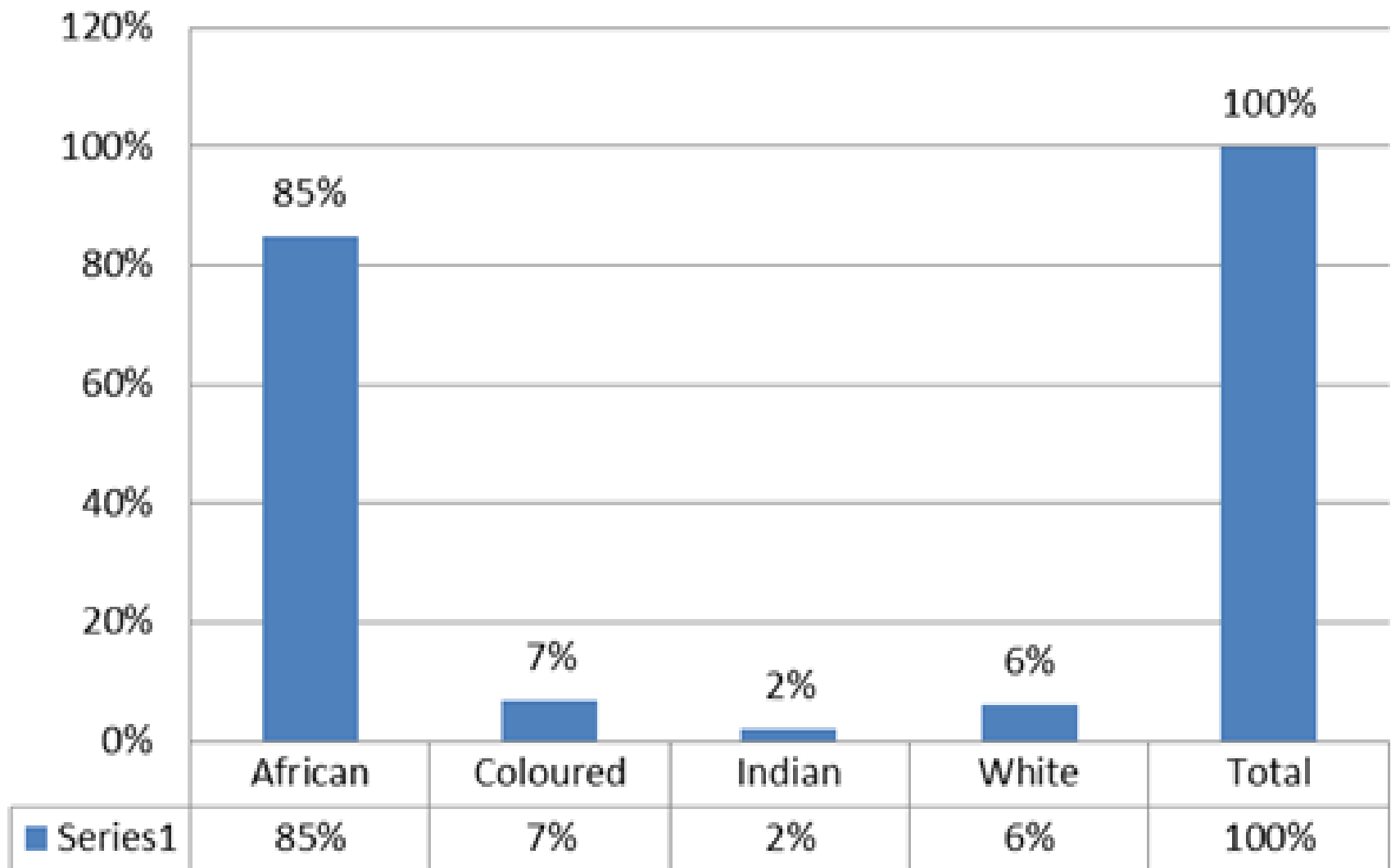


Complaints lodged and conciliation received



There is a noticeable decrease on the number of complaints received by the NHBRC over the past 7 years with a decrease of 9% in complaints in the current year compared to previous year. A 21% increase in the number of conciliations is attributed to complaints that were still under investigation at the end of the previous year.

Employment Equity Chart



Enforcement and Compliance in the industry

NHBRC has established a fully fledged division to ensure that:

- There is an efficient and effective execution of the NHBRC's legislative mandate by ensuring compliance with the applicable legislative framework, enforcement of the Act and provision of cutting edge legal advisory services.
- Key Focus Areas
- To ensure compliance with applicable legislative and regulatory framework;
- To ensure enforcement with the Act through prosecution of defaulters;
- To implement an efficient contract management system;
- To ensure prudent litigation management system (including interdicts and recoveries); and
- To provide cutting edge legal advisory services.

Disciplinary Committee hearings

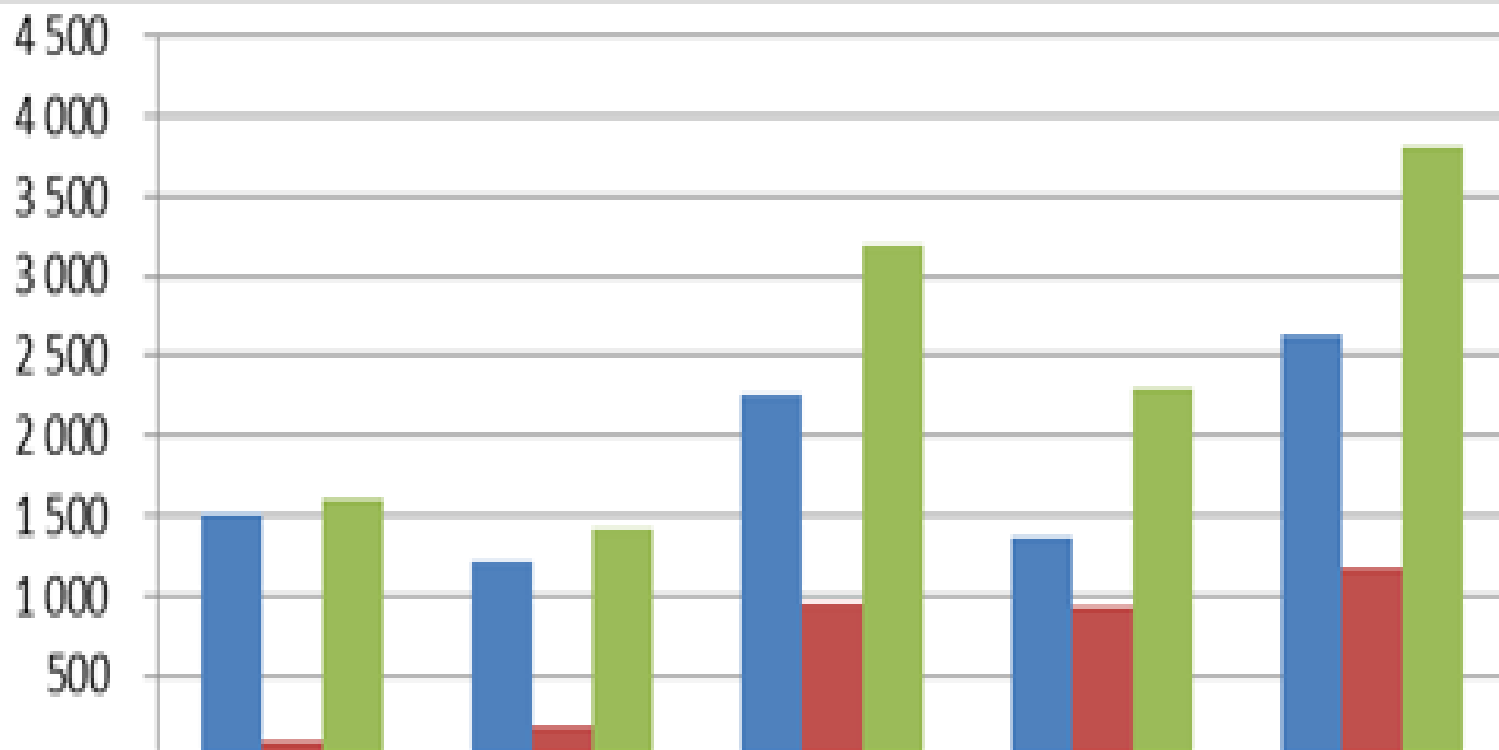
Disciplinary Committee Hearings for 2014/15

| Provinces | Suspensions | Total DC Hearings | Not Guilty Verdict | Warning | Fine Imposed | Registration Withdrawn | Matters Postponed/Struck off the Roll | Charges Withdrawn |
|--------------|-------------|-------------------|--------------------|-----------|--------------|------------------------|---------------------------------------|-------------------|
| WC | 71 | 79 | 1 | 7 | 37 | 2 | 19 | 9 |
| KZN | 16 | 38 | 0 | 2 | 24 | 2 | 4 | 6 |
| GP | 28 | 56 | 1 | 23 | 8 | 1 | 19 | 4 |
| EC | 8 | 23 | 0 | 0 | 22 | 0 | 1 | 0 |
| MP | 19 | 20 | 1 | 3 | 7 | 3 | 4 | 2 |
| LP | 79 | 80 | 2 | 4 | 41 | 4 | 15 | 14 |
| NW | 9 | 25 | 0 | 2 | 17 | 2 | 2 | 2 |
| NC | 0 | 4 | 0 | 2 | 2 | 0 | 0 | 0 |
| FS | 3 | 14 | 0 | 4 | 5 | 0 | 4 | 1 |
| TOTAL | 233 | 339 | 5 | 47 | 163 | 14 | 68 | 38 |

Growth rate in suspension

| 2013/14 Financial Year | | | 2014/15 Financial Year | |
|------------------------|-------------|-------------------|------------------------|-------------------|
| Provinces | Suspensions | Total DC Hearings | Suspensions | Total DC Hearings |
| Western Cape | 78 | 82 | 71 | 79 |
| KwaZulu-Natal | 15 | 28 | 16 | 38 |
| Gauteng | 23 | 50 | 28 | 56 |
| Eastern Cape | 14 | 54 | 8 | 23 |
| Mpumalanga | 5 | 9 | 19 | 20 |
| Limpopo | 36 | 32 | 79 | 80 |
| North West | 8 | 27 | 9 | 25 |
| Northern Cape | 4 | 11 | 0 | 4 |
| Free State | 19 | 35 | 3 | 14 |
| TOTAL | 202 | 328 | 233 | 339 |

Training of homebuilders and Youth



| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|-----------------------|---------|---------|---------|---------|---------|
| EHBT | 1 505 | 1 218 | 2 250 | 1 369 | 2 629 |
| Govt Training | 100 | 192 | 948 | 934 | 1 184 |
| Total Learners | 1 605 | 1 410 | 3 198 | 2 303 | 3 813 |

Women Empowerment Programme

- The aim of the programme is to empower women in the construction sector.
- NHBRC identified a need for women to add value and improvement within the construction sector.
- Programme was conceived in October 2013 in order to celebrate and mark 20 years of democracy.
- Various organizations like BBC, BBCBE and SAWIC were approached to nominate candidates for the programme.
- Initially the aim was to empower 20 women per annum but an additional 80 women were added into the programme to make a total of 100.
- The additional 80 women candidates graduated on 07 August 2015.
- Mentorship of the programme commenced in order to empower candidates with practical skills.

Challenges within Subsidy Housing sector

- Some of the Departments/Municipalities failing to adhere to construction schedule.
- Some of the Departments/Municipalities appointing homebuilders who are not registered with NHBRC.
- Departments/Municipalities building homes when home enrolments is not in place and approved by NHBRC.
- Challenges with continuous leadership changes at provincial level.
- Projects that are stalled with no indication and when they are revived NHBRC not informed so that we can continue with inspections.

Key Challenges within built environment

- Projects in rural areas are sparsely populated
- In rural areas the economy of scale does not attract well experienced Developers and contractors
- Situation is worse when we deal with areas underlying by dolomitic soil type

Key Challenges within built environment

- Utilisation of unskilled labour on projects.
- Late enrolment of projects and construction schedule not adhered to.
- Technical non-compliances not attended to or rectified timeously.
- Usage of substandard material to construct homes.
- Complaints lodged by housing consumers not resolved within legally prescribed period.

Interventions by NHBRC

1. Engineers provided by NHBRC in all the provincial human settlements departments to speed up the subsidy enrolments.
2. Plans are in place to ensure that subcontractors are registered with NHBRC.
3. NHBRC testing building materials at Eric Molobi testing center for quality control and to reduce the use of substandard materials in the sector.
4. Turnaround for resolving complaints have been improved for 180 days to 30 days.
5. Implementation of the inspection model to ensure that all homes enrolled with NHBRC are inspected and qualify for a warranty.

Training courses offered by NHBRC

- Emerging Home Builder Training
- Support of Government Training Programme targeting youth
- Support of Government Training Programme targeting women
- Inspector Training
- Artisan Development
- Homebuilder Development Programme
- Women Empowerment Programme through GIBS Institute

International Networking

- NHBRC is a member of both the International Housing and Home Warranty Association (IHHWA) and the International Housing Association (IHA).
- The common objective of both associations is to provide a global forum for networking
- To share and discussion of common issues and concerns related specifically to housing and the home building sector, although the IHHWA narrowly focusses it on housing and home warranty.

IHHWA and IHA

- Provide a forum for warranty organisations to establish contact and build relationships around the world
- Exchange policy information on respective warranty markets
- Share best business practices and experience
- Share market and business intelligence
- Provide a portal through the website of information, research and policy updates on housing and home warranty issues around the world

Working Groups and Meetings:

International Housing and Home Warranty Association

- Counterfeit & non-conforming products
- Building information modelling
- Green Building

International Housing Association

- Energy efficiency
- Social housing

INTERNATIONAL PARTNERSHIPS

IHHWA and IHA

- Provides platform for members to engage between each
- Provides platform to participate in International Housing and Home Warranty Conference
 - 2011 – Hosted by NHBRC (Cape Town)
 - 2014 – Hosted by Canada
 - 2017 – To be hosted by Japan
- Provide regular updates on issues within the warranty market
- Two annual meetings with a programme of activity discussions and updates.
- Next Meetings
 - IHA – October 2015

INTERNATIONAL PARTNERSHIPS

The outcomes of the participation has resulted in NHBRC:

- Establishing contacts and building relationships with similar international organisations providing warranty schemes;
- Exchanging policy information on the home built environment;
- Sharing best business practices and experience; and
- Sharing market and business intelligence.

AG PROGRESS UPDATE LAST 3 YEARS

| Year | AG Opinion | Matters of Emphasis Raised |
|------|-------------|--|
| 2013 | Unqualified | <ul style="list-style-type: none">• Irregular Expenditure• Performance Information• IT |
| 2014 | Unqualified | <ul style="list-style-type: none">• Irregular Expenditure• Performance Information• IT |
| 2015 | Unqualified | <ul style="list-style-type: none">• Irregular Expenditure• Performance Information• IT |

AUDIT ISSUES: PERFORMANCE INFO

| AG ISSUE | ISSUE RAISED | 2015 REPORT | Action Plan | Timelines |
|--------------------------------|--------------------------------|--|---|---|
| PERFORMANCE INFORMATION | F/Y ENDING 2013, 2014 AND 2015 | Adverse/and qualified opinions on : <ul style="list-style-type: none"> • Limitation of scope due to insufficient POE • KPIs not SMART • Poor POE impacting on reliability • KPI not verifiable • Misalignment between audit outcomes and individual performance | <ul style="list-style-type: none"> • The number of strategic (Level 1) KPIs has been rationalised • The AG issues have been addressed to some extent in 2015/16 • NHBRC will workshop area with AG to enhance understanding in formulation and reporting of KPAs and KPIs • Management to be individual held accountable for PI in the area | Tracking and Reporting to be done every Quarter to Exco and Council |

AUDIT ISSUES: SUPPLY CHAIN MGT

| AG ISSUE | 2015 REPORT | Action Plan | Timelines |
|--------------------------------|-------------------------------------|---|---|
| SUPPLY CHAIN MANAGEMENT | Three quotes not obtained | <ul style="list-style-type: none"> • Non-compliant Policy was developed and approved, and now in implementation • Non-compliant areas to be made to account • Report on non-compliant expenditure reported at Exco and Armco • Audit , Risk Management and Compliance have implemented a combined assurance plan targeting supply chain | Tracking and Reporting to be done every Quarter to Exco and Council |
| | Employee conflict of interests | <ul style="list-style-type: none"> • Conflict policy has been approved and is being implemented • Staff declarations to be done annually | |
| | Irregular expenditure not disclosed | <ul style="list-style-type: none"> • Report on non-compliant expenditure reported at Exco and Armco • Data Analytics to be performed to flag potential non compliances for further follow up | |

AUIDT ISSUES: INFORMATION TECHNOLOGY

| Finding | Breakdown of Finding | Status |
|---|--|---|
| <p>Inadequate IT Governance controls</p> <p>Accountable Person: CIO</p> <p>Planned Resolution Date: 30/12/2015</p> | <p>IT Governance documentation is in draft format</p> | <p>The two documents were due for discussion by the policy Task Team on the 19th of August. Due to the volume of policies for discussion, these were carried over to the next session.</p> |
| | <p>formal IT Internal Control Framework has not been developed, approved and implemented</p> | <p>Not Started To start after SAP roll-out..</p> |
| | <p>The IT risk register does not cover the Oracle ERP environment</p> | <p>Sessions to identify and formally document IT risks currently in progress. Session for Oracle scheduled for Oracle ERP environment scheduled for the 21st of September.</p> |
| | <p>The <u>IT Strategic plan</u> is in draft format and not formally approved</p> | <p>Commenced with overall IT governance project on the 1st of September</p> |
| | <p>A formal IT steering committee has not been established</p> | <p>Complete</p> |

AUIDT ISSUES: INFORMATION TECHNOLOGY

| | | |
|---|--|--|
| <p>Inadequate security management controls Accountable Person: CIO Planned Resolution Date: 30/12/2015</p> | <p>The IT security policy is in draft format and has not been formally approved</p> | <p>Commenced with IT governance project on the 1st of September Terms of Reference drafted for sourcing Information Security Services – to be submitted for approval.</p> |
| <p>Inadequate user access controls Accountable Person: CIO Planned Resolution Date: 30/12/2015</p> | <p>Password parameters have not been optimally configured on the Siebel application</p> | <p>Complete</p> |
| | <p>On the Oracle and Siebel applications user account management processes such as new-user registrations, terminations of access, regular reviewing of access rights and changes to user profiles were not formalised</p> | <p>SAP Project currently in progress.</p> |
| | <p>No periodic review user access violations are currently being performed</p> | <p>SAP Project currently in progress.</p> |

ACTION PLAN 2014/15.

This action plan is driven and co-ordinated by CEO Office comprising of:

- Strategy development and monitoring and
- Internal Audit.
- Risk Management
- CFO

Progress reports tabled regularly to EXCO for onward submission to Council.

Action Plan


- The NHBRC is monitoring performance information on a monthly basis and Executive Managers are held accountable for POE.
- The NHBRC is re-engineering its processes particularly the Performance Information, this will form part of the new ERP system.
- NHBRC will be closely monitoring the Management Accounts and its POE as they are submitted on a monthly basis to the Executive Authority.

Annual Financial Statements Analysis


For the year ended 31 March 2015





Salient features

 Total assets have grown by R614m after adjusting to fair values


 Growth in the investment portfolio amounts to R578m for 2014/15

 Net Cash generated from operations amounts to R341m


 Cash invested amounts to R306m

 Total income earned of R839m (after actuarial adjustments)

 Operating profit amounts to R189m

 Net profit amounts to R523m

 Improved risk profile of the Warranty Fund

 Administrative expenses have increased to R628m in 2014/15

 Irregular expenditure has reduced from R130m in 2013/14 to R53m in 2014/15

Income statement – 5 years



Operating profit amounts to R189m



Net profit amounts to R523m

NHBRC

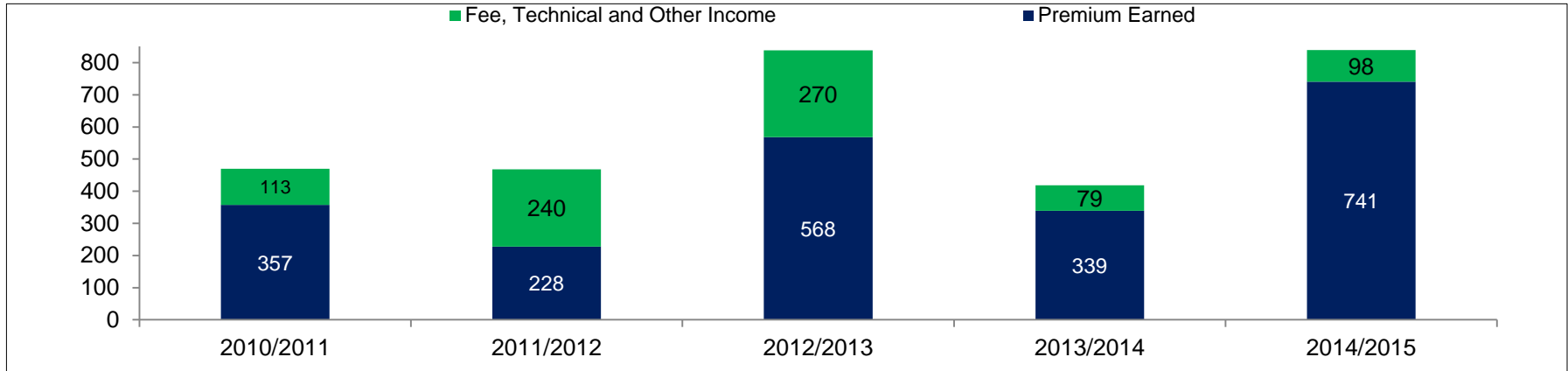
Income Statement 5 year view

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|--------------------|--------------------|---------------------|--------------------|--------------------|--------------------|
| | R | R | R | R | R | R |
| Insurance premium revenue | 330 713 305 | 356 560 296 | 227 674 344 | 568 476 259 | 339 061 175 | 740 770 044 |
| Fee revenue | 49 945 237 | 31 907 933 | 58 301 592 | 47 477 895 | 30 951 855 | 50 680 650 |
| Technical services revenue | 45 153 093 | 80 396 035 | 139 283 978 | 215 989 718 | 42 214 463 | 24 124 500 |
| Other income | 17 156 326 | 881 299 | 42 438 202 | 6 155 467 | 5 425 437 | 23 229 935 |
| Net income | 442 967 961 | 469 745 563 | 467 698 116 | 838 099 339 | 417 652 930 | 838 805 129 |
| | | 6% | 0% | 79% | -50% | 101% |
| Insurance claims and loss adjustment expenses | 19 048 250 | 11 542 190 | 5 255 613 | 8 884 344 | 2 273 540 | 14 638 847 |
| Inspections and operating expenses | 112 470 022 | 59 041 867 | 76 928 941 | 56 849 342 | 62 894 274 | 1 708 314 |
| Technical services expenditure | - | 27 700 625 | 192 065 741 | 235 913 941 | 26 652 774 | 5 368 647 |
| Administration expenses | 340 561 898 | 330 631 250 | 329 999 135 | 343 794 695 | 416 724 764 | 627 804 025 |
| Expenses | 472 080 170 | 428 915 932 | 604 249 430 | 645 442 322 | 508 545 352 | 649 519 834 |
| | | -9% | 41% | 7% | -21% | 27% |
| Profit/(loss) from operating activities | -29 112 209 | 40 829 631 | -136 551 314 | 192 657 017 | -90 892 422 | 189 285 296 |
| | | 240% | -434% | 241% | -147% | 312% |
| Net investment income | 240 200 709 | 390 961 109 | 246 710 010 | 332 667 768 | 305 467 316 | 338 272 291 |
| Interest received and investment income | 239 914 989 | 203 122 056 | 197 357 574 | 199 183 249 | 218 047 369 | 271 072 480 |
| Realised profit on sale of financial activities | 9 711 932 | 196 607 721 | 58 197 775 | 143 092 105 | 97 185 568 | 75 067 393 |
| Asset management services | -9 426 212 | -8 768 668 | -8 845 339 | -9 607 586 | -9 765 621 | -7 867 582 |
| Net profit before finance costs | 211 088 500 | 431 790 740 | 110 158 696 | 525 324 785 | 214 574 894 | 527 557 587 |
| Finance costs | 8 785 | 255 | 575 | 8 470 | - | 4 369 938 |
| Surplus for year | 211 079 715 | 431 790 486 | 110 158 121 | 525 316 314 | 214 574 893 | 523 187 649 |

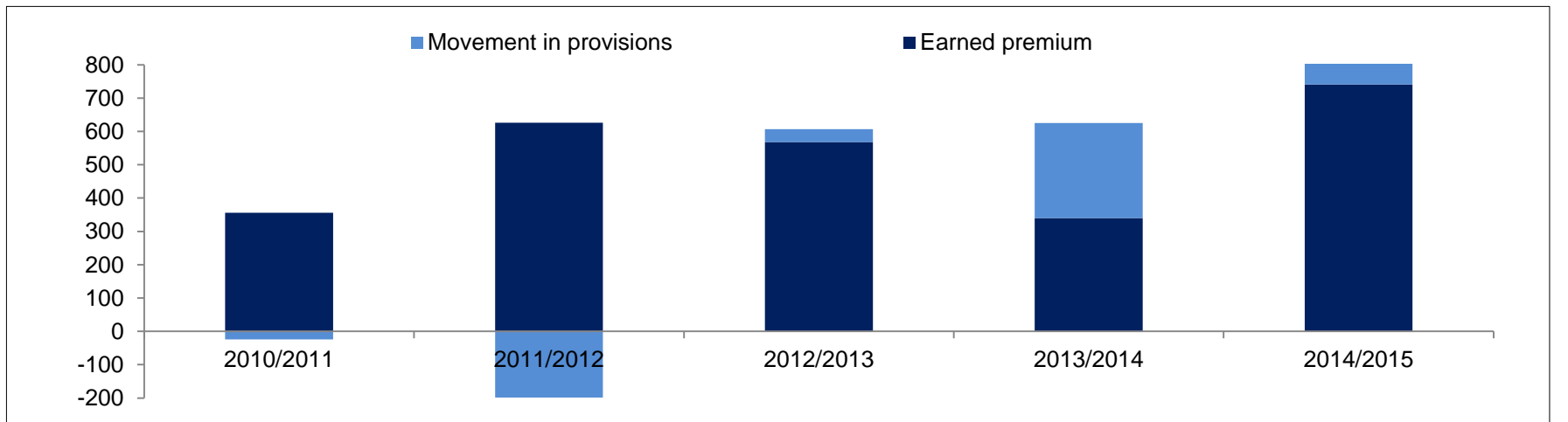
Revenue



Total income earned of R839m (after actuarial adjustments)



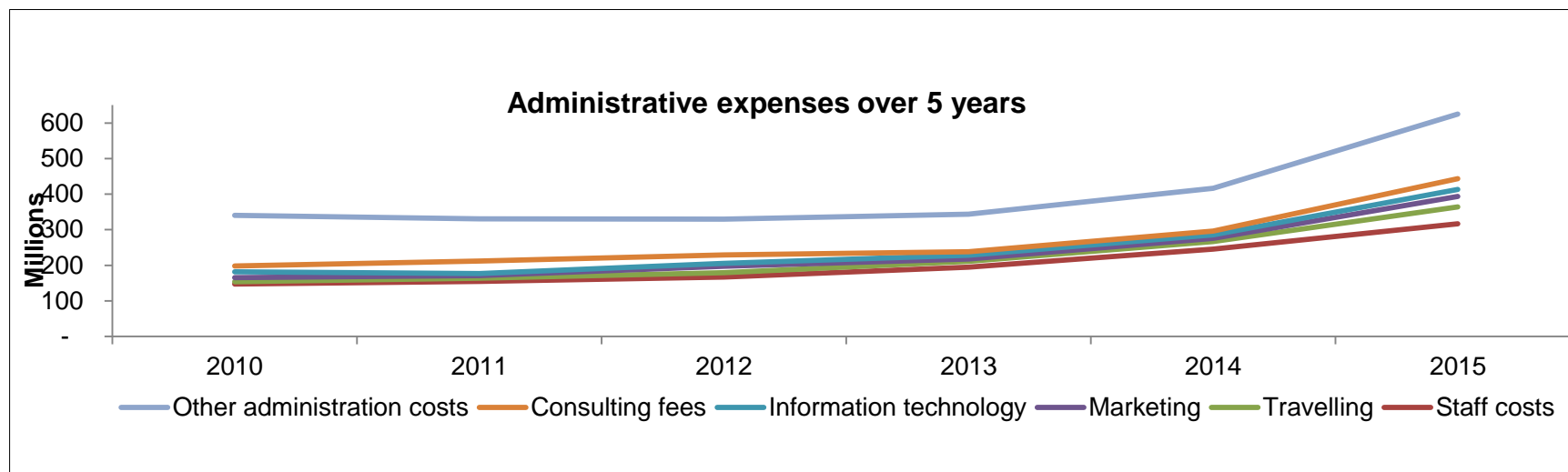
Premiums received in 2014/15 amounts to R807m



Operating costs



Administrative expenses have increased to R628m in 2014/15



| | 2010 R | 2011 R | 2012 R | 2013 R | 2014 R | 2015 R |
|----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Staff costs | 147 723 586 | 154 608 389 | 167 284 764 | 195 008 551 | 245 534 932 | 316 659 728 |
| Travelling | 6 615 537 | 9 131 391 | 11 850 448 | 16 020 875 | 21 068 773 | 47 208 801 |
| Marketing | 11 257 935 | 7 041 256 | 18 555 156 | 6 587 804 | 8 996 145 | 29 466 696 |
| Information technology | 16 010 287 | 6 296 727 | 7 738 905 | 10 984 788 | 10 291 672 | 19 600 147 |
| Consulting fees | 16 324 543 | 35 177 400 | 23 478 727 | 9 472 229 | 10 522 795 | 30 233 667 |
| Other administration costs | 142 630 009 | 118 376 087 | 101 091 136 | 105 720 449 | 120 310 446 | 184 634 987 |
| | 340 561 898 | 330 631 250 | 329 999 135 | 343 794 695 | 416 724 764 | 627 804 025 |

Balance Sheet – 5 year view



Total assets have grown by R614m after adjusting to fair values



Equity has grown by R523m



Total liabilities have grown by R90m

NHBRC

Balance sheet 5 year view

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | R | R | R | R | R | R |
| ASSETS | | | | | | |
| Non current assets | 1 847 208 879 | 1 310 642 748 | 1 710 731 713 | 1 950 434 935 | 2 580 426 257 | 2 178 771 619 |
| Current assets | 1 241 448 317 | 2 256 692 908 | 2 141 610 667 | 2 271 505 824 | 2 180 348 811 | 3 195 273 781 |
| TOTAL ASSETS | 3 088 657 196 | 3 567 335 656 | 3 852 342 380 | 4 221 940 760 | 4 760 775 068 | 5 374 045 400 |
| EQUITY AND LIABILITIES | | | | | | |
| Equity | 2 144 979 067 | 2 450 297 361 | 2 554 807 853 | 3 080 124 168 | 3 294 699 059 | 3 817 866 709 |
| LIABILITIES | | | | | | |
| Non current liabilities | 547 397 941 | 577 368 699 | 775 570 168 | 818 731 582 | 1 047 637 607 | 1 021 732 856 |
| Current liabilities | 396 280 188 | 539 669 597 | 521 964 358 | 323 085 010 | 418 438 402 | 534 425 834 |
| TOTAL EQUITY AND LIABILITIES | 3 088 657 196 | 3 567 335 656 | 3 852 342 380 | 4 221 940 760 | 4 760 775 068 | 5 374 045 400 |



Cash flow - 5 year view



Cash generated from operations amounts to R341m



Cash invested amounts to R306m



Cash in bank of R172m

NHBRC

Cash Flow Statement 5 year view

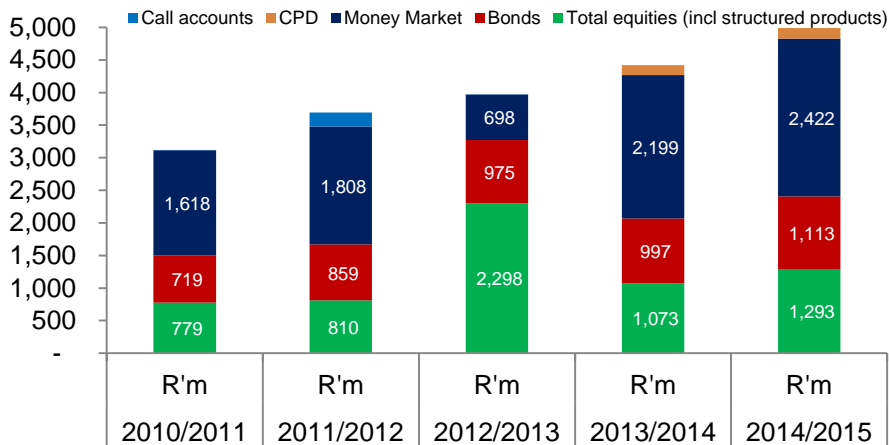
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---------------------|--------------------|-------------------|--------------------|--------------------|--------------------|
| | R | R | R | R | R | R |
| Cash flows from operating activities | ↑ 64 774 728 | 260 658 071 | 29 379 227 | 81 829 055 | 258 913 629 | 341 285 575 |
| Cash flows from investing activities | ↑ 82 474 013 | 85 203 318 | -325 210 181 | 22 185 597 | -237 670 399 | -305 946 094 |
| Cash flows from financing activities | -14 118 528 | -22 269 995 | -311 205 775 | -12 558 677 | -8 266 727 | -11 103 559 |
| Cash and cash equivalents at beginning of year | 27 084 595 | 30 665 353 | 354 256 747 | 43 050 972 | 134 506 947 | 147 483 450 |
| Cash and cash equivalents at end of year | ↑ 30 665 352 | 354 256 747 | 43 050 972 | 134 506 947 | 147 483 450 | 171 719 372 |

Investments – 5 Years



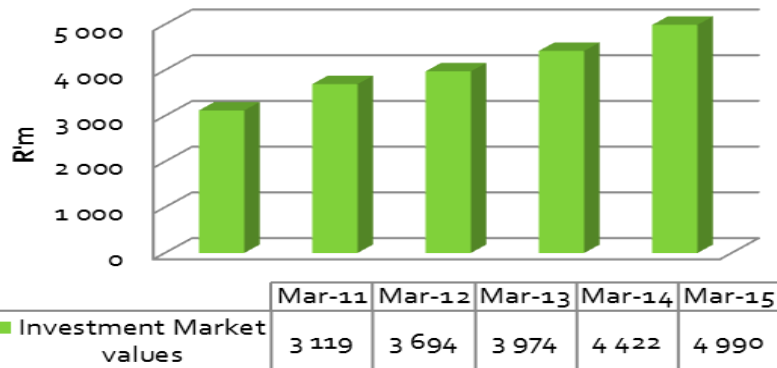
Growth in the investment portfolio amounts to R578m for 2014/15

Investment portfolio over 5 years

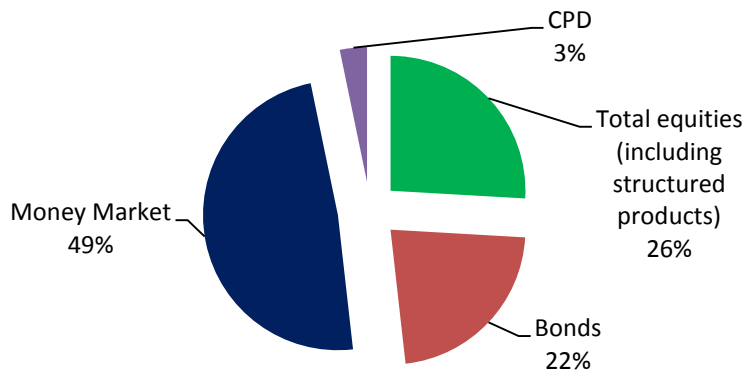


Growth in investment portfolio over 5 years

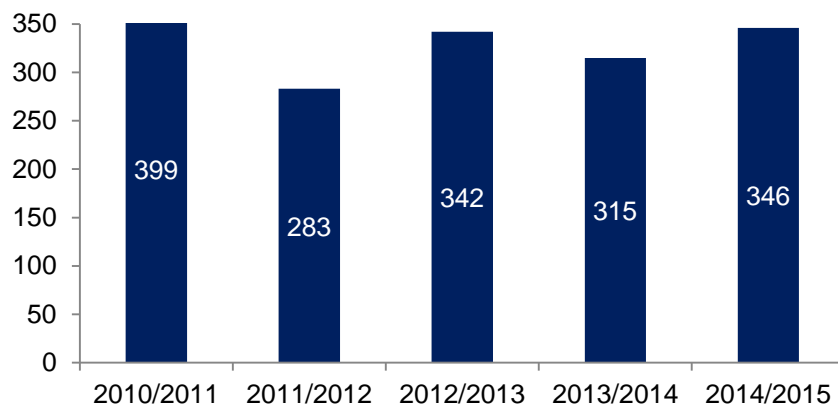
Investment Market values



Investment portfolio composition at 31 March 2015



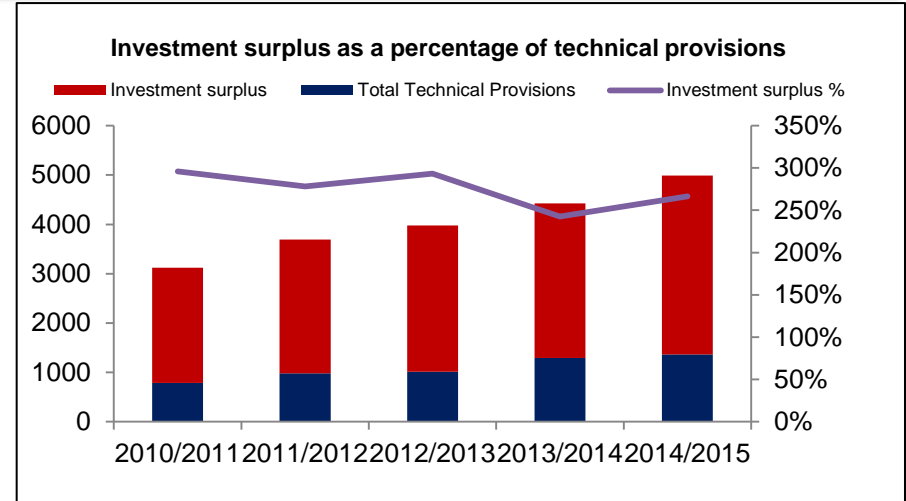
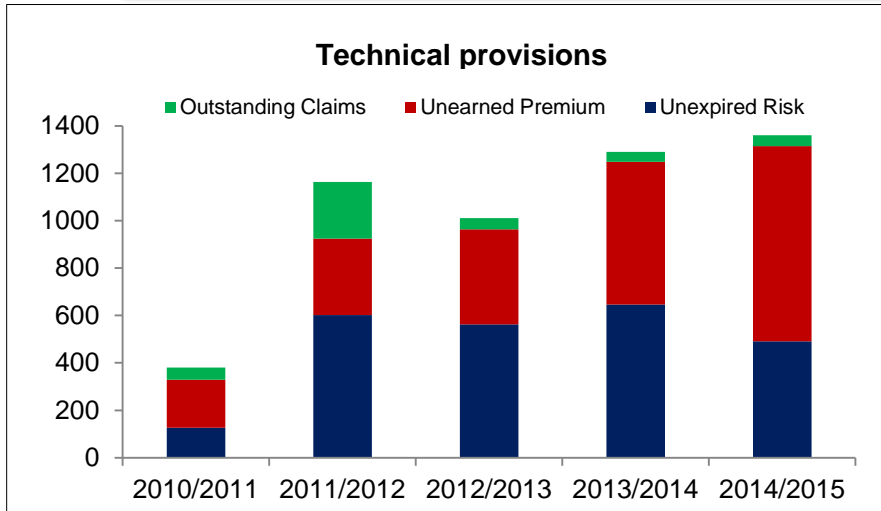
Investment Income



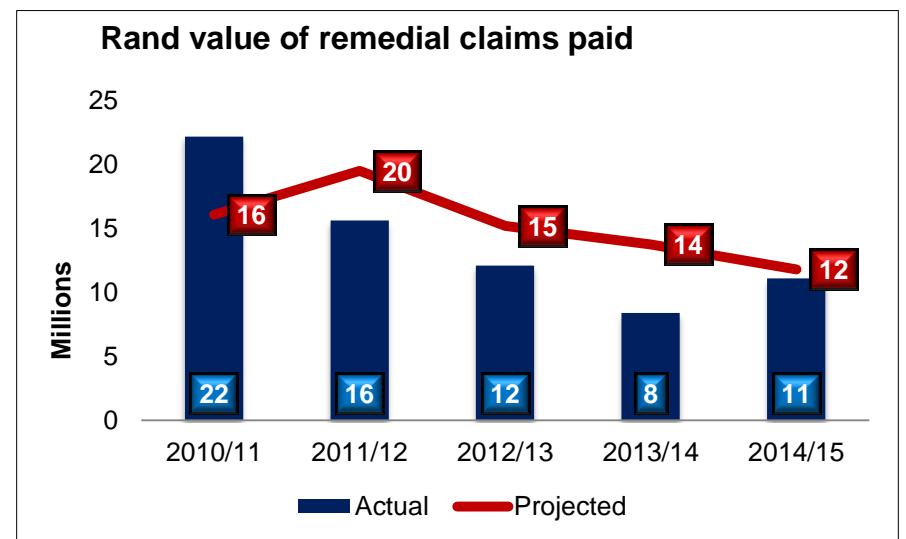
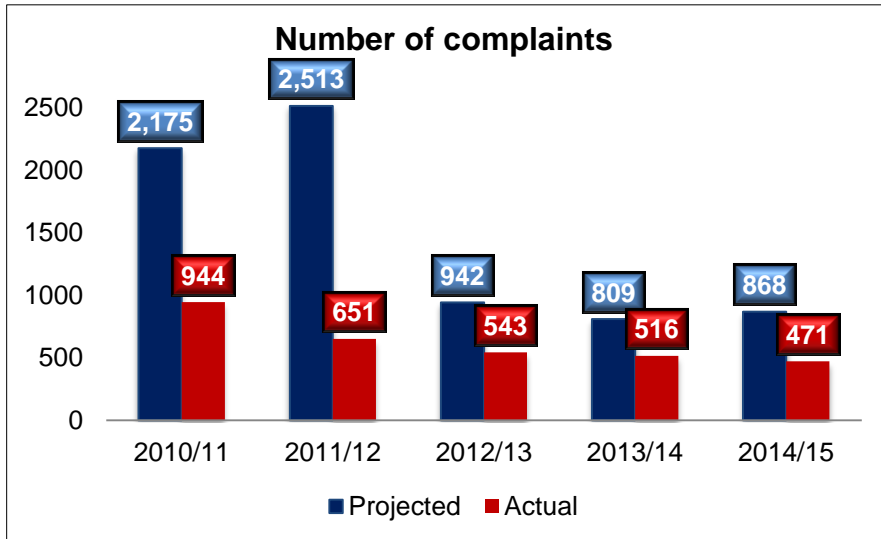
Liabilities



Investment surpluses exceed technical provisions by 267%



Improved risk profile of the Warranty Fund



Irregular expenditure



Irregular expenditure has reduced from R130m in 2013/14 to R53m in 2014/15



Wasteful expenditure amounted to R5m for 2014/15 (Sars penalty and fines PAYE)

A Contract ended

B Out on tender

C New service provider appointed

D Contract ended

E Tender process corrected

F Contract ended

G Quotation process corrected

Irregular Expenses carried forward from prior years

| Irregular Register | Total Value |
|---|---------------------|
| A. Extension to non-subsidy inspectorate | R 956 468 |
| B. Appointment of security service provider | R 4 143 713 |
| C. Appointment of ERP Service provider | R 6 990 114 |
| D. Training tender not advertised for 21 days | R 2 183 054 |
| E. KZN and EC Forensics | R 2 810 342 |
| F. BBR Design | R 12 884 530 |
| G. IT related services without 3 quotes | R 771 384 |
| Total | R 30 739 605 |

Current Irregular Expenses Fin Year 2014/15

| Current Irregular Register | Number of Transactions | Total Value |
|-----------------------------------|------------------------|------------------------|
| 1. Courier Services | 372 | R 591 119,50 |
| 2. Cleaning services | 60 | R 2 291 898,92 |
| 3. Legal Services | 107 | R 3 628 250,43 |
| 4. Recruitment Services | 75 | R 1 862 636,82 |
| 5. Filing Services | 110 | R 656 465,02 |
| 6. Courier and Photocopy services | 105 | R 976 183,15 |
| 7. Professional Services | 7 | R 2 824 177,27 |
| 8. Consumable Goods (Clothing) | 16 | R 62 955,34 |
| 9. Traveling services | 1012 | R 7 129 028,99 |
| Total | 1864 | R 20 022 715,44 |

1 Transversal contract wef 1/6/2015

2 Bid specs in progress

3 Bid closed - evaluation

4 Bid specs in progress

5 Bid specs in progress

6 Transversal contract wef 1/6/2015

7 Contracts ended

8 New contractor appointed (single source)

9 Section 16 contract acquired in August '14

Auditor-General

Audit Report for the year ended 31 March 2015

Overview



Overview of audit report

| Audit report section | Outcome in comparison to 2013/14 |
|---|----------------------------------|
| Section 2: Matters relating to the auditor's report | |
| Part A: Misstatements in the financial statements | Improvement |
| Part B: Matters to be brought to the attention of the users | Improvement |
| Part C: Conclusions on performance information | Deterioration |
| Part D: Findings on non-compliance with legislation | Improvement |
| Part E: Internal control | Improvement |
| Part F: Assessment of assurance providers | No movement |
| Section 3: Specific focus areas | |
| Part A: Procurement and contract management | Improvement |
| Part B: Financial indicators | Good |
| Part C: Fraud | Good |
| Part D: Consequences management | Deterioration |

Good

The results were positive in previous years audit and remained positive in current years audit

Section 2 – Part A – Misstatements in the AFS

2014/15

PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS

7. We commend the public entity for submitting financial statements that were free from material misstatements.

2013/14



Improvement

PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS

1. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the National Home Builders Registration Council's system of internal control. These material misstatements also constitute non-compliance with section 55(1) of the PFMA.

| Material misstatement | | | Impact current year R | Impact prior year R |
|---|--|------------------------|-----------------------|---------------------|
| Financial statement item | Finding | Occurred in prior year | | |
| Material misstatements not corrected | | | | |
| None noted | | | | |
| Material misstatements corrected | | | | |
| Irregular expenditure disclosed | Additional irregular expenditure disclosed | Yes | R 25 948 634 | R 78 893 398 |

Section 2 – Part B – Matters brought to attention of users

Given the regulatory nature of the NHBRC it is susceptible to legal challenges. Hence this paragraph is unlikely to disappear from its audit report

2014/15

Significant uncertainties

9. With reference to note 25 to the financial statements, relating to pending cases which have been disclosed as contingent liabilities, the ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

2013/14

Significant uncertainties

1. With reference to note 26 to the financial statements, relating to pending cases which have been disclosed as contingent liabilities, the ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

2. As disclosed in note 28 to the financial statements, the corresponding figures for 31 March 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the National Home Builders Registration Council at, and for the year ended, 31 March 2013.



Improvement

Part C: Conclusions on performance information

2014/15

Summary of audit conclusions

22. The following is a summary of our conclusions on the usefulness and reliability of the reported performance information:

| Selected programme | Usefulness | Reliability |
|---|--------------------|-------------------|
| a. Programme A: Home Builders Registration | <i>Unqualified</i> | <i>Disclaimer</i> |
| b. Programme B: Renewal of Home Builder Registration | <i>Qualified</i> | <i>Disclaimer</i> |
| c. Programme C: Enrolments | <i>Unqualified</i> | <i>Qualified</i> |
| d. Programme D: Late enrolment of homes | <i>Qualified</i> | <i>Disclaimer</i> |
| e. Programme E: Project and Home Enrolment (Subsidy Sector) | <i>Unqualified</i> | <i>Adverse</i> |
| f. Programme F: Complaints and Conciliations | <i>Qualified</i> | <i>Adverse</i> |
| g. Programme G: Project Support Unit (PSU) | <i>Disclaimer</i> | <i>Disclaimer</i> |
| h. Programme J: Legal Compliance and Enforcement | <i>Qualified</i> | <i>Qualified</i> |
| i. Programme N: Quality Assurance | <i>Adverse</i> | <i>Disclaimer</i> |
| j. Programme N: Technical Support | <i>Disclaimer</i> | <i>Disclaimer</i> |
| k. Programme P: Homebuilder training & development | <i>Unqualified</i> | <i>Adverse</i> |

2013/14

| Selected programme | Usefulness | Reliability |
|---|--------------------|-------------------|
| a. Programme A: Home Builders Registration and Renewals | <i>Unqualified</i> | <i>Qualified</i> |
| b. Programme B: Home Enrolments | <i>Unqualified</i> | <i>Disclaimer</i> |
| c. Programme C: Compliance | <i>Unqualified</i> | <i>Disclaimer</i> |
| d. Programme D: Training | <i>Unqualified</i> | <i>Disclaimer</i> |
| e. Programme E: Inspections | <i>Unqualified</i> | <i>Qualified</i> |

Deterioration

Key root causes of deterioration

1. Increased number of stand alone programmes and related KPIs
2. Increased complexity as well as number of variables used in calculation of actual.
3. Measurement of KPIs not defined and measured
4. Manual and /or non-standard practices among provinces.
5. Non availability and/or quality of supporting documents.
6. No alignment between audit outcomes and individual performance.

Part D: Findings on non-compliance with legislation

2014/15

Procurement and contract management

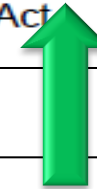
68. Goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation 16A6.1.

Expenditure management

69. The accounting authority did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the Public Finance Management Act.

2013/14

Improvement



Procurement and contract management

1. Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulation 16A6.1.
2. Goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation 16A6.1.
3. Invitations for competitive bidding were not always advertised for a required minimum period of 21 days, as required by Treasury Regulation 16A6.3(c).
4. Quotations were procured from suppliers who did not have tax clearance with SARS confirming that their tax matters are in order.










































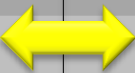












Expenditure management

5. The accounting authority did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the Public Finance Management Act.

Revenue management

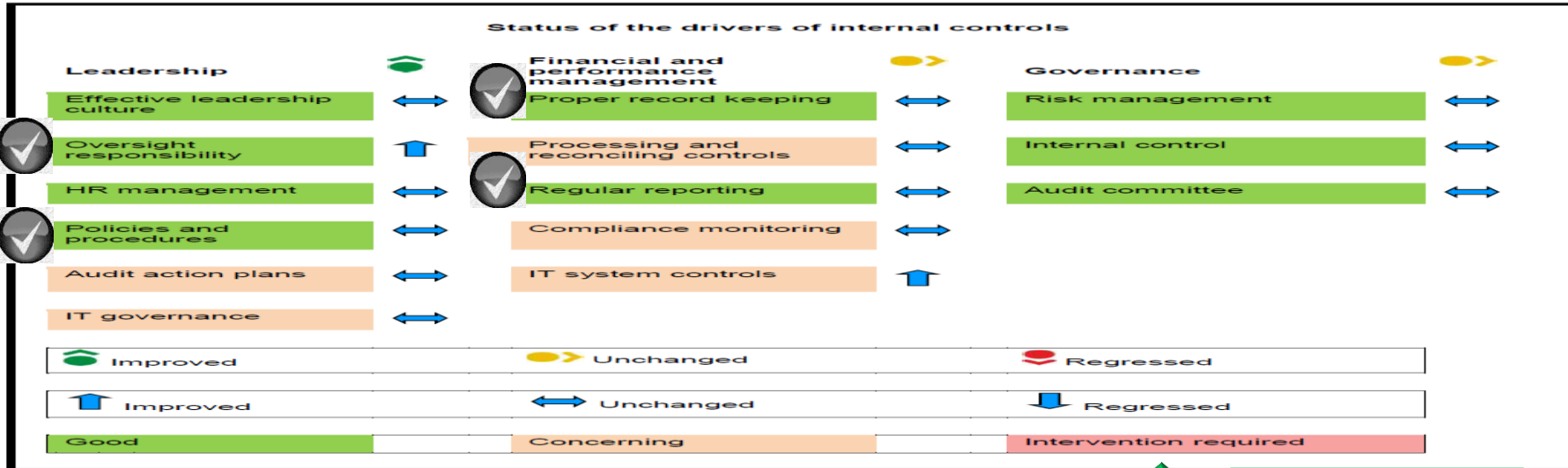
6. The accounting authority did not take effective and appropriate steps to collect all money due, as required by section 51(1)(b)(i) of the Public Finance Management Act and Treasury Regulations 31.1.2(a) and 31.1.2(e). An amount of R14 million, owed by the Department of Human Settlements in the Eastern Cape has been outstanding for more than 30 days. The Public Entity has had regular discussions with the Department to recover the outstanding debt.

Part E: Internal control

| | Financial statements | | Performance reporting | | Compliance with legislation | |
|--|--|---|---|---|---|---|
| | Current year | Prior year | Current year | Prior year | Current year | Prior year |
| Leadership | | | | | | |
| Overall movement from previous assessment |  | |  | |  | |
| • Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity |  |  |  |  |  |  |
| • Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls |  |  |  |  |  |  |
| • Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored |  |  |  |  |  |  |
| • Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities |  |  |  |  |  |  |
| • Develop and monitor the implementation of action plans to address internal control deficiencies |  |  |  |  |  |  |
| • Establish an information technology governance framework that supports and enables the business, delivers value and improves performance |  |  |  |  |  |  |
| Financial and performance management | | | | | | |
| Overall movement from previous assessment |  | |  | |  | |
| • Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting |  |  |  |  |  |  |
| • Implement controls over daily and monthly processing and reconciling of transactions |  |  |  |  |  |  |

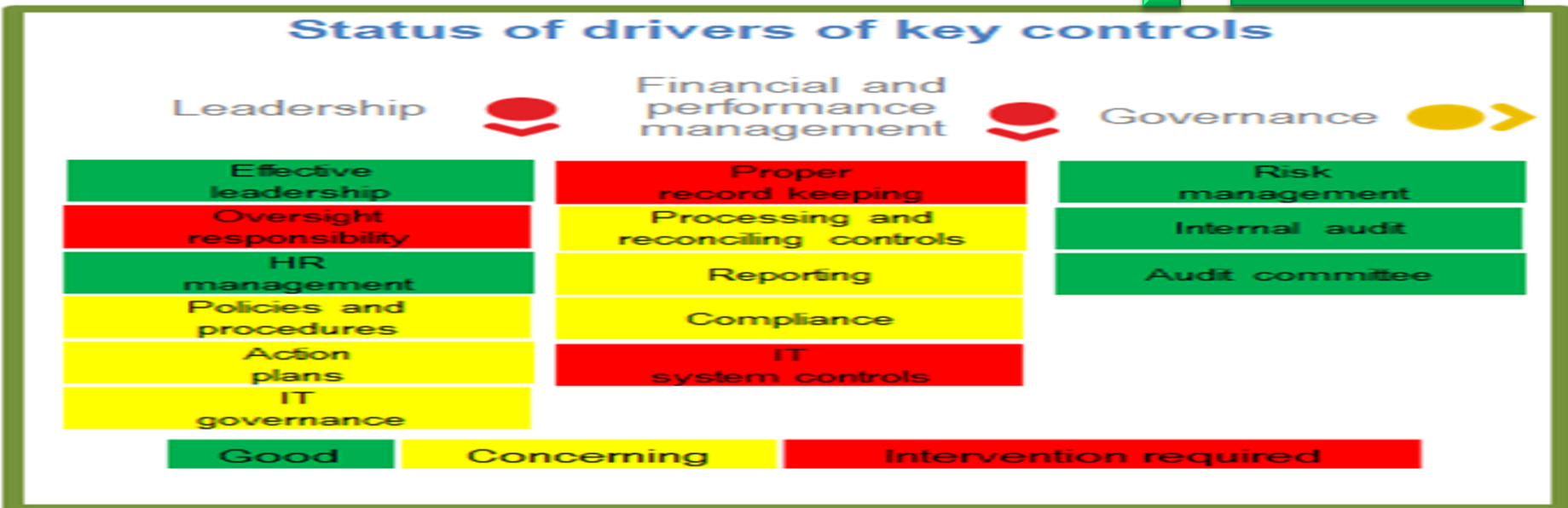
Part E: Internal control

2014/15



2013/14

Improvement



Part E: Assessment of assurance providers

2014/15

2013/14

No movement

Assurance levels

Senior management Provides some assurance

Council Provides some assurance

Minister Provides some assurance

Internal audit Provides some assurance

Audit committee Provides some assurance



Assurance levels

Senior management Provides some assurance

Council Provides some assurance

Minister Provides some assurance

Internal audit Provides some assurance

Audit committee Provides some assurance

Section 3: Part A – Procurement and Contract Mgt

2014/15

PART A – PROCUREMENT AND CONTRACT MANAGEMENT

Procurement processes

103. The following findings on procurement processes result from the testing of 30 contracts with a total value of R67,708,732 and 35 of price quotations with a total value of R6,938,944.

Procurement processes – General

- An award was made to following suppliers suppliers that are listed on the National Treasury’s database as persons prohibited from doing business with the public sector.
 - Northrand Fire Services cc
- Eight awards with the total value of R 1,842,027 were procured without inviting at least three written price quotations from prospective suppliers and the deviation was approved even though it was possible to obtain Three quotations.
- Two quotations were awarded to bidders who did not declare an interest on whether they are employed by the state or connected to any person employed by the state.

2013/14



Improvement

PART A – PROCUREMENT AND CONTRACT MANAGEMENT

SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT

1. The audit included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

2. R130 458 715 (100%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. R95 494 087 of this expenditure relates to contracts that was entered into in prior years. R 25 948 634 (20%) of this irregular expenditure was identified during the audit process and not detected by monitoring processes of the Public Entity. The root cause of this lack of effective prevention and detection was due to the misinterpretation and/or circumvention of Treasury Regulations.

Awards to persons in the service of the state and their close family members

3. The audit included an assessment of the interests of officials and their close family members in suppliers to the Public Entity. Legislation does not prohibit such awards but compliance with the legislation and policies was tested in an endeavour to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations, and requires employees to obtain approval for performing remunerative work outside their employment.

1. The findings were as follows:

| Finding | Number and value of awards made | Number of official identified | Number of suppliers identified | Further non-compliance or irregularities regarding the awards | | | |
|--|---------------------------------|-------------------------------|--------------------------------|---|---|-----------------------------------|---|
| | | | | Supplier did not submit declarations of interest | Supplier did not-declare interest (declaration submitted) | Official did not declare interest | Official was involved in the awarding of the contract/ quotation. |
| Awards made to officials of the Public Entity | 2 with a value of R177 907 | 2 | 2 | 1 | 1 | 1 | No |
| Awards made to family members, partners and associates of officials of the Public Entity | 2 with a value of R44 926 | 2 | 2 | 1 | 2 | 2 | No |

Performance of other remunerative work by employees

2. Two officials with interest in suppliers of the entity did not obtain approval to perform or engage in remunerative work outside their employment.

Section 3: Part B – Financial indicators

| FINANCIAL INDICATORS | | | |
|---|--|---|---|
| (Limitation = unable to obtain sufficient appropriate information) | | AS AT 31 MARCH 2015 | AS AT 31 MARCH 2014 |
| BUDGET MANAGEMENT | | | |
| 1.1 | Percentage over-spending of the final approved operating expenditure budget | Not over-spent | Not over-spent |
| 1.2 | Percentage under-spending of the final approved capital budget | 67.5 % | 65 % |
| EXPENDITURE MANAGEMENT | | | |
| 2.1 | Creditor-payment period | 102.7 Days | 63.7 Days |
| REVENUE MANAGEMENT | | | |
| 3.1 | Debtor-collection period (before impairment) | 15.6 Days | 29.1 Days |
| 3.2 | Debtor-collection period (after impairment) | 2.5 Days | 17.2 Days |
| 3.3 | Debtors impairment provision as a percentage of accounts receivable | 84.2 % | 40.9% |
| 3.4 | Bad debt written-off as a percentage of revenue from goods and services rendered on credit (revenue not collected) | 0 % | 0 % |
| ASSET AND LIABILITY MANAGEMENT | | | |
| 4.1 | A deficit for the year was realised (total expenditure exceeded total revenue) | No | No |
| 4.2 | A net current liability position was realised (total current liabilities exceeded total current assets) | No | No |
| 4.3 | A net liability position was realised (total liabilities exceeded total assets) | No | No |
| 4.4 | Percentage of PPE and/or intangible assets impaired | N/A | N/A |
| 4.5 | Percentage of loan receivables (loans awarded) and/or investments impaired | N/A | N/A |
| CASH MANAGEMENT | | | |
| 5.1 | The year-end bank balance was in overdraft | No | No |
| 5.2 | Net cash flows for the year from operating activities were negative | No | No |
| 5.3 | Creditors as a percentage of cash and cash equivalents | 52.8 % | 30.3% |
| OVERALL ASSESSMENT | | | |
| Overall the results of the above financial indicator evaluation is assessed as: | | Green (No material unfavourable indicators) | Green (No material unfavourable indicators) |
| <i>The above assessment is based on financial statement amounts, adjusted for uncorrected misstatements that resulted in the modification of the audit opinion.</i> | | | |

Section 3: Part C & D – Fraud and consequence mgt

2014/15

2013/14

Part C: Fraud

No movement



110. The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected. No matters that indicate a risk of fraud have been identified.

1. The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected. No matters that indicate a risk of fraud have been identified.

Part D: Consequence management



Deterioration

No transgression identified

Transgressions identified in the current year

111. Irregular expenditure disclosed in note 23 to the financial statements must be investigated to determine if any official is liable for losses incurred as a result of the irregular expenditure. Disciplinary steps must be taken against official who caused or permitted the irregular expenditure and losses incurred as a result of the irregular expenditure must be recovered from the liable person.

This report includes other audit findings which are indicative of transgressions by officials or other role players. Summarised in the table below are allegations of transgressions which must be investigated and disciplinary steps taken based on the results of the investigations:

| Finding | Number of instances | Value |
|--|---------------------|---------|
| Official fail to disclose own interest or that of close family members, partners or associates in contracts; | 2 | 497,180 |

Conclusion

- The main focus for MTSF is the full execution of the mandate of NHBRC.
- Support the Ministers Goal of delivering 1.5m housing opportunities
- Continue to ensure that all homes built in South Africa are enrolled with NHBRC to qualify for cover under the warranty fund and ensure that quality of the products.
- Provide technical excellence within the home building industry and constant communication with all stakeholders.

Conclusion

- Capacitate the NHBRC focusing in key critical areas to ensure quality and deal with poor workmanship.
- Improve on our turn-around times and ensure visibility.
- Improve planning and coordination with provincial and local authorities to ensure that all projects are enrolled with NHBRC.
- Providing necessary contribution and development of human settlements and housing delivery process by protecting housing consumers and regulating the home building environment.

END
THANK YOU
Questions

