

ANNUAL REPORT
2015



ASSURING
Quality
HOMES

The image shows several rolled-up architectural blueprints and a large sheet of blueprints spread out on a light-colored surface. The blueprints feature various technical drawings, including floor plans, sections, and tables. One prominent drawing shows a grid with numerical data. Another drawing includes a north arrow and the text '232'14 -1'80'. A third drawing has the Russian text 'ВЫДЕЛЕНИЕ С/ПОНЕИЦИС/В' (Division of the apartment). The overall scene is brightly lit, with a soft blue tint. A thick blue curved line runs across the bottom of the image.

*Protecting the interests of housing
consumers and regulating the home
building industry since 1998*

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THE NHBRC: AN OVERVIEW

The National Home Builders Registration Council (NHBRC) was established in 1998 in terms of the Housing Consumers Protection Measures Act, 1998 (Act No. 95 of 1998) (as amended) – herein after referred to as the Act – and is mandated to protect the interests of housing consumers and to regulate the home building industry.

OUR VISION

To be a world-class home builders' warranty organisation that ensures the delivery of sustainable, quality homes.

OUR 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.

OUR VALUES

- Customer service excellence
- Good corporate governance
- Research and innovation
- Commitment and moral integrity
- Technical excellence

2007

LAUNCHED THE ERIC MOLOBI HOUSING INNOVATION HUB IN SOSHANGUVE, PRETORIA

2009

RELOCATED GAUTENG PROVINCIAL CUSTOMER SERVICE CENTRE TO WOODMEAD

2011

IN PARTNERSHIP WITH THE NATIONAL DEPARTMENT OF HUMAN SETTLEMENTS, HOSTED THE 12TH INTERNATIONAL HOUSING AND HOME WARRANTY CONFERENCE (IHHWC), THE FIRST OF ITS KIND ON AFRICAN SOIL

2008

DEVELOPMENT OF INTEGRATED HUMAN SETTLEMENTS (BREAKING NEW GROUND)

2010

OPEN DAYS HELD IN THE EASTERN CAPE, GAUTENG, KWAZULU-NATAL AND THE WESTERN CAPE TO EDUCATE HOUSING CONSUMERS AND HOME BUILDERS ABOUT THE NHBRC AND ITS OBJECTIVES

2012

REPRESENTATION ON THE BOARD OF INTERNATIONAL HOUSING AND HOME WARRANTY ASSOCIATION (IHHWA) AS DEPUTY CHAIRPERSON OF THE ASSOCIATION

OUR STRATEGY

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

MOTTO

“Assuring Quality Homes”

STRATEGIC OBJECTIVES

- Grow, protect and sustain the warranty fund
- Provide innovative quality products and services that delight the customer
- Strengthen the operating processes, systems and procedures
- Create a learning environment and build capabilities that deliver NHBRC value products and services

2013

COMMENCEMENT OF TESTING MATERIALS AT ERIC MOLOBI INNOVATION HUB

2014

EMPLOYED A FULLY INSOURCED INSPECTORATE SERVICE FOR NHBRC

2014

ESTABLISHMENT OF THE CENTRE FOR RESEARCH AND HOUSING INNOVATION

2014

LAUNCHED THE 20/20 WOMEN EMPOWERMENT PROGRAMME

2014

NHBRC MOVED TO NEW PREMISES AT SUNNINGHILL



The background is a light blue architectural floor plan. It shows various rooms with their names and areas in square meters (M²). Labels include: KITCHEN (23.87M²), LOUNGE (39.33M²), ENTRY (8.03M²), BEDROOM (14.28M²), and ROOM (18.19M²). Dimensions are marked with numbers like 3500, 2500, 4500, and 5000. A large, curved blue graphic element sweeps across the middle of the page, partially overlapping the floor plan.

SECTION 1 LEADERSHIP OVERVIEW

The NHBRC is directed and controlled by the Council which is appointed by the Minister of Human Settlements in terms of section 4 of the Act. The Council is appointed for a period determined by the Minister, but not exceeding

three years at a time. The current Council was appointed by the Minister, effective from 1 May 2012 to 30 April 2015.

The members of the Council and their highest qualifications are as per Table 1 below.

Table 1: Position and highest qualification of council members

| | Name | Position | Qualification(s) |
|----|----------------------|------------------------|---|
| 1 | *Advocate B Madumise | Chairperson of Council | B Proc (Wits), MBA (Bond University), Graduate Diploma in International Trade Law (Wits), LLM (Wits) |
| 2 | *Mr. A Chikane | Acting Chairperson | M.Sc. Development Economics and Postgraduate Certificate in International Business (Southern New Hampshire University in Massachusetts, USA) |
| 3 | Ms. SM Maja | Council member | B.Juris (University of Limpopo), LLB (University of Limpopo) |
| 4 | Mr. M Ganiso | Council member | Masters in City and Regional Planning (UCT) |
| 5 | Ms. B Nzo | Council member | B.Sc. Honours (Quantity Surveying), Nelson Mandela Metropolitan University |
| 6 | Ms. Z Vazi | Council member | B.Com (Accounting), Higher Diploma Accounting, MBA (Cass Business School) |
| 7 | Mr. I Kotsokane | Council member | Advanced Certificate in Local Government Management (Birmingham University), Post-graduate Diploma (Governance and Political Transformation) (UFS) |
| 8 | Mr. P Hlahane | Council member | B.Juris, LLB (University of North West), LLM (University of Pretoria), Advanced Diploma in Labour Law (University of Johannesburg) |
| 9 | Ms. X Daku | Council member | B.Proc (Unitra), LLM (UWC), MDP (University of Stellenbosch), Diploma in Legal Practice (University of Cape Town), Human Resource Management and Training (Varsity College) |
| 10 | Mr. S Ngwenya | Council member | B.Com Honours (Business Economics) (UNISA) |
| 11 | Mr. M Markgraaf | Council member | Higher Diploma in Education, Training and Development(University of Cape Town), Building Construction Management (Peninsula Technikon), NT1 and NT2 (Bricklaying), Apprenticeship in Bricklaying |
| 12 | Mr. G Manack | Council member | Certificate in Government IT Management (Wits), Executive Programme (Duke University), M.Sc. (Public Policy and Management) (University of London) |
| 13 | Mr. A Potwana | Council member | B.Juris (University of Transkei), LLB (University of Transkei) |
| 14 | Ms. B Madikizela | Council member | B.Com (Accounting); B.Com (Honours Accounting) CTA; CA(SA) |

*Adv. B Madumise was the chairperson of NHBRC until she was placed on special leave with effect from 28 January 2015 and Mr. A. Chikane was appointed as Acting Chairperson from 28 January 2015.

THE NHBRC COUNCIL

01



02



07



08





Top Row From Left To Right: 1. Abbey Chikane, Acting Chairperson; 2. Malusi Ganiso, Council Member; 3. Xoliswa Daku, Council Member; 4. Andiswa Potwana, Council Member; 5. Matthys Markgraaf, Council Member; and 6. Zimbini Vazi, Council Member.

Bottom Row From Left To Right: 7. Busi Nzo, Council Member; 8. Paul Hlahane, Council Member; 9. Boniswa Madikizela, Council Member; 10. Peter-Paul Ngwenya, Council Member; 11. Dina Maja, Council Member; and 12. Goolam Manack, Council Member.

CHAIRMAN'S REPORT



MR. ABBEY CHIKANE
ACTING CHAIRPERSON OF COUNCIL

The year under review marks the end of term of the Council appointed in May 2012 by the former Minister of Human Settlements, Mr. Tokyo Sexwale. It is also a time for the Council to reflect on its term of office for purposes of this report. This is the year in which the Council reflects back to its inauguration date to report on its achievements and the challenges that still remain, to be tackled by the new Council as it takes over the reins at the beginning of June 2015.

The Council is pleased to report that the unstable, but financially sound entity which it inherited in 2012 had since been stabilised in terms of leadership at management level. It was during the term of office of this Council that all the vacant executive positions in the organisation were filled to ensure stability at top management. The first priority for the Council was the appointment of the Chief Executive Officer (CEO) which was finalised in December 2012, followed by the appointment of the other executives in 2013. The Council leaves behind a fully functional leadership team at top management level, headed by the CEO, and supported by a full complement of relatively new and young executives and managers.

It is critical to mention that the incoming Council will be taking over a financially sound entity with assets of almost R5 billion which have been accumulated over the years. The incoming Council will be taking over at a time when the government, in particular the entity's Shareholder, has committed to the people of South Africa to deliver 1 495 000 housing opportunities over the five-year MTSF period (2014-2019). The expectations of the Shareholder in this regard is the optimal support from all human settlement entities to ensure that government's commitment is achieved with quality results.

The NHBRC had in this regard gone back immediately after the announcement by the new government on its commitment, to review its annual plans for the MTSF period for alignment with the government targets in terms of the support as per the legislated mandate of the entity, to ensure that government delivers quality homes certified as such by NHBRC. The Council revised the previous outsourcing inspectorate model to ensure that this core quality assurance business of the entity is internally managed and there is resource capacity to ensure that every house under construction is enrolled and inspected by NHBRC for quality delivery by registered home builders.

“The health of both international and local economies continues to recover and is starting to show signs of growth, albeit at a slow pace.”

GOVERNANCE

The Council regards the principles of sound corporate governance as imperative in obtaining and retaining the trust of stakeholders, and the overarching objective of performance with integrity. These principles are also vital in securing respect from other key stakeholders, including customers, suppliers, government, employees and the housing consumers. The Council has established sound corporate governance processes that will require further strengthening by the new Council, particularly in the area of legislative compliance, in order to achieve the highest measure of good governance, which is a clean audit outcome from the Auditor-General. Increasing oversight function over the organisational performance and effectiveness of the entity and its ability to meet the mandate will be key for the achievement of the unqualified audit by 2017.

Enterprise risk management, in particular, supply chain management policies, processes and procedures have been key challenges over the years to move the organisation towards the achievement of an unqualified audit outcome. Council is, however, confident that the management action plans currently under implementation as informed by the results of the review of the supply chain management function, will see some positive results which will move the organisation forward to meet its target of an unqualified audit outcome by 2017.

The successful implementation of the SAP Enterprise Resource Planning (ERP) system for the organisation, which is targeted to go-live in August 2015, will also assist in resolving some of the control deficiencies which resulted in matters of emphasis by the Auditor-General over the years. The Enterprise Resource Planning system implementation was inherited by the outgoing Council in 2012 and a Council Task Team was established by the Council in August 2012 to monitor the implementation of the project. There were some challenges experienced with the initial implementing service provider which resulted in

delays with the project implementation, and as such, a new service provider had to be appointed by the Council in August 2014 to take-over the project at a blue-print phase. The Council is pleased to report that the project had since moved speedily and that the targeted go-live date of August 2015 will be met.

The Council, in its oversight role was being supported by nine Council committees which were established to ensure proper and effective governance in each area of the business. The committees reported back to Council at each meeting of the Council on all matters delegated to them by the Council. The Council, however, remained the Accounting Authority and ensured that it was not divested of the powers delegated to committees, and in this regard was able to exercise these powers in the few instances where there were differences of opinions from the recommendations of committees.

PEOPLE

NHBRC management and employees across the entity remain fundamental for efficient and effective performance of risk management and internal control activities. Risk and control information should remain key focus areas for communication throughout the organisation and to the key stakeholders to ensure an improved organisational culture.

Leading organisations, such as the NHBRC, are required to embed methods and practices in order to enable managers and employees to manage risk and control effectively and efficiently across the entire organisation. Although these methods and practices were adopted by management and approved by the Council, some gaps were still identified by the Council in the application and implementation thereof, as confirmed by the Auditor-General's report.

During the period under review, the Council witnessed a good relationship and interaction being maintained

“The health of both international and local economies continues to recover and is starting to show signs of growth, albeit at a slow pace.”

between the Council and the management team which resulted in the achievement of the results as reported in this Annual Report. It should be noted that this is the kind of relationship that is espoused by the King III Code of Good Practice in relation to the acceptance of the separation of responsibility between the Accounting Authority and its management team to ensure a balance of power and authority.

ESTABLISHMENT OF THE CENTRE FOR RESEARCH AND HOUSING INNOVATION TECHNOLOGY

The NHBRC under the guidance of the Council established the Centre for Research and Housing Innovation. The Centre has positioned the NHBRC as a pioneer in housing knowledge creation and innovation. The Centre is poised to act as a Centre for the Ministry of Human Settlements housing knowledge advisor through the use of Geographic Information System (GIS). The Centre is also developing a Housing Index in order to position the NHBRC as a leading source of information on housing.

The Centre is currently working on the concept of procurement value chain for NHBRC registered builders. The objective of the concept is to create a business-to-business e-commerce solution for the housing construction industry to empower home builders through development of a Web Based Portal targeted to provide services and solutions to home builders and material suppliers in the housing construction industry, through exchange between

the parties which will allow users to confirm pricing and product specifications, place purchase orders and add both product and order information automatically to builders' and suppliers' management systems. The project is targeted to be completed by December 2015.

TRANSFORMATION

The NHBRC has located its transformation agenda through its primary mandate as defined in the Act: that is, to protect housing consumers by establishing, implementing and regulating quality standards in the home building industry, establishing a warranty fund and providing assistance to housing consumers under circumstances where home builders fail to meet their obligations, building the capacity of home builders and housing consumers with specific emphasis to the historically disadvantaged individuals, representing the interests of housing consumers by providing warranty protection against defects in new homes, regulating the home building industry, providing protection to housing consumers in respect of the failure of home builders to comply with their obligations in terms of the Act, establishing and promoting ethical and technical standards in the home building industry, improving structural quality in the interest of housing consumers and the home building industry, promoting housing consumer rights and providing housing consumer information, communicating with and assisting home builders to register in terms of the Act as well as assisting home builders through training and inspections.

Through the training and development section, the NHBRC continues to enhance the building skills of home builders and has done this by developing relevant course materials to promote excellence in the home building environment, thereby ensuring easy entrance of new builders.

This approach will contribute to the improvement of professionals in the built environment as well as increase the level of compliance with building regulations, standards and norms in general, and change the landscape of the sector. The need to nurture and upscale skills from the previously disadvantaged groups is critical and NHBRC is well placed to ensure that the sector is transformed and more opportunities are created for historically disadvantaged entrepreneurs.

As part of our endeavour to create empowerment and build necessary skills within the sector, the NHBRC will be establishing a school of inspectors and a school of homebuilders to ensure that competent inspectors and homebuilders are produced which will help improve quality delivery on the ground. The NHBRC has a three-year artisan development programme and is collaborating with colleges and Further Education Training institutions in order to produce good quality builders.

The NHBRC has therefore taken into consideration the bigger vision of the National Department of Human Settlements which is aimed at 2030, whereby we should observe meaningful and measurable progress in reviving rural areas and creating more functionally integrated, balanced and vibrant human settlements.

LEADERSHIP AND OVERSIGHT RESPONSIBILITY

The Council is pleased that management has implemented some policies and procedures in compliance with laws and regulations. It, however, remains a focus area for management with regard to non-compliant expenditure, and in particular, irregular expenditure incurred which was carried over a number of years due to contracts that were signed with service providers. Processes are now being implemented and these instances will require continued monitoring by the incoming Council to ensure that the non-compliant expenditure is eliminated.

In conclusion, the NHBRC has stabilised over the past financial year and the morale of staff seems to be gaining momentum for the better. The organisation is turning

a new leaf and is heading in the right direction. The corporate strategy of the organisation has been clearly communicated to all employees and its contents are said to be understood.

Moving forward, governance must remain a fundamental part of the NHBRC's effectiveness. Embedding its risk and control framework will improve its performance and keep the organisation out of trouble. This approach to governance, recognises and reflects its overall strategies and objectives; and ensures alignment, from a risk management and internal control perspective.

In this regard, the outgoing Council has played a valuable role in ensuring good governance and best practices. The incoming Council needs to deepen its overall obligation of providing effective oversight and supporting management in the quest to obtain an unqualified audit. Equally important, the incoming Council needs to set the proper tone at the top.

Last but not least, management and staff must continue to enhance organisational effectiveness and responsiveness to risk and control; and to consider the alignment and coordination of key functions and how they impact on the performance improvement programmes of the organisation. Risk and control management must form an integral part of the entity's daily functioning, so that it can expedite its resolve to achieve an unqualified clean audit by 31 March 2017.



Mr. Abbey Chikane
 Acting Chairperson
 On behalf of the Council

CHIEF EXECUTIVE OFFICER'S REPORT



MR. MONGEZI MNYANI
CHIEF EXECUTIVE OFFICER

The mandate of the NHBRC is to regulate the homebuilding industry and protect the housing consumers.

The organisation has adopted three key strategies: to improve visibility and accessibility in the market while at the same time enhancing interaction with our stakeholders; to position the NHBRC as a leader in knowledge creation, technical and technological building solutions; and to provide diversified products and services for the home building industry.

During the past years, the NHBRC started laying the foundation for greater regulatory effectiveness in terms of its people, systems, processes and reputation. Our major goal is always to ensure that we play a more effective and proactive role to enforce the legal mandates of the NHBRC and enhance our responsiveness to market needs and ensure greater engagement with customers and key stakeholders.

In line with National Treasury guidelines, the NHBRC developed three programmes, namely, administration, regulation and consumer protection. The administration programme covers governance and leadership, human

capital issues and internal control for Supply Chain Management, finance and audit functions. The regulation programme covers issues of registration, deregistration and re-instatement of homebuilders. The programme also covers compliance of homebuilders to set norms and standards, and training of homebuilders. The consumer protection programme covers project enrolment, home enrolment, issuing of warranty certificates, stakeholder engagement and sustaining the warranty fund.

PERFORMANCE OF THE ORGANISATION

The performance of the NHBRC for the 2014/15 financial year entails the following issues. The registration of homebuilders witnessed an increase of 64% against the set target for the financial year. When a comparison was drawn with the previous financial year, a decline of 9% was evident. This could be due to the fact that the current financial year under review did not have as much construction activities as the year before.

The NHBRC has an average of 15 000 homebuilders who are active in our database. The number of homebuilders who renewed their registrations declined by 2% from 2013/14 to 2014/15 financial year. The

“The health of both international and local economies continues to recover and is starting to show signs of growth, albeit at a slow pace.”

NHBRC maintained an average renewal of homebuilders at 12 000 from 2013/14 to 2014/15 financial year. Given the challenges of the built environment and in the main within the government subsidy sector, we have noticed that most homebuilders only renew their registrations with the NHBRC when there is a prospect that they will be doing work in the sector. In dealing with this challenge, the NHBRC undertook a number of communication and awareness campaigns throughout the country in order to ensure that home builders comply with the law and renew their registration. This resulted in NHBRC achieving and maintaining an average percentage renewal of 72% for the 2014/15 financial year. One of the critical areas that the NHBRC deals with as part of implementing its mandate is to ensure that we deal with builders and housing consumers who enrol their houses late and in doing so, contravene the Housing Consumers Protection Measures Act.

We have therefore, developed and implemented a number of interventions that resulted in the reduction of such cases. We will continue to discourage homebuilders from enrolling homes late because this negatively affects the housing consumer and may result in houses that do not meet required norms and standards. Such houses are not subjected to the NHBRC inspection process and therefore pose a serious risk to the housing consumer and ultimately a high risk to the warranty fund.

In order to mitigate against the risk of enrolling homes that are late, NHBRC requests a financial guarantee that is withheld for a period of five years that would be used to repair structural defects in case they arise during the period of warranty cover. Our vigorous and proactive intervention has resulted in the decline of 0.15 in terms of late enrolment of homes from the 2013/14 to 2014/15 financial year. Our desired goal is to achieve 0% regarding late home enrolments and this will be achieved in due course.

Since the establishment of the legal compliance and enforcement section which is responsible for ensuring that there is culture of compliance with the applicable legislative and regulatory framework, and ensuring effective enforcement of the Housing Consumers Protection Measures Act, there has been a dramatic number of home builders that appear before our disciplinary committees.

The NHBRC, through the disciplinary committee has conducted a total of 339 disciplinary committee hearings in order to ensure full compliance with the required norms and standards within the built environment. Many of these cases vary from homebuilders who fail to rectify structural defects, poor workmanship, failure to enrol homes and failure to attend to correspondence from the NHBRC.

Out of the hearings that were conducted during the year under review, the NHBRC has suspended a total of 204 homebuilders for various offences. We are therefore demonstrating that indeed, as a regulatory we have to enforce the law and protect housing consumers from unscrupulous home builders and we will not allow any deviations from the norms and standards.

In terms of the Act, the NHBRC has a responsibility to ensure that all homes that are built in the Republic of South Africa are enrolled with the Council, 15 days before constructing can commence. The enrolment of homes in the non-subsidy sector has increased by 30% from the 2013/14 financial year to 2014/15 financial year.

The NHBRC enrolls all homes that are constructed in the subsidy sector and the non-subsidy sector. In order to build capacity and ensure compliance with the Act, the NHBRC has placed engineers in all the nine Provincial Human Settlements Departments with the sole purpose of ensuring that they facilitate the enrolment process. Since this decision was taken we have witnessed a dramatic change in planning and execution of human settlements projects by both Provincial Departments of Human

“The health of both international and local economies continues to recover and is starting to show signs of growth, albeit at a slow pace.”

Settlements and municipalities, the NHBRC will therefore continue to provide required technical assistance to the sector. Our concerted efforts will go towards ensuring that the sector builds quality homes that meet the required norm and standards.

NHBRC is the custodian of quality and it has an important duty to ensure that no house that has been built using state funds is subjected to the process of rectification, and if so, the concerned home builder must be held liable for such work.

The NHBRC has an obligation to assist and support the Minister of Human Settlements, Ms Lindiwe Sisulu in achieving her goals. The Medium Term Strategic Framework targets show that the Minister would like to achieve a target of 1 495 000 housing opportunities in the next five years. A total of 293 000 homes are to be constructed in the upcoming financial year, 2015/16 and the NHBRC has a role to assure that all the homes are enrolled in the sector. The NHBRC will be playing a major role in ensuring that the sector is properly implementing correct measures when building houses and that we have competent individuals that have been properly tested in order to ascertain that they can participate in the home building environment.

During the year under review, the NHBRC developed and implemented a new Inspectorate Model in order to mitigate the risk against the warranty fund. In order to undertake this responsibility, a total of 199 inspectors have been employed by the NHBRC and it has currently done away with outsourcing inspections. The NHBRC ensures that a minimum of four inspections and a maximum of eight inspections are conducted for each house that is under construction. Since the employment of inspectors, we are now able to have a presence in most of the construction sites and monitor homebuilders and ensure that they build according to the norms and standards and adhere to the

code of conduct. Given that the home building environment is very complex and dynamic, we have developed and implemented an in-house training programme for all our inspectors. Our aim is to ensure that all our inspectors are equipped with the necessary skills and experience to enable them to do their work with excellence. The NHBRC is in the process of grading their inspectors to enable them to do their work according to their grades.

In an effort to ensure efficiency and value for money, we have developed a system that will enable us to monitor and ensure that each inspector will do a total of 2 280 inspections per annum, a total of 190 inspections per month, a total of 10 inspections per day and a total of two inspections per hour. This model will ensure that the organisation is able to monitor and control the movements of inspectors and account for the work done. The NHBRC will be able to allocate inspectors according to the projected number of houses to be enrolled and under construction, and rotate them to various areas thereby ensuring that all homes are inspected.

The NHBRC has a role to contribute to Outcomes 8 of the National Department of Human Settlements. The key focus of Outcome 8 is to accelerate delivery of housing opportunities, access to basic services, efficient utilisation of land for Human Settlements Development and improved property market.

The contribution of NHBRC in terms of accelerated delivery of housing opportunities is that it will enrol all homes constructed in the sector, it will research on Alternate Building Technologies and Innovative Building Technologies and it will inspect all homes that are constructed in the subsidy and the non-subsidy sector.

The contribution of NHBRC in terms of improved property market is that it will train homebuilders and youth on construction related courses and in some instances training will be conducted on site where actual building

is taking place. The aim is to add value to the sector and ensure that all homes that are being built are of the required quality that is acceptable and is in accordance with norms and standards.

TRAINING OF HOMEBUILDERS AND YOUTH (PEOPLE WITH DISABILITIES, MILITARY VETERANS, WOMEN)

One of the key priorities of National Department of Human Settlements is to use housing delivery to drive job creation for women and youth. The NHBRC is in the process of establishing a training academy in conjunction with Estate Agency Affairs Board (EAAB), National Housing Finance Corporation (NHFC), and National Urban Reconstruction and Housing Agency (NURCHA). The aim is to have a co-ordinated approach to training that will encompass all facets that are required within the built environment, and to ensure that we have a clear value chain that will assist in the management of training for the sector.

During the year under review, we went through a process of reviewing the training strategy and our training programmes are now focused on key aspects that are required by homebuilders but also contributes towards improving skills base. The programmes covered include home builder training, contractor development programme, home inspector development programme and artisan development. The programmes are based at the Eric Molobi Centre for research, development and innovation. The training identified and provided for the sector is done through accredited construction skills programmes at NQF level 3 focussing in the masonry skills, carpentry/ roofing, plumbing trades and management skills for member builders.

This approach has resulted in us exceeding our target by 119% for the 2014/15 financial year. Our concerted efforts in training and developing our homebuilders have resulted in an increased performance by 92% from 2013/14 financial year to 2014/15 financial year. This, therefore, clearly demonstrates that our training programmes are relevant, hence, the number of homebuilders has increased significantly. Our approach going forward is to clearly show an alignment between training and improvement regarding quality of homes.

Given our success in providing quality training within the sector, the National Department of Human Settlements (NDHS) has now entrusted us with coordinating the implementation of the Youth Brigade programme across

the country. Through this programme we will ensure that young people are trained and equipped with the necessary skills and are given opportunities to show-case such skills by placing them with various construction companies in order gain valuable and practical experience.

RESEARCH AND DEVELOPMENT

The NHBRC has realised the value that can be derived from conducting research. The NHBRC is planning to be the centre of knowledge creation and research. The NHBRC will use its research centre to develop new products and services. The housing value chain will be developed to ensure proper synergy and co-operation amongst different contributors in order to deliver on goals and objectives of NHBRC and NDHS. The centre will be used to ensure that technical standards are reviewed and developed and also simplified to ensure that homebuilders can relate to them.

The centre will also promote Innovative Building Technologies that could be used to speed the delivery of houses and could also be used to reduce the backlog which has increased in the past few years.

The NHBRC has stabilised over the past financial years and the morale of staff seems to be gaining momentum for the better. The NHBRC has turned a new leaf and the strategy of the organisation has been communicated to all employees and it is apparent that it is understood by all employees in the organisation. The management of the NHBRC is on a mission to create a viable modern organisation.

During this period, the NHBRC will play a bigger role in ensuring that the sector is geared towards the vision of the National Department of Human Settlements which is aimed at 2030, whereby we should observe meaningful and measurable progress in reviving rural areas and creating more functionally integrated, balanced and vibrant human settlements. The NHBRC will place greater emphasis in all the areas that have created problems and raised alarms, especially with the Executive Authority.



Mr. Mongezi Mnyani
 Chief Executive Officer

EXECUTIVE COMMITTEE

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The NHBRC Executive Committee is responsible for making decisions on strategic and operational matters, reserved for management in terms of the Delegation of Authority Policy. The Committee is constituted by all Executive Managers, with the Chief Executive Officer (CEO) as the Chairperson of the Committee.

During the year under review the Committee comprised of the following members:

Table 2: Position and highest qualification of Executive Committee (EXCO) members

| | Name | Position | Qualification[s] |
|---|--|------------------------|--|
| 1 | Chief Executive Officer | Mr. Mongezi Mnyani | B.A (Honours) ,Strategic Development and Leadership Course |
| 2 | Chief Operations Officer | Ms. Thandiwe Ngqobe | B.Com, Postgraduate Diploma in Management |
| 3 | Chief Financial Officer | Mr. Shafeeq Abrahams | CA(SA), MBL, B.Compt (Honours) |
| 4 | Executive Manager: Business Services | Ms. Thitinti Moshoeu | B.Com (Economics), B.Compt (Honours), M.Sc. (Business Studies) |
| 5 | Executive Manager: Corporate Services | Ms. Keolebogile Modise | B.Sc. |





The background is a light blue architectural floor plan. It shows various rooms with their names and areas in square meters. Labels include: KITCHEN (23.87M²), LOUNGE (15.30 M²), ENTRY (8.03M²), BEDROOM (14.28M²), ROOM (18.19M²), and ROOM (9M²). Dimensions like 3500, 4500, and 5000 are also visible. A thick blue curved line separates the top section from the bottom section.

SECTION 2 FINANCIAL HIGHLIGHTS

BACKGROUND OF THE DIVISION

The primary objective of the Finance division is to secure the financial sustainability of the NHBRC through effective asset and liability management, as well sustained revenue generation and prudent cost management. The NHBRC Warranty Fund, which was evaluated on a run-off basis by independent actuaries, was found to be both solvent and in a sound financial position as at 31 March 2015.

STRATEGY OF THE DIVISION

The Finance division contributes to the NHBRC by growing and sustaining the warranty fund and ensuring implementation of mitigation strategies against losses on the warranty fund. In order to achieve this, the NHBRC has adopted, on a voluntary basis, the principles and practices of Solvency Assessment Management (SAM) and is in the implementation phase of this process.

One of the main focus areas of the NHBRC for the 2014/15 financial year was to increase and improve organisational efficiency and effectiveness. As part of this initiative, the Finance division has been engaged in redesigning its processes with a view to ensuring simplified, automated and efficient financial processes with increased control effectiveness. This will be enabled by the SAP ERP solution and will be completed in the next financial year.

KEY CHALLENGES

Whilst revenue generation from non-subsidy enrolments has been stable in recent years, growth from this source of revenue is projected to grow by 4% per annum over the next five years. While this is the largest source of revenue, it is highly dependent on conditions within the home building industry and presents limited direction or the opportunity for the NHBRC to stimulate revenue growth in this segment. This presents a risk to predictability of future cash flows generated through this source of revenue.

Operating expenses have grown at an average of 27% per annum between 2013/14 and 2014/15. This is largely due to the implementation of initiatives aimed at positioning the NHBRC to effectively deliver on its mandate. In order to ensure prudent cost management on a sustainable basis, further cost containment measures will be required while enabling the NHBRC to deliver on its mandate.

FIVE-YEAR FINANCIAL SUMMARY

Overview

Indications are that the housing outlook for the construction of new homes has emerged from the recession with real growth in homes constructed in the segment for flats and townhouses in the market price band below R1 million, while low growth is evident in the segment of larger homes.

The residential property market in 2014/15 is expected to be influenced by macro-economic and household sector related factors. The residential property market is impacted by economic and confidence factors affecting home owners and prospective home buyers during times of rising inflation, high debt to income ratios and poor credit risk. These factors restrict the affordability of housing and the accessibility to mortgage finance.

Future demand for and supply of new homes will be driven by developments with regard to the economy in general, but specifically by trends in respect of:

- Growth in real gross domestic product which will impact levels of employment in the economy
- Average consumer price inflation affecting spending power
- Interest rate stability in 2015
- Household debt management
- Consumer risk profiles
- The affordability of property and the accessibility of mortgage finance

Growth in the in the subsidy market is anticipated over the next five years as a result of the Department of Human Settlements 1.5 million housing opportunities programme.

RESULTS FOR THE YEAR

Revenue

Revenue from enrolments (premiums written) increased by R405 million (2014: R229 million) to R741 million. The increase in the provision for unearned premium of R221 million (2014: R203 million) was reduced by the change in the unexpired risk provision amounting to R155 million (2014: R82 million). Insurance premiums are recognised over the period of the policy commensurate with the expected incidence of risk from the date of occupation of the home. This is illustrated in Figure 1 on the following page.

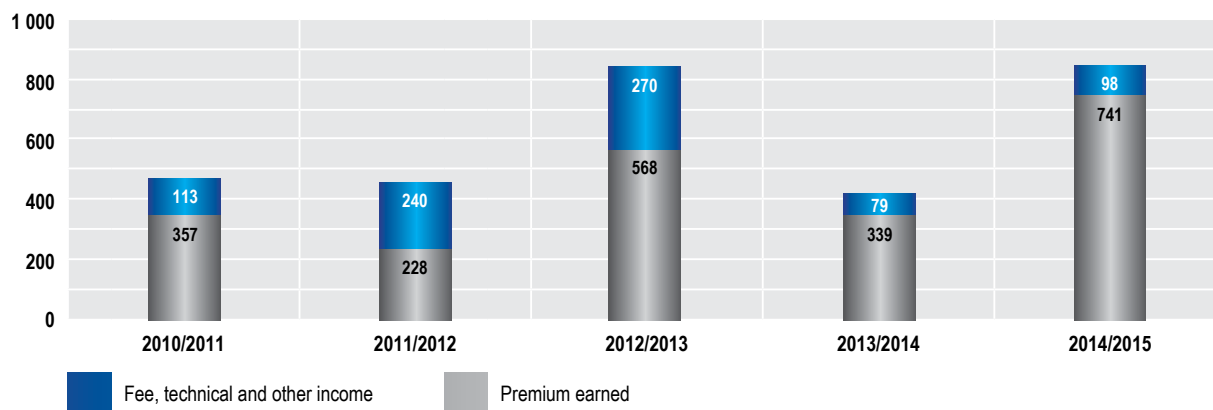


Figure 1: Revenue

Non-subsidy revenue before actuarial adjustment increased by 29% while subsidy enrolment of homes increased by 31%. The increase in subsidy home enrolments is primarily due to the rollover of projects approved in the prior year which are now entering the construction phase, whilst the increase in non-subsidy premiums written is attributable to increased activity in the home building industry as compared to the previous financial year.

Fee revenue increased from R31 million to R51 million (65%), which was mainly attributable to the increase in subsidy project enrolments by R17 million (2014: decrease by R18 million). Fee revenue includes annual registration fees, annual renewal fees, late enrolment fees, builder manual fees, subsidy project enrolments and document sales.

Technical services revenue represents rectification and forensic technical service fees earned in the subsidy market. The realisation of fees is primary due to contracts rolled over from the previous financial year.

Income earned from investments amounts to R271 million (2014: R218 million) and represents a year on year increase of R53 million.

Operating expenditure

Expenditure is categorised into risk mitigation (operating expenditure) and business support (administrative expenditure). Risk expenditure is incurred to mitigate any risk to the warranty fund by enforcing legislated building regulations. Risk expenditure comprises inspection fees incurred during the construction of homes and the accreditation of builders on an annual basis.

Business support expenditure consists of fixed costs to maintain the NHBRC operations and services to its customers.

Risk mitigation costs increased with the enhancement of the inspection model during the year under review with greater emphasis being placed on the employment of

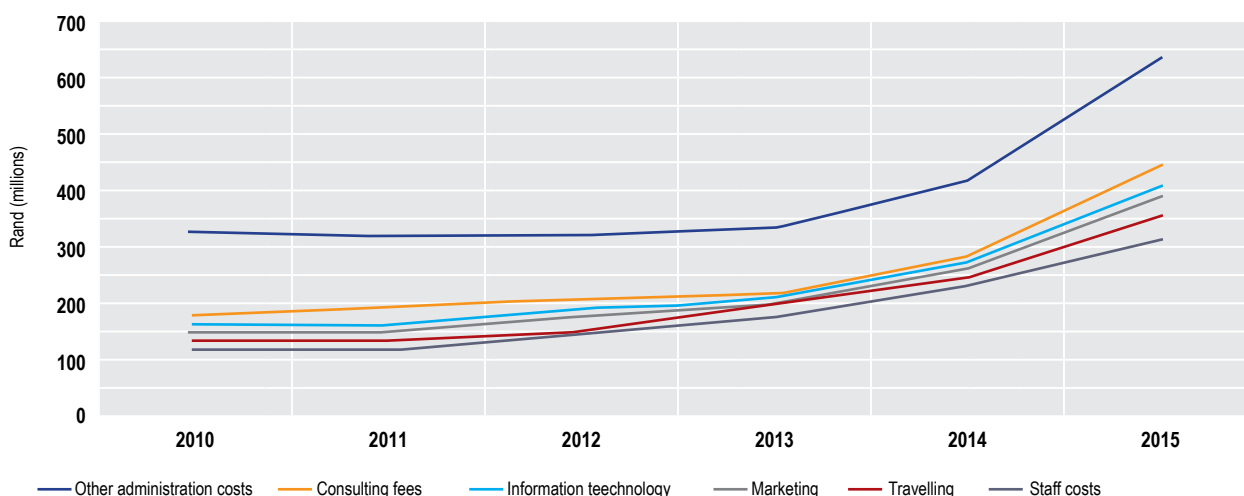


Figure 2: Administrative expenses over 5 years

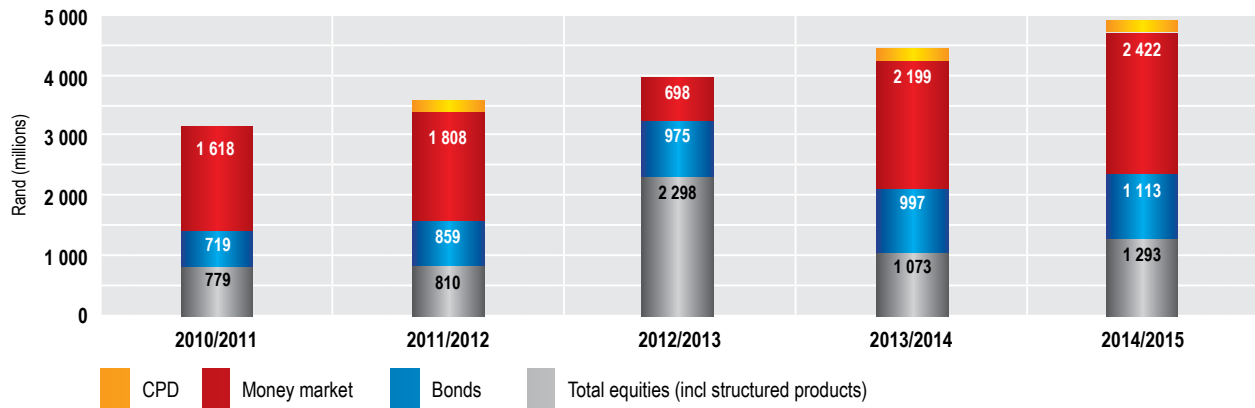


Figure 3: Investment portfolio over 5 years

inspectors and quality assessors. The additional costs incurred by in-sourcing are evident in the increased employee costs incurred.

The business support expenditure of R627 million (2014: R416 million) represents a year on year increase of 50%, and is attributable to both inflationary increases as well the increased infrastructure and capacity required to sustain business growth and improve service delivery to all stakeholders. This is illustrated in Figure 2 on the previous page.

Investments

The NHBRC is regulated in terms of the Housing Consumers Protection Measures Act to establish a fund for the purposes of providing assistance to housing consumers

under circumstances where a home builder fails to meet their obligations under section 13(e)(b)(1) of the Act. The investment mandate concentrates on the preservation of capital so as to ensure that the NHBRC remains financially sound to meet housing consumer claims as they arise.

Investments are held in Local Bonds, Local Equities, Money Market Instruments, Structured Equity Linked Notes and the Corporation for Public Deposits. These portfolios are managed on behalf of the NHBRC by external asset managers, with investment performances tracked against predetermined benchmarks. The market value of the investment portfolio increased to R4.9 billion (2014: R4.2 billion). The fair value adjustment of R75 million (2014: R97 million) is taken to the Statement of Financial Performance in terms of GRAP 104. This is illustrated in Figure 3 above and Figure 4 below.

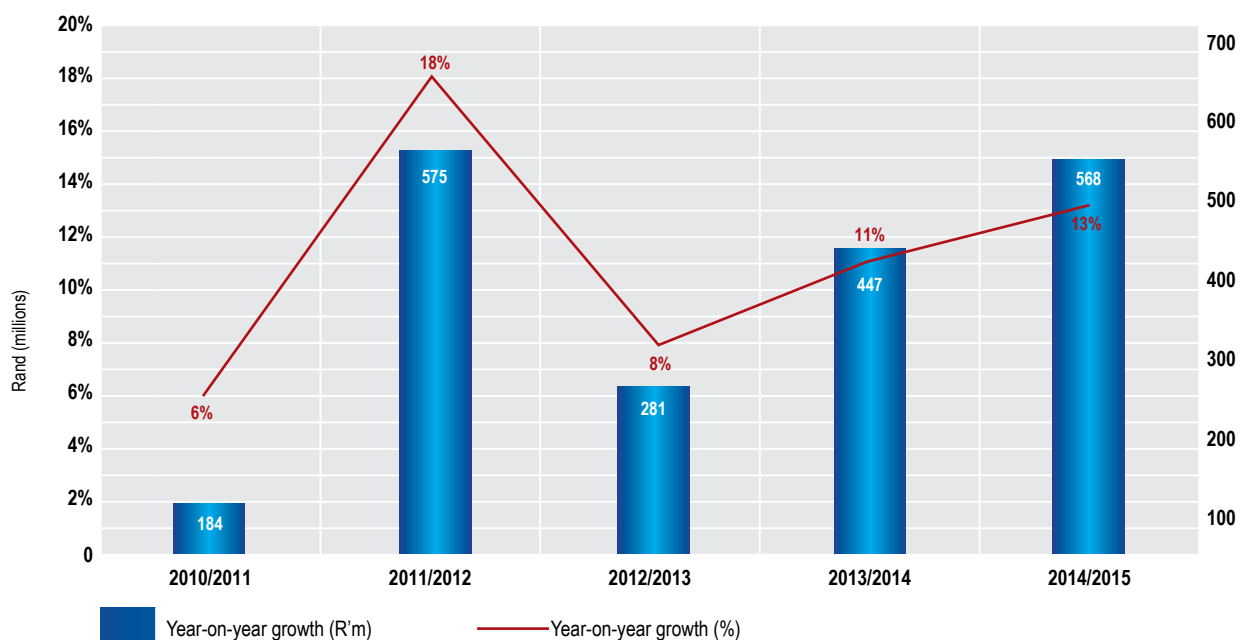


Figure 4: Investment growth over 5 years

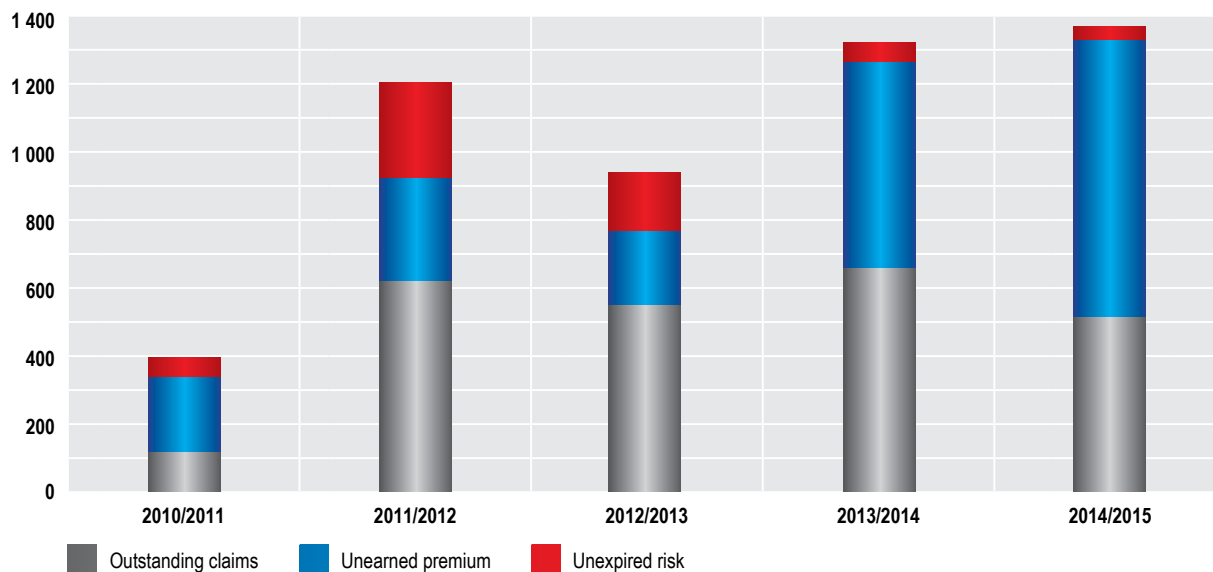


Figure 5: Technical provisions

Emerging Contractor Reserve

The emerging contractor training reserve was established to develop programmes to assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building in terms of Section 3(h) of the Housing Consumers Protection Measures Act. The emerging contractor reserve has been established, with Ministerial approval to develop programmes targeted at the empowerment of emerging home builders registered with the NHBRC, which will enable learners to be able to start and manage their own construction contracting businesses. The Council utilised R9 million (2014: R8.6 million) for home builder training in the current financial year.

SOLVENCY OF THE WARRANTY FUND

Technical Liabilities

The technical liabilities of the NHBRC are actuarially determined annually as part of the solvency valuation of the warranty fund. The technical liabilities consists of outstanding claims, unearned premium and unexpired risk provisions which are defined below and illustrated in Figure 5 above.

Claims against the Warranty Fund

The outstanding claims provision consists of both the “notified outstanding claims provision” and the “incurred

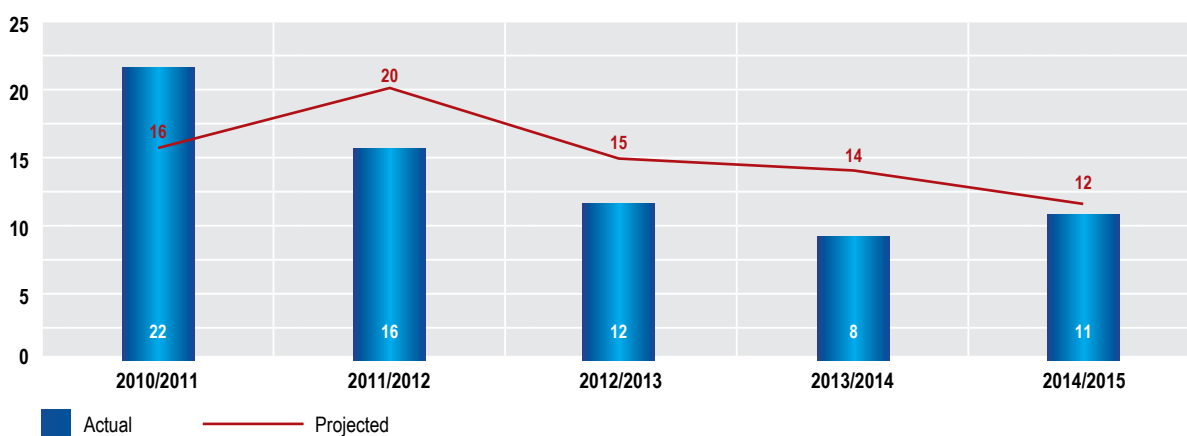


Figure 6: Rand value of remedial claims paid



but not reported claims provision". The notified outstanding claims provision is the portion of outstanding claims provision that relates to the claims that were reported before the financial year end, which were not settled at that date. The "incurred but not reported claims provision" relates to claims that were neither reported, nor settled at the financial year end.

During the current year, the NHBRC settled warranty claims amounting to R11 million (2014: R8 million). The outstanding claims provision increased by R3.6 million (2014: decreased by R5.9 million). This is illustrated in Figure 5 on the previous page.

Unexpired Risk Provision

The unexpired risk provision estimates the cost of insurance claims, related expenses and deferred acquisition costs which exceed the unearned insurance premiums, after taking account of future investment income which will arise during the unexpired terms of policies in force at the balance sheet date.

In calculating the estimated cost of future insurance claims, actuarial and statistical projections of the frequency and severity of future insurance claims events are used to project ultimate settlement costs. The unexpired risk, arises primarily in the subsidy housing market, so as to ensure that this market is independently solvent. The provision decreased from R646 million to R491 million, thereby increasing insurance premium revenue earned for the year by R155 million (2014: R82 million).

The results of the independent actuarial valuation indicates that the NHBRC as a whole, including both subsidy and non-subsidy houses, is solvent and in a sound financial position as at 31 March 2015 when valued on a run-off basis. The actuarial liabilities are 361% (2014: 343%) funded and the actuarial surplus is 277% (2014: 243%) of provisions. The solvency position (surplus as a percentage of provisions) has increased since the last valuation due to an increase in the valuation of assets that exceeds the increase in the value of provisions.

Cash Flow

The cash flow inflow from operating activities increased from R259 million to R341 million in the current financial year.

The NHBRC must remain sustainable in order to ensure that it continues to carry out its statutory duties, as stipulated in the Housing Consumers Protection Measures Act. The NHBRC is also governed by activities that take place in the construction industry. Residential building activities are expected to continue to reflect conditions in the economy, household finances, consumer confidence and factors impacting the market for new and existing housing. These factors will be reflected in the demand and supply of new housing.

The NHBRC has endeavoured to adhere to the provisions of the Housing Consumer Protection Measures Act of 1998, the Public Finance Management Act of 1999 (PFMA) and the principles related to integrated sustainability reporting as stipulated by the King III Report in implementing its strategies and operations in the period under review.



The background of the page is a light blue architectural floor plan of a house. The plan shows various rooms including a Kitchen (23.97M²), Lounge (48.30 M²), Entry (8.03M²), Bedroom (14.28M²), and another Entry (8.03M²). Dimensions like 2500, 4500, and 5000 are marked on the plan. A thick blue curved line separates the floor plan from the solid blue background below.

SECTION 3 SUSTAINABILITY REPORTING

The National Home Builders Registration Council must remain sustainable in order to ensure that it continues to carry out its statutory duties as stipulated in the Housing Consumers Protection Measures Act. The NHBRC is also governed by activities that take place in the construction industry market. Residential building activities is expected to continue to reflect conditions with regard to the economy, household finances, consumer confidence and factors impacting the market for new and existing housing, which will show up in the demand and supply of new housing.

The NHBRC adheres to the Housing Consumers Protection Measures Act, the Public Finance Management Act, Treasury Regulations and the principles related to integrated sustainability reporting as stipulated by the King III Report when it implemented its strategies and operations in the reporting financial year.

ECONOMIC SUSTAINABILITY

The NHBRC is a self-sustaining organisation that depends on the provision of the Housing Consumers Protection Measures Act and its ability to build up reserve funds. The main aim of the NHBRC as a warranty scheme is to ensure its ability to honour claims arising from the warrant cover provided. The NHBRC Warranty Fund, which was valued on a run-off basis by independent actuaries, was found to be both solvent and in a sound financial position as at 31 March 2014.

FINANCIAL PERFORMANCE

The NHBRC implemented stringent expenditure controls and reviewed contracts to ensure sustainable savings due to adverse trading conditions. One of the main focuses of the NHBRC for the 2014/15 financial year was to increase and improve organisational efficiency and effectiveness. Please refer to the table below.

Financial performance summary 2012-2015

| | 2014/2015 | 2014 | 2013 | 2012 |
|---------------------------------|-----------|-------|-------|-------|
| Surplus for the year(Rm) | 526 | 197 | 541 | 119 |
| Return on equity | 14% | 6% | 17% | 7.3% |
| Total assets (Rm) | 5.374 | 4.758 | 4.237 | 3.844 |
| Total reserves(Rm) | 3.818 | 3.295 | 3.080 | 2.608 |
| Total technical liabilities(Rm) | 1.361 | 1.291 | 1.011 | 977 |

ENVIRONMENTAL SUSTAINABILITY

The Industry Advisory Committee gives advice to the Council on all matters relating to the operations of the home building industry, in addition to acting as a communication channel between the industry and the Council. Industry stakeholders are invitee members of this Committee. The NHBRC also established technical infrastructure at the Eric Molobi Testing Centre to test building materials such as bricks and blocks. The NHBRC through its technical section ensures that any housing product used in the provision of homes for housing consumers meets the National Building Regulations requirements. The NHBRC has a database of innovative technological housing products that satisfy the National Building Regulations. These products are assessed, based on a number of criteria including structural strength and stability, fire, thermal performance and durability.

The home building environment can be intrusive and pervasive to the environment in which it develops and expands. Each and every home built in an area under the jurisdiction of a local authority falls within the scope of the National Building Regulations and Building Standards Act, 1977 (Act No. 103 of 1977) and its regulations, under the Department of Trade and Industry. The regulations include mandatory performance requirements to support the objectives of the Act, which aim to ensure the safety and health of persons living or working in any building. Guidance in the application of the regulations may be found in SANS 10400.

CENTRE FOR RESEARCH AND HOUSING INNOVATION

The NHBRC has established a Centre for Research and Innovation and its main purpose is to put the NHBRC as a leader in knowledge creation when it comes to research and development. The Centre is also at the forefront of

promoting innovative building technologies and alternate building technologies. NHBRC was accredited by Construction SETA to offer courses in the sector which includes the training of inspectors.

PEOPLE

The NHBRC implemented an organisational structure which was approved by the Council and the National Department of Human Settlements and is contained in the approved Annual Performance Plan 2014/15. All executive positions have been filled, helping to ensure that the NHBRC is able to deliver on its objectives fully and efficiently.

The NHBRC implemented the newly approved inspectorate model which will be used to manage the entire inspectorate process. The model has been very effective in the financial year 2014/15 and is evident in the increased number of inspections that were witnessed in both the subsidy and the non-subsidy sector. The NHBRC is expected to inspect all the houses that are enrolled with it and uses the inspection of homes to mitigate the risk against the warranty fund.

In order to improve the operational efficiency of the organisation, the Corporate Services division inducted all employees in all nine provinces on the policies of Human Capital that directly affects their daily living conditions. Employees were also inducted on the Strategy and Performance Management Policy from the Strategy and Performance Information section. The policy focuses on strategy development, and monitoring and evaluating the performance of the entire organisation.

CAPITAL & RISK MANAGEMENT FOR SUSTAINABLE GROWTH OF THE WARRANTY FUND

The NHBRC Warranty Fund is managed to ensure its long-term sustainability for the protection of housing consumers. In an effort to ensure its long-term sustainability, the NHBRC has a stated objective to align as best as possible with best practice in the South African insurance industry. Given the significant changes in the regulatory environment in the South African insurance industry, the NHBRC has over the 2014/15 financial year engaged extensively in identifying gaps and implementing measures to achieve some alignment with the forthcoming best practice in the insurance industry, being the Solvency Assessment and Management risk based regulatory framework.

Minimum Capital Requirement – R393 million

The NHBRC has estimated, as at 31 March 2015, the capital requirement it needs to hold for the 2015/16 financial year as R393 million. These are the funds the NHBRC needs to hold, over and above the technical provisions or actuarial liabilities, to ensure the survival of the NHBRC over the 2015/16 financial year against probable worst-case risk events. This capital requirement is based on the NHBRC's specific risk profile. The risk components for which this capital is required for are shown in the table below and ordered according to the significance of the risks to the NHBRC.

Risk components

| Risk Component | Capital Requirement | As % to total Capital |
|---|---------------------|-----------------------|
| Inadequacy of technical provisions and the enrolment fees charged | R198 million | 50.4% |
| Investment risks, including mismatch of asset and liabilities, credit defaults and counterparty concentration | R109 million | 27.7% |
| Catastrophic event that could lead to builders not being able to do remedial works, thus increased claims from the warranty fund for remedial works | R45 million | 11.5% |
| Operational losses | R41 million | 10.4% |
| TOTAL | R393 million | 100% |

Risk Appetite & Strategic Capital of the NHBRC – R2.0 billion

The NHBRC's strategic attitude to risk in terms of its risk appetite is to prefer to hold capital of at least five times the estimated capital requirement. This is higher than the estimated capital requirement for amongst others the following reasons:

- There is need for capital in excess of the estimated capital requirement should the probable worst-case risk scenario for which the capital is required for happen in the 2015/16 financial year;
- Smaller loss events within the capital requirement amount could overtime erode the capital if only an amount equal to the capital requirement is held;
- To provide a buffer for corrective actions before insolvency, where the excess capital over technical provisions becomes less than the capital requirement amount; and

- The NHBRC is a unique warranty provider with no reinsurance or recourse to Government.

The strategic capital that the NHBRC prefers to hold is therefore R1 965 million.

Managing Warranty Risks

For improved management of risk, the NHBRC has documented existing and new warranty risk management practices into a policy. The policy seeks to limit risks and losses from the provision of the NHBRC warranty product and promise to housing consumers. Some of these measures will be more fully implemented in the financial year 2015/16. The highlights of these efforts to manage the risks that could erode the value of the Warranty Fund are shown in the table below.

Managing warranty risks

| Reducing Structural Defects, hence Housing Consumer Complaints | Reducing Remedial Claims | Managing a possible catastrophic insolvency of builders |
|--|--|--|
| Improving efficiency of inspections | Recoveries from builders on remedial claims paid for by NHBRC | Review of financial statements, credit standings as well as complaints experience of the top ten builders to which the NHBRC has concentrated exposure in terms of total enrolled homes still within the 5-year structural warranty period |
| Builder grading system to enable efficiency in risk based building inspections | Speedy completion of remedial works to avoid escalation of costs due to further deterioration of defects | |
| Management of incidences of structural defect during construction phase | Disbar directors, members and key individuals of builders defaulting on remedial claims | |
| Complaints handling fee to deter invalid complaints | Reject builder registration applications containing disbarred individuals | |
| Consumer education on the complaints that may be made to the NHBRC | | |
| Improved complaints verification | | |
| Requirement for late enrolment fees and financial guarantees for homes enrolled along the construction phase | | |



GOVERNANCE AND COMPLIANCE

The NHBRC is required under the Act to comply with strict governance principles in line with the provisions of the PMFA. The NHBRC has, through its Council Charter, endorsed the King III Code of Good Practice. It continues to ensure that its corporate governance structures and practices are aligned with the principles of the code and best practice for public entities in accordance with Schedule 3(A) of the PMFA.

The experience and insights of the Council has brought with it a mix of different skills and abilities. The NHBRC is expected to gain positively from all the experiences and insight of Council members in the discharge of their duties of strategic oversight and control of the Organisation. With all the wealth of knowledge and experience the NHBRC can move to the next higher level to ensure maximum maturity. The result will be demonstrated by the effective and efficient delivery of its final Valuable Final Products as mandated by the Housing Consumers Protection Measures Act.

PERFORMANCE EVALUATION OF THE COUNCIL

The concept of performance evaluation of Boards of Public Entities reporting to the Department of Human Settlements was introduced by the Department towards the end of the 2009/10 financial year, through a framework which was published for human settlements public entities to implement within their governance structures to monitor performance of the Council (team), sub-committees and the individual Council members.

In terms of the Board Evaluation Framework as published by the Department of Human Settlements for its public entities, the evaluation of the Board is supposed to be conducted by the Nominations Committee established by the Executive Authority for that purpose. It should, however, be noted that the appointment of the Nominations Committees for the various public entities reporting to the department remains outstanding as at the time of the last assessment.

The NHBRC Council however, undertook a self-evaluation process as recommended in the framework and the King Code of Good Practice in the absence of an independent entity to conduct the evaluation. A report on



the performance evaluation of the Council, based on the self-assessment conducted by the Council members on team performance and the individual self-assessment was compiled and submitted to the Shareholder for noting. The evaluations were conducted using the assessment tools recommended under the Board Evaluation Framework as published by the Shareholder.

The methodology used entailed coordination and administration of the process through the office of the Company Secretary, who had to circulate the assessment tools to all the Council members for self-assessment of the performance of the Council as a team and self-assessment of the individual members' performance. The responses obtained were then consolidated for each of the assessment tools and worked out to determine the average performance score for each individual member and the Council as a team.

The results from this exercise indicated that the Council's performance as a team was sitting at an average score of 4.3 out of a total of 5, which is an improvement from the previous year score of 4. The average individual performance results for each of the Council members

were sitting at 4.4 which was an improvement from the previous year average score of 4.1.

The results as per this exercise are in line with the overall performance of the organisation as confirmed in the Auditor-General's report. The organisation obtained an improved audit outcome from the Auditor-General as a result of the proper oversight leadership that the Board continued to exercise during the year under review to ensure continued positive result since taking over from the previous Council. The appointment of an independent Nomination Committee by the Shareholder in the future will ensure that this process is objective and complete with an independent opinion being expressed on the performance of the Board, rather than reliance on the self-assessments, which are in some instances not entirely objective and therefore, tend to defeat the objectives as per the Board Evaluation Framework and the recommendation under the King III Report.



The background features a detailed architectural floor plan in white lines on a blue gradient. Labels include 'KITCHEN 7.3.85M2', 'LOUNGE 39.25.47M2', 'ENTRY 8.03M2', 'ENTRY 3.03M2', 'BEDROOM 14.28M2', and 'ENTRY 18.10M2'. Dimensions such as 2500, 4500, and 5000 are also visible. A thick blue curved line separates the top section from the bottom section.

SECTION 4 CORPORATE GOVERNANCE

COMPOSITION OF THE COUNCIL

In terms of section 4 of the Act, the Minister is empowered to appoint a minimum of seven and a maximum of fifteen Council members for a period determined by the Minister, but not exceeding three years at a time. The Minister appointed 12 Council members with effect from 1 May 2012, including the Chairperson.

THE NHBRC COUNCIL

Mandate of the Council

The NHBRC derives its mandate from the Act. The broad mandate is outlined under section 3 of the Act as follows:

- To represent the interests of housing consumers by providing warranty protection against defined defects in new homes
- To regulate the home building industry
- To provide protection to housing consumers in respect of the failure of home builders to comply with their obligations in terms of the Act

- To establish and promote ethical and technical standards in the home building industry
- To improve structural quality in the interests of housing consumers and the home building industry
- To promote housing consumer rights and to provide housing consumer information
- To communicate with and assist home builders to register in terms of the Act
- To assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building

Council meetings

In line with good governance principles as espoused in the King III Report of Good Corporate Governance, the PFMA and the Council Charter, the Council is required to hold at least four quarterly meetings in each financial year in order to exercise proper oversight and accountability in relation to the activities of the NHBRC. The table below illustrates the meetings that were held in the year under review and each member's attendance of those meetings.

Council meetings and attendance in the year under review

| Member Name | Capacity | Council Meetings | | | | | | | Totals per member |
|--|---------------------------------|------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|
| | | 30 Apr 2014 | 29 May 2014 | 30 Jul 2014 | 30 Oct 2014 | 12 Dec 2014 | 29 Jan 2015 | 27 Mar 2015 | |
| Adv. B Madumise | Chairperson [#] | ✓ | ✓ | ✓ | ✓ | ✓ | ✗ | ✗ | 5 |
| Mr. A Chikane | Acting Chairperson [*] | ✗ | ✗ | ✗ | ✗ | ✗ | ✓ | ✓ | 2 |
| Ms. M Maja | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 |
| Mr. S Ngwenya | Member | ✗ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Mr. G Manack | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 |
| Mr. S Loonat (resigned on 30/04/2014) | Member | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | 1 |
| Mr. P Hlahane | Member | ✓ | ✓ | ✓ | ✗ | ✓ | ✗ | ✓ | 5 |
| Mr. I Kotsoane | Member | ✓ | ✓ | ✓ | ✗ | ✓ | ✓ | ✓ | 6 |
| Ms. Z Vazi | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✗ | 6 |
| Ms. X Daku | Member | ✓ | ✗ | ✓ | ✗ | ✓ | ✓ | ✓ | 5 |
| Ms. B Nzo | Member | ✗ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Mr. M Markgraaf | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7 |
| Mr. A Potwana | Member | ✗ | ✓ | ✗ | ✗ | ✓ | ✗ | ✓ | 3 |
| Ms. B Madikizela | Member | ✗ | ✓ | ✓ | ✗ | ✓ | ✓ | ✗ | 4 |
| Mr. M. Ganiso (appointed 04/10/2014) | Member | ✗ | ✗ | ✗ | ✓ | ✗ | ✗ | ✓ | 2 |
| Total members: 15 | Quorums | 9 | 11 | 11 | 8 | 12 | 10 | 11 | |

[#]Adv. Brenda Madumise was placed on special leave of absence with effect from 28 January 2015 and ^{*}Mr. Abbey Chikane was appointed Acting Chairperson with effect from 28 January 2015

COUNCIL COMMITTEES

The NHBRC Council is supported by nine sub-committees, established in terms of section 5 of the Housing Consumers Protection Measures Act, 1998. Each committee operates under the terms of reference approved by the Council. The following committees were constituted by the Council in May 2012.

Fund Advisory and Finance Committee

The Fund Advisory and Finance Committee is responsible for advising the Council on the prudent management of its funds. The committee makes recommendations to the Council regarding the setting of fees, procedures and policies for approval by the Council, as well as on all matters relating to the management of risk to the warranty fund, and the administration of its fund or any other Council fund. The committee regularly reviews the management financial reports before submission to the Council for approval, recommends the budget for approval by the Council and advises the Council on all other financial matters. The committee is constituted by the following members:

Members of the Committee

| Name | Position |
|------------------|--------------------------------|
| Ms. Z Vazi | Chairperson |
| Mr. G Manack | Council member |
| Mr. S Ngwenya | Council member |
| Mr. Z Fihlani | Independent Non-Council member |
| Ms. B Madikizela | Council member |

Registration Committee

The Registration Committee is responsible for advising the Council on all matters relating to the registration and renewal of registration, enrolments and late enrolments of homes, suspension and deregistration of home builders under the Act; monitoring the registration and deregistration of home builders, and also recommend appropriate policies and procedures to the Council for approval. The committee also assesses owner-builder applications received under section 29 of the Act, and determines whether home builders qualify in terms of the Act for exemption from enrolment of their own homes. The committee is constituted by the following members:

Members of the Committee

| Name | Position |
|-----------------|----------------|
| Ms. M Maja | Chairperson |
| Ms. Z Vazi | Council member |
| Mr. P Hlahane | Council member |
| Mr. A Potwana | Council member |
| Mr. M Markgraaf | Council member |
| Ms. X Daku | Council member |

Audit and Risk Management Committee

The Audit and Risk Management Committee is responsible for assisting the Council by reviewing the effectiveness of its systems of internal control and risk management mitigation strategies; reviewing its financial policies and procedures; reviewing financial information reported to its stakeholders; and assessing the effectiveness of the internal and external audit functions. The committee also ensures the maintenance and monitoring of the risk management framework. The committee further reviews the risk register and assessment reports to ensure efficiency and effectiveness of the risk management strategy and plans.

The committee is constituted by the following members:

Members of the Committee

| Name | Position |
|------------------|--|
| Mr. Z Fihlani | Chairperson and Independent Non-Council member |
| Ms. R Moodley | Independent Non-Council member |
| Mr. G Manack | Council member |
| Mr. I Kotsoane | Council member |
| Ms. B Madikizela | Council member |
| Ms. B Nzo | Council member |

Technical Advisory and Claims Committee

The Technical Advisory and Claims Committee is responsible for evaluating remedial works claims submitted by provincial offices, and making recommendations to the Council on the appropriate manner in dealing with such claims. In addition, the committee advises the NHBRC Technical Section with regards to all technical aspects of construction and innovation (both professional and technical), which may impact on the NHBRC's risk



management process. The committee is constituted by the following members:

Members of the Committee

| Name | Position |
|-----------------|----------------|
| Ms. B Nzo | Chairperson |
| Mr. M Ganiso | Council member |
| Mr. I Kotsoane | Council member |
| Mr. P Hlahane | Council member |
| Mr. M Markgraaf | Council member |

Disciplinary Hearings Committee (*ad hoc* sittings)

This committee is responsible for presiding over cases of alleged contraventions of the Act by home builders, and imposing disciplinary sanctions where home builders are found guilty of contravening the Act. The committee is constituted by a panel of legally qualified chairpersons and technical assessors who are all independent non-council members appointed by the Council for the term of office of the Council.

Panel members of the Committee

| Name | DC Chairpersons |
|-----------------|--------------------|
| Mr. R Patel | Non-Council member |
| Mr. B Mhlabeni | Non-Council member |
| Mr. I Kooverjee | Non-Council member |
| Mr. A Ngcobo | Non-Council member |

| Name | DC Chairpersons |
|--------------------|--------------------|
| Mr. M Mdludlu | Non-Council member |
| Mr. N Kose | Non-Council member |
| Mr. C Dauds | Non-Council member |
| Mr. M Chidi | Non-Council member |
| Mr. G Madlanga | Non-Council member |
| Mr. M Molapo | Non-Council member |
| Mr. T Bailey | Non-Council member |
| Mr. M Motala | Non-Council member |
| Mr. J Matshekga | Non-Council member |
| Mr. V Nkosi | Non-Council member |
| Mr. R Naidoo | Non-Council member |
| Mr. I Ebrahim | Non-Council member |
| Mr. M P Hasane | Non-Council member |
| Mr. S Ramhorry | Non-Council member |
| Mr. S M Motau | Non-Council member |
| Mr. O Narker | Non-Council member |
| Mr. N M Moloto | Non-Council member |
| Mr. I S Venter | Non-Council member |
| Mr. M S Thlabanelo | Non-Council member |

Human Capital and Remuneration Committee

The Human Capital and Remuneration Committee advises the Council on employees' remuneration policies. This committee also maintains a corporate overview of the Council's human capital policies such as employee sourcing, development, relations and rewards. The committee is constituted by the following members:

Members of the Committee

| Name | Position |
|------------------|---|
| Adv. B Madumise | Chairperson until 28 January 2015 |
| Mr. A Chikane | Acting Chairperson from 28 January 2015 |
| Ms. M Maja | Council member |
| Mr. S Ngwenya | Council member |
| Ms. X Daku | Council member |
| Ms .B Madikizela | Council member |

Industry Advisory Committee

The Industry Advisory Committee is responsible for giving advice to the Council on all matters relating to the operations of the home building industry, in addition to acting as a communication channel between the industry and the Council. Industry stakeholders are invitee members of this committee. The committee is constituted by the following members:

| Name | Position |
|----------------------------|----------------|
| Mr. I Kotsoane | Chairperson |
| Ms. B Nzo | Council member |
| Ms. X Daku | Council member |
| Ms. Maja | Council member |
| Mr. M Markgraaf | Council member |
| Invitee NHBRC Stakeholders | |

Bid Adjudication Committee

The Bid Adjudication Committee adjudicates and awards tenders in line with the NHBRC Procurement Policy, Delegation of Authority Policy and relevant legislation, including the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and its related regulations, and the Broad Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003), among others. The committee is constituted by the following members:

| Name | Position |
|----------------|----------------|
| Mr. P Hlahane | Chairperson |
| Mr. I Kotsoane | Council member |
| Ms. X Daku | Council member |
| Mr. S Ngwenya | Council member |
| Mr. M Ganiso | Council member |

Research and Housing Innovation Advisory Committee

The Research and Housing Innovation Advisory Committee was established by the Council in the 2014/15 financial year in terms of section 5 of the Housing Consumers Protection Measures Act. The committee was established as an oversight structure in relation to the activities of the Centre for Research and Housing Innovation which was established as a business division within the organisation. The committee was established to assist and advise the Council regarding the review and approval of the NHBRC Research Agenda, review and make recommendations to the Council on the funds to be allocated to the Centre for Research and Housing Innovation (The Centre), in terms of the Act, review housing innovation technologies and advise the Council on the technical aspects of innovative materials and products which may impact on NHBRC business activities, assess the merits of professional and non-professional technical risks emanating from the results of research activities which may impact on the NHBRC business in terms of risk management processes and ensure development of controls for implementation to mitigate the risks, advise the Council on the appropriate technical standards for the home building industry, including innovative building technologies to ensure fulfilment of the NHBRC's regulatory function and improved structural quality in the home building industry, review and recommend to the Council for approval amendments to NHBRC technical requirements, home building manual and guidelines as contained in the home building manual and review and approve technical publications for external consumption.

The committee is constituted by the following members:

| Name | Position |
|-----------------|---|
| Adv. B Madumise | Chairperson until 28 January 2015 |
| Mr. A Chikane | Acting Chairperson from 28 January 2015 |
| Ms. Z Vazi | Council member |
| Ms. M Maja | Council member |
| Mr. I Kotsoane | Council member |
| Ms. B Nzo | Council member |



Architectural floor plan background with room labels and dimensions. Labels include: ENTRY 8.03M², LOUNGE 45.30 M², ENTRY 8.03M², and BEDROOM 14.28M². Dimensions shown include 2500, 4500, and 5000.

SECTION 5 PERFORMANCE OF CEO'S DIVISION

CEO'S DIVISION

PURPOSE OF THE DIVISION

Provide strategic leadership with respect to governance, risk management and compliance. The CEO's division is responsible for managing the reputation of the organisation through the Corporate Communication section. Most importantly, the division drives the execution of the organisational strategy and ensures that the organisation delivers on its mandate.

BACKGROUND OF THE DIVISION

The division consist of the following sections, namely, Strategy and Performance Information Management,

Audit Section, Communication Management, Secretariat, Risk management and The Centre for Research and Housing Innovation.

STRATEGIES OF THE DIVISION

The division strives to implement the following strategies:

- Provide leadership to ensure that the strategy objectives/mandates are achieved
- Drive the tone at the top across organisation
- Be accessible and responsive to stakeholder needs

Performance of division in relation to targets as contained in the level 1 scorecard

| | Key Performance Area | Target 2014/2015 | Performance against target for 2014/2015 |
|----|---|--|---|
| 1 | Stakeholder management | 100% execution of the revised stakeholder management | 38% execution of the revised stakeholder management |
| 2 | Implementation of the approved risk plan | 90% implementation of the approved risk plan | 86% implementation of the approved risk plan |
| 3 | Implementation of the OHS plan | 100% implementation of the OHS plan | 67% implementation of the OHS plan |
| 4 | Implementation of the BCM strategy | 100% implementation of the BCM strategy | 30% implementation of the BCM strategy |
| 5 | Implementation of the fraud plan | 100% implementation of the fraud plan | 85% implementation of the fraud plan |
| 6 | Implementation of the audit plan | 90% implementation of the audit plan | 92% implementation of the audit plan |
| 7 | Investigations of the fraud incidents reported | 100% investigations of the fraud incidents reported | 100% investigations of the fraud incidents reported |
| 8 | Tracking the implementation of corrective management plan | 100% tracking of the implementation of the corrective management plan | 100% tracking of the implementation of the corrective management plan |
| 9 | Home building manual publication | Publish the home building manual | Guidelines to the home building manual published |
| 10 | Research Agenda | Review and revise the research agenda | Reviewed and revised the research agenda |
| 11 | Use of innovative building technology | 4 projects using innovative building technology | 4 projects using innovative building were done |
| 12 | ECSA certification of inspectors | Certification of inspectors by ECSA | Certification of inspectors by ECSA was not done for the year |
| 13 | Technical publications in journals | 8 knowledge management technical publications produced based on research | A total of 7 knowledge management technical publications produced based on research |

Show a comparison of 2014/2015 performance of set targets against the performance of 2013/2014 financial year

| | Key Performance Area | Performance of 2013/2014 financial year | Performance of 2014/2015 financial year |
|---|--|--|---|
| 1 | Publication of papers | 4 Indaba publications were produced | 4 Indaba publications were produced |
| 2 | Adherence to the approved risk plan | 80% adherence to the risk management plan | 86% implementation of the approved risk plan |
| 3 | Resolution of identified risk | 60% resolution of risk identified by category | 80% resolution of risk identified by category |
| 4 | Implementation of the fraud plan | 100% investigation and resolution of fraud incidences from the hotline | 85% implementation of the fraud plan |
| 5 | Implementation of the audit plan | 100% audits conducted in accordance with the audit plan | 92% implementation of the audit plan |
| 6 | Resolution of the audit recommendations | 100% resolution of audit recommendations within agreed timeframes | 100% tracking of the implementation of the corrective management plan |
| 7 | Publication produced by research | A total of four publication produced for the year | A total of seven publications were produced for the year |
| 8 | Review and publication of home building manual | 75% of homebuilding was reviewed and published | Guidelines to home building manual published |
| 9 | Improvement in media confidence level | 100% media queries were resolved in the year | 100% media queries were resolved in the year |

Challenges experienced and intervention to address the challenges

| | Challenges experienced | Interventions to address the challenges |
|---|--|--|
| 1 | Lack of a clearly defined corporate identity with too many logos and payoff lines | A new corporate identity manual was developed to ensure alignment and brand consistency internally and externally |
| 2 | The regional marketing coordinator model does not meet the 'visibility, accessibility and brand positioning' needs of the NHBRC | Marketing and Communications went on a recruitment drive for marketing coordinators to ensure that it creates impact on the ground |
| 3 | The most significant challenge for the division is access to information due to silo mentality that permeates through the organisation | Development of an internal strategy to ensure integration of marketing and communications into the business operating value chain |
| 4 | Division was battling with collation of the portfolio of evidence to support the performance against the targets | The NHBRC resorted to collecting the manual portfolio of evidence |

RISK MANAGEMENT

Purpose of the Risk Management Section

The NHBRC's mandate is to regulate the homebuilding industry and protect the housing consumers. It is therefore, imperative that the organisation ensures that it is a "risk-aware entity" to ensure that both significant risks and opportunities, are identified and responded to in a manner that takes the business forward and ensures achievement of its mandate through effective delivery to its key stakeholders.

The Risk Management section has a vital task to ensure that the risk management processes are robust and leading edge and that both the Council and Management are provided with valuable risk information to assist in overseeing and steering the organisation forward in these challenging and testing times.

Background of the Risk Management Section

The Council of the NHBRC is responsible for the total process of risk management and has established a process for identifying, evaluating and managing the significant risks faced by the NHBRC. Risk Management provides a framework for managing risks which typically involves identifying particular events or circumstances that impact the ability of the NHBRC to meet its objectives (risks and opportunities), assessing them in terms of likelihood and magnitude of impact, assessing the controls in place to mitigate these risks, determining a response strategy where necessary, and monitoring progress. By identifying and proactively addressing these risks and opportunities, the NHBRC's operations are able to protect and create value for its stakeholders.

Strategy of the Risk Management Section in relation to the strategies of the organisation

The NHBRC is committed to being an organisation with a high-quality risk management capability that encompasses all its activities enabling it to contribute to achievement of its mandate and adding value to its stakeholders. This is achieved by:

- Fostering an environment where consideration of risk is embedded in the NHBRC's culture, business planning, decision making, and day-to-day business operations

- Being risk-conscious, risk-confident, and risk-selective
- Providing reasonable and independent assurance to Management and the Council

In order to support effective communication and the implementation of the Risk Management Strategy, NHBRC has developed a comprehensive set of risk policies and frameworks to ensure that adequate processes and procedures are in place to manage risk. These policies and frameworks are aligned with the current regulatory requirements that were proposed under the Solvency Assessment and Management (SAM) regime.

NHBRC Critical Strategic Risks

- Vacancy in strategic roles within the organisation
- Governance principles and practices not adequately communicated
- Inefficiency of policies and procedures to achieve organisational objectives
- IT infrastructure fails to enable and support business processes (Inadequate solutions not aligned to business requirements)
- Non-compliance with all applicable laws and regulations relating to the organisation
- Depletion of the warranty fund
- Dissatisfaction of customers regarding NHBRC products and services
- Fraudulent registrations, enrolments and claims
- Unenrolled subsidy projects

Safety, Health and Environment (SHE)

The SHE policy and procedure is in place and implementation is ongoing. Legal compliance to the Occupational Health and Safety Act, 1993 (Act No. 85 of 1993) was prioritised and 16(2) appointments were confirmed during the year. Nominations of SHE representatives were completed with training scheduled for the first quarter of the new year.

Development of the SHE Incident Management System on SAP commenced in the current year and its implementation will coincide with SAP "go-live". As an interim measure, the SHE Risk coordinators conducted the required SHE inspections at the various NHBRC offices.

Performance of the section in relation to targets as contained in the level 1 scorecard

| | Key Performance Area | Target 2014/2015 | Performance against target for 2014/2015 |
|---|--|--|--|
| 1 | Implementation of the approved risk plan | 90% implementation of the approved risk plan | 86% implementation of the approved risk plan |
| 2 | Implementation of the OHS plan | 100% implementation of the OHS plan | 67% implementation of the OHS plan |
| 3 | Implementation of the BCM strategy | 100% implementation of the BCM strategy | 30% implementation of the BCM strategy |
| 4 | Implementation of the fraud plan | 100% implementation of the fraud plan | 85% implementation of the fraud plan |

Show a comparison of 2014/2015 performance of set targets against the performance of 2013/2014 financial year

| | Key Performance Area | Performance of 2013/2014 financial year | Performance of 2014/2015 financial year |
|---|-------------------------------------|--|--|
| 1 | Adherence to the approved risk plan | 80% adherence to the risk management plan | 86% implementation of the approved risk plan |
| 2 | Resolution of identified risks | 60% resolution of risks identified by category | 80% resolution of risks identified by category |
| 3 | Implementation of the fraud plan | 100% investigation and resolution of fraud incidences from the hotline | 85% implementation of the fraud plan |

Challenges experienced and intervention to address the challenges

| | Challenges experienced | Interventions to address the challenges |
|---|---|--|
| 1 | Insufficient resources for the major part of the financial year | Appointed specialists to ensure that critical objectives were not compromised due to lack of resources |
| 2 | Vacancy in the role of Business Continuity Management coordinator | Appointed specialists to ensure that critical objectives were not compromised due to lack of resources |

Security

Comprehensive security risk plans were developed for the NHBRC offices and implementation of these plans are being addressed through a two phase approach. The security risk plans entail adequately securing the NHBRC in terms of physical security and ICT security.

Fraud awareness

Fraud awareness workshops were conducted across NHBRC offices with the objective of promoting ethical behaviour across the organisation and to instil a principled culture. The awareness workshops also included communication of the fraud hotline facility.

Conclusion

The NHBRC has taken and continues to take tangible steps on an on-going basis towards making the organisation a risk intelligent entity. The key governance processes are in place to ensure that the organisation continues to mature in terms of risk management.

Line management throughout the organisation is responsible for managing risk. The process is overseen by the Risk Management Committee which is a sub-committee of Executive Committee (EXCO). The Risk Management Committee was established in 2014 and is chaired by an independently appointed Chairperson and convenes on a quarterly basis.

INTERNAL AUDIT

Background

NHBRC has an in-house Internal Audit section (IA). The section utilises a co-source strategy to ensure availability of skills and competencies for internal audits in complex core business areas.

The section is headed by a Chief Audit Executive who is accountable to the CEO and the Council through the NHBRC Audit and Risk Management Committee (ARMCO). This reporting ensures the effectiveness of the Internal Audit by guaranteeing that its work is done objectively and independently, without undue pressure.

The outsourced skills and competencies are mainly used in the following core business areas:

- Engineering work
- IT security and networks reviews
- Investments reviews and verifications
- Remedial works
- Forensic examinations
- Building site inspections

This also allows for the transfer of skills to the in-house team. The in-sourcing of skills for carrying out functions for the audit section also gives an opportunity to internal staff to learn from outsourced consultants.

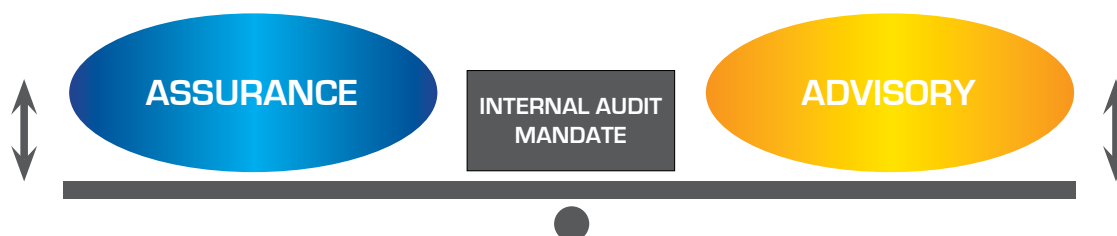
Purpose

The business of the IA section is to provide business solutions and effectively support and enable the NHBRC Council to discharge its fiduciary oversight duties and to provide direction to the NHBRC.

The IA ensures that it is strategically relevant by aligning the IA strategy and planning to the overall NHBRC strategic objectives. The IA ensures that it is a valuable and strategic partner to the NHBRC by addressing the diverse needs of key stakeholders, especially the Executive Management and the Council.

Need to Balance Executive Management and Council Expectations

There needs to be a balance between the Audit committee and Management expectations on the one side and the company or business initiatives on the other.



Performance of the section in relation to targets as contained in the level 1 scorecard

| | Key Performance Area | Performance of 2013/2014 financial year | Performance of 2014/2015 financial year |
|---|-------------------------------------|---|---|
| 1 | Implementation of the audit plan | 90% audits conducted in accordance with the audit plan | 92% implementation of the audit plan |
| 2 | Investigation of fraud | 100 % investigation of fraud incidents | 100% of fraud incidents investigated |
| 3 | Resolution of audit recommendations | 100% resolution of audit recommendations within agreed timeframes | 100% tracking of the implementation of the corrective management plan |

Show a comparison of 2014/2015 performance of set targets against the performance of 2013/2014 financial year

| | Key Performance Area | 2013/2014 | 2014/2015 |
|---|--|-----------|-----------|
| 1 | Follow up on the resolution of Internal Audit findings | 100% | 100% |
| 2 | Implementation of the audit plan | 90% | 92% |
| 3 | Investigation of fraud incidents reported | 100% | 100% |
| 4 | Tracking of the implementation of the corrective management plan | 100% | 100% |

Challenges experienced and intervention to address the challenges

| | Challenges experienced | Interventions to address the challenges |
|---|---|---|
| 1 | IT and Enterprise Resource Planning rollout | The NHBRC uses in-house internal auditors and external subject matter experts |
| 2 | Business structure and model | Reviewed Internal Audit structure, address skills/competencies gaps and for IA to respond to the changes |
| 3 | Shareholder delivery and mandate on NHBRC | The IA strategy and plans have been aligned to the NHBRC strategic plans and objectives |
| 4 | Alignment to Business | Balance Assurance and Advisory work |
| 5 | Skills | Skills transfer to current time and bringing in outside experts to fill in gaps and finally training and development of the team |
| 6 | Capacity | Review structure for alignment to the Business Model and ensure that there is adequate resources to respond to the business needs |
| 7 | Internal Audit process not responsive to business needs | Ensured that there is an automated Internal Audit delivery process and introduced data analytics which has enhanced, speeded up delivery and ensured that the huge volumes of data are now subjected to 100% analysis |

Conclusion

The Internal Audit has embarked on a road map that will see it move from providing basic Internal Audit to becoming a key business strategic advisor to business on issues of governance, risk management and controls.

This new positioning will ensure that in the next three years, the following are achieved:

- There are no surprises from the business
- IA proactively works and advises management to address risks and not only come in after the fact
- Through in depth data analytics, the IA becomes a key business source of strategic insights for Business
- “Clean Audit” status is attained
- Governance, risk management and compliance becomes full integrated, and controls are automated to lift the NHBRC systems to higher level and that dependency on manual interventions is significantly reduced.

CORPORATE COMMUNICATION

Background

Corporate Communication is responsible for internal and external communication, media and public relations, stakeholder engagements, events and brand positioning of the organisation.

Purpose

The purpose of Corporate Communication's unit is to appropriately position and protect the NHBRC reputation, image and brand in the market place.

Strategy of the section in relation to the strategies of the organisation

A key highlight for the year was the development of an integrated marketing communication (IMC) strategy which was approved by the Council on 30 July 2014. The IMC strategy is designed to effectively communicate and promote the NHBRC's mandate of providing consumer protection (through the provision of a Warranty Fund and the

regulation of the home building industry); and to enhance the organisation's effective engagement with critical and key identified stakeholders. The development of the strategy took into consideration the NHBRC's current market positioning and builder insights gleaned from a stakeholder brand perception survey conducted in June and July 2014.

The IMC strategy broadly proposes the introduction of a big hairy audacious goal (BHAG) statement and activities that can be utilised to mobilise NHBRC employees, builders, customers (affected public) and stakeholders to support and contribute to an efficient and effective NHBRC. It is proposed that this mobilisation will require an enhanced definition of the NHBRC brand identity, interventions to instill a sense of appreciation of the NHBRC brand internally, the optimisation of internal business and human resource (HR) processes and investment in available marketing communication channels.

Furthermore, during the period under review, the section supported the CEO's nationwide builder engagement roadshow in order to share key interventions that the NHBRC is implementing to address builders concerns and issues.

These events were held in the following provinces:

| | 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 |

Performance of the section in relation to targets as contained in the level 1 scorecard

| | Key Performance Area | Target 2014/2015 | Performance against target for 2014/2015 |
|---|------------------------|--|---|
| 1 | Stakeholder management | 100% execution of the revised stakeholder management | 38% execution of the revised stakeholder management |

A comparison of 2014/2015 performance of set targets against the performance of 2013/2014 financial year

| | Key Performance Area | Performance of 2013/2014 financial year | Performance of 2014/2015 financial year |
|---|---|---|---|
| 1 | Number of times the NHBRC's website was visited | The website had a total of 161 141 visits | The website had a total of 229 114 visits |
| 2 | Number of people visiting the NHBRC's website | The website had a total of 105 322 visits | The website had a total of 143 907 visits |

Stakeholder Activities

The NHBRC continued to host and participate in provincial roadshows, exhibitions and workshops during the period under review in order to educate and empower housing consumers and home builders.

The objective was to create awareness on the strategies of the NHBRC, Home Building Manual, consumer's rights and responsibilities and to encourage builder compliance with the Act. During the period under review, the NHBRC participated in 27 exhibitions, held 26 home builder awareness workshops and 19 housing consumer workshops.

In addition to this, the NHBRC embarked on 73 joint government initiatives in conjunction with municipalities, the National and Provincial Departments of Human Settlements to ensure increased awareness and education of its role.

Media Relations

Media is one of our key stakeholders and we have continued to establish and strengthen relations in this financial year.

In the period under review, the NHBRC issued a total of 13 media releases, conducted 44 media interviews and published one opinion piece. The CEO's builder engagement roadshow, the Meyersdal house collapse and Woodglaze matter were some of the issues that dominated the media.

The NHBRC received a total of 808 news coverage items, with print communication generating the most coverage (350), followed by online (332) and broadcast media (126).

Challenges experienced and intervention to address the challenges

| | Challenges experienced | Interventions to address the challenges |
|---|---|---|
| 1 | Lack of a clearly defined corporate identity with too many logos and payoff lines | Development of a Corporate Identity manual to ensure alignment and brand consistency internally and externally |
| 2 | The regional marketing coordinator model does not meet the 'visibility, accessibility and brand positioning' needs of the NHBRC | Engaged on a recruitment drive for marketing coordinators to ensure that it creates impact on the ground |
| 3 | The most significant challenge for Corporate Communication is access to information due to silo mentality that permeates through the organisation | Development of an internal strategy to ensure integration of marketing and communications into the business operating value chain |

Digital Media

Website

A new website was developed and launched in October 2014, creating an interactive platform for the NHBRC to engage its stakeholders and customers by providing updated and relevant information. One of these was the introduction of a facility which allows visitors to the site to search for builders nearest to their location using a state of the art Geographical Mapping tool.

Social Media

The NHBRC introduced the use of social media as one of many channels of communication and this has proven to be a formidable part of its communications strategy going forward.

During this period, the number of people interacting with NHBRC through Facebook grew from 253 to 1 754, with the number of Twitter followers increasing to 705 from 214 in the previous year.

Internal Communication

During the period under review, the unit produced and circulated four electronic newsletters (Indaba). The section also continues to support the organisation with regular sectional updates.

STRATEGY AND PERFORMANCE INFORMATION MANAGEMENT

Background of section

Strategy and Performance Information management is responsible for the production of the Annual Report, Quarterly Performance Report and ensuring that all divisional scorecards are monitored on a monthly and quarterly basis. The section is also responsible for the Management of Promotion of Access to information Act.

Purpose of section

The purpose of Strategy and Performance Information management unit is to ensure that the organisation achieves its objectives that are aligned to the strategies of the organisation and enforce governance within the NHBRC.

Performance of the section in relation to targets as contained in the level 1 scorecard

The section did not have any targets that were on the level 1 scorecard.

Show a comparison of 2014/2015 performance of set targets against the performance of 2013/2014 financial year

| | Key Performance Area | 2013/2014 | 2014/2015 |
|---|--|-----------|-----------|
| 1 | Annual Report | 1 | 1 |
| 2 | Quarterly Reports | 4 | 4 |
| 3 | Promotion of Access to information Act | 100% | 100% |
| 4 | Annual Performance Plan/ Strategic Corporate Plan | 1 | 1 |
| 5 | Co-ordination of Strategic Planning Workshops for EXCO, Management and Council | 3 | 3 |

Challenges experienced and intervention to address the challenges

| | Challenges experienced | Interventions to address the challenges |
|---|---|---|
| 1 | Management of the portfolio of evidence (POE) | The Management of the NHBRC has been requested to submit manual portfolio of evidence and sign off on the POE submitted |
| 2 | Lack of technical indicator descriptions | Technical indicator descriptions have been included in the Annual Performance Plan 2015/16 |
| 3 | Key performance indicators that are not SMART | SMART key performance indicators developed for Annual Performance Plan 2015/16 |

CENTRE FOR RESEARCH AND HOUSING INNOVATION

BACKGROUND OF SECTION

- In 2013/14, the Council took a decision to establish a new business unit, namely, the Centre for Research and Housing Innovation (The Centre). The Centre will support the improvement of structural quality and technical standards in the home building industry, and support the development of emerging home builders, youth and women contractors.
- A well-functioning sustainable human settlement and the supporting infrastructure is fundamental to the country's development and provides an enabling environment to alleviate poverty and create jobs.
- By developing pragmatic and relevant research for the industry, The Centre will also address the challenges of Sustainable Human Settlements and will ensure that NHBRC remains relevant to the initiatives of Government.

Purpose

- The purpose of the centre is to promote research, best building practise and standards, innovation and capacity building of builders and inspectors in order to contribute to the improvement of quality of houses built in South Africa.
- In partnership with stakeholders, both local and international, The Centre strives to bring to South Africa the latest advances in materials engineering, product innovative housing solutions and processes. The current stakeholder partners include the Green Building Council of South Africa, Universities South African Bureau of Standards (SABS), Agrément Board of South Africa, Council for GeoScience, Government and several materials suppliers.

Strategy of the division

- The strategic research agenda of The Centre relates directly to the mandate of the NHBRC, the policies of Government and Department of Human Settlements.

- In order to continue being relevant, NHBRC realigned its strategy with a shift from supporting houses to promoting sustainable human settlements, evident in the framework of the Comprehensive Plan of the Department of Human Settlements that came into operation in September 2004.
- The strategy of The Centre is to position NHBRC as a leading knowledge, technical and housing technology solutions provider through strategic partnerships; assist in the business growth of NHBRC through focused business development, whilst remaining financially sustainable, relevant and enhancing impact to sustainable human settlements; and leverage NHBRC's intellectual capital and knowledge resources through harnessing the power of information and communication technology, and geographic information systems.

SELECTED VALUE-ADD RESEARCH AND INNOVATION PROJECTS DELIVERED

Promoting Innovation in Human Settlements

With the new changes in National Building Regulations, and in particular the new technical requirements on energy efficiency, there is a need to engage in research that will result in:

- Promotion and adoption of green building technologies in the Republic of South Africa.
- A competitive housing market that contributes to the eradication of energy poverty in the country; and a reduction of carbon footprint, hence contributing to the sustainability of the environment.
- Global trends in innovation are focusing on the sustainability aspects of the construction products. It is now generally accepted that sustainable development has become a key issue in the broader construction sector. The future therefore is to have buildings, including houses that are sustainable with positive energy demand, i.e. energy producers.
- To make this possible, The Centre has focused on advocacy and promotion of innovative building technologies, by building through partnerships, the houses pictured on page 46.

Abba Khaya Home



ABT Innovative System by Group 5



Modular innovative Building Technology System



Kavango Block System



The Centre also signed a Memorandum of Understanding (MOU) with the Green Building Council of South Africa with intent of getting into a partnership that will explore the opportunity of providing the industry with a Green Building Rating System for the residential market in South Africa. This initiative will support the construction of good quality houses and the Government's initiative of reducing energy consumption.

Publication of the New Home Building Manual (HBM)

- The South African National Standards (SANS) is reviewed every 10 years. NHBRC technical requirements, as gazetted through the Home Building Manual, are mirrored with SANS 10400. SANS 10400 has undergone major revisions and a number of sections have recently been published.
- In addition, many changes were made in the subsidy housing market, including changes in policy and the subsidy variations. As such, the Home Building Manual needs to be reviewed and re-aligned to the

revisions of SANS 10400. It is envisaged that the new HBM will deal with the broader sustainable Human Settlements. This will include the relevant cross-referencing of essential publications such as The National Housing Code, Housing Project Process Guide and the Human Settlements Red Book.

- A New Home Building Manual, incorporating new technical requirements was developed and gazetted in the current financial year. A final copy of the manual will be available in the first quarter of the next financial year.

Publications

The following publications were developed and launched during the current financial year:

- Housing Consumer Booklet
- Home Builder Booklet
- Guidelines for building an energy efficient home
- Promoting innovative building technologies
- Housing typologies for disabilities

TRAINING AND CAPACITY BUILDING OF HOME BUILDERS AND INSPECTORS

- The National Department of Human Settlements raised serious concerns regarding the shortage in contractor capacity and capability, technical skills and the high cost of building materials
- The issues highlighted by the Department are relevant and are seen as severe constraints that could potentially threaten the delivery of houses to meet rising demand levels and to eradicate the current housing backlog
- Currently, the industry is pyramidal with a few big established companies at the top and the majority of the small emerging companies who are predominantly operating as small, medium and micro sized enterprises (SMMEs) at the bottom. In order to address this, the following capacity building training is offered by The Centre:

- Emerging Home Builder Training
- Support of Government Training Programme targeting youth and women
- Inspector Training
- Artisan Development
- Homebuilder Development Programme

The performance of NHBRC in the Emerging Home Builder Training (EHBT) and Government Training Programmes is presented in table below, which indicates that the targets for EHBT were achieved in all provinces except the Free State. Nationally, the target was exceeded by 119%. However, the targets for the Government Training Programme were only achieved in Gauteng and the Northern Cape. NHBRC's role in the Government Training Programme is to provide project management support to the Government initiatives. Learners for this programme and the projects for training are identified by Government.

Performance of the section in relation to targets as contained in the level 1 scorecard

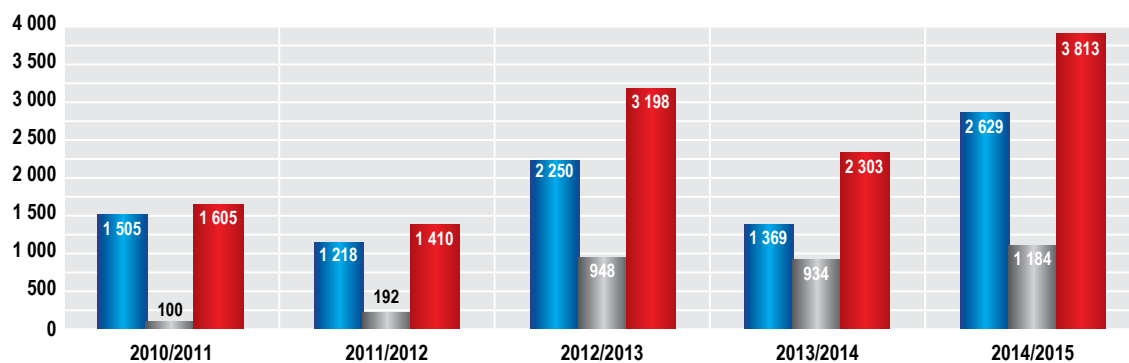
| | Key Performance Area | Target 2014/2015 | Performance against target for 2014/2015 |
|---|---------------------------------------|--|--|
| 1 | Home building manual publication | Publish the home building manual | Guidelines to home building manual published |
| 2 | Research agenda | Review and revise the research agenda | Reviewed and revised the research agenda |
| 3 | Use of innovative building technology | 4 projects using innovative building technology | 4 projects using innovative building were completed |
| 4 | ECSA certification of inspectors | Certification of inspectors by ECSA | Certification of inspectors by ECSA was not done for the year |
| 5 | Technical publications in journals | 8 knowledge management technical publications produced based on research | A total of 7 knowledge management technical publications were produced based on research |
| 6 | Training of homebuilders | Train 1 200 | A total of 2 629 homebuilders were trained |
| 7 | Training of Youths | Train 2 000 | A total of 1 184 youth were trained |

Show a comparison of 2014/2015 performance of set targets against the performance of 2013/2014 financial year

| | Key Performance Area | Performance of 2013/2014 financial year | Performance of 2014/2015 financial year |
|---|--|---|--|
| 1 | Publication produced by research | A total of four publication produced for the year | A total of seven publications were produced for the year |
| 2 | Review and publication of home building manual | 75% of homebuilding was reviewed and published | Guidelines to home building manual published |
| 3 | Improvement in media confidence level | 100% media queries were resolved in the year | 100% media queries were resolved in the year |
| 4 | Training of homebuilders | A total of 1 369 homebuilders were trained | A total of 2 629 homebuilders were trained |
| 5 | Training of youth | A total of 934 youth were trained | A total of 1 184 youths were trained |

5-Year comparison of learners trained

| | 2010/2011 | 2011/2012 | 2012/2013 | 2013/2014 | 2014/2015 | % growth |
|---------------------|-----------|-----------|-----------|-----------|-----------|----------|
| EHBT | 1 505 | 1 218 | 2 250 | 1 369 | 2 629 | 92 |
| Government training | 100 | 192 | 948 | 934 | 1,184 | 27 |
| Total Learners | 1 605 | 1 410 | 3 198 | 2 303 | 3 813 | 66 |



| | 2010/2011 | 2011/2012 | 2012/2013 | 2013/2014 | 2014/2015 |
|-----------------------|-----------|-----------|-----------|-----------|-----------|
| 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 |

Figure 7: Trend in Training of Home Builders

Challenges experienced and intervention to address the challenges

| | Challenges experienced | Interventions to address the challenges |
|---|---|--|
| 1 | Inadequate number of youth to be trained | Proactive interactions with NDHS |
| 2 | Inadequate uptake in the use of ABT and IBT | Involving advocacy education and training of PHSD and municipalities |

TREND IN TRAINING OF HOME BUILDERS

- In the current year, a decision was taken by NHBRC to insource the inspection function, resulting in the need to capacitate and train the inspectors in the different trades of the built environment. A total of 127 inspectors were trained.
- In the current year, 300 artisan learners were targeted for intake at various colleges. At end of the financial year, 231 learners were placed in the Eastern Cape (King Sabata Dalindyebo TVET, Port Elizabeth College), Northern Cape (Moremogolo TVET), Gauteng (Tshwane North College), Limpopo (ABC TVET). Curriculum for the artisan programme includes trades in bricklaying, plumbing, carpentry, electricity, supervisory management course, industrial affairs, business administration and quantity surveying.
- The Minister of Human Settlements pronounced in her 2014/15 budget vote speech the establishment of the Human Settlements Training Academy under

the leadership of the NHBRC; and supported by all housing institutions involved in training, and the National Department of Human Settlements.

- In the current year, the NHBRC started the process of establishing the Training Academy through The Centre, and will incorporate training courses on emerging contractors, home inspectors, estate agents, property management and all skills required for the sector.

CONCLUSION

The centre for research and housing innovation will continue to train artisan and home inspectors with the aim of enhancing quality in the home building sector. The NHBRC will ensure that the training courses are accredited and focus on construction related courses. The Centre will promote the use of IBT and ABT in order to speed the delivery of homes in the Republic of South Africa.



Purpose

The purpose of the programme is to empower women who are in the construction sector so that they to add value to the improvement of the industry.

Background

In October 2013, the NHBRC developed a concept aimed at celebrating and marking the 20 years of democracy national milestone through launching an empowerment programme for women-owned construction businesses. In celebration of 20 years of democracy, the programme's initial aim was to empower 20 existing women owned construction businesses with entrepreneurial support that will help build and grow their enterprises.

Various industry representative organisations including the Black Business Council in the Built Environment (BBCBE) and the South African Women in Construction were approached to nominate candidates nationally during January and February 2014.

The Women Empowerment Programme(WEP) Panel was established in February 2014 and is chaired by Council Member Ms Xoli Daku, supported Council Member Ms Busi Nzo, with the Executive Sponsor being the Chief Operations Officer Ms. Thandiwe Ngqobe. Ms. Jackie Molose is responsible for managing the project, while Ms. Wanda Lubelwana deals with publicity matters. (Please see Annexure A for the list of panel members).

The Gordon Institute of Business Science (GIBS) was appointed as the formal training partner and the City Press newspaper was appointed as media partner.

The above-mentioned formal training constitutes of a four-month study block training, with the initial uptake of 20 candidates having commenced in May 2014, and concluded in August 2014. This was then followed by a six-month period of mentorship which began in September 2014 and concluded in February 2015.

The Minister of Human Settlements, Ms. Lindiwe Sisulu, directed that a further uptake of 80 candidates be engaged on the programme. Upon an elaborate recruitment process, the 80 candidates joined the programme in November 2014 and will complete the formal training in April 2015.

The mentorship part of the programme commenced in May 2015 and ends in August 2015, primarily but not exclusively through mentors sourced in collaboration with GIBS. Additional mentors will be sourced to complement the business management focus of the GIBS mentorship programme.

We are also working with the National Department of Human Settlements to ensure that the programme and the participants' forms part of the Women in Construction project that is spearheaded by the Deputy Minister of Human Settlements, Ms. Zou-Kota Fredericks. The major focus for the first 20 women is to ensure that they are allocated projects across the country in order to gain further practical skills and in this regard, discussions are being held with various Heads of Provincial Departments of Human Settlements.

The major part of the programme going forward is to come up with initiatives to sustain the business activities of the candidates so that they are able to grow their businesses.

INTERNATIONAL PARTNERSHIPS

BACKGROUND

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, information sharing, and discussion of common issues and concerns related specifically to housing and the home building sector, although the IHHWA narrowly focusses on housing and home warranty.

As a member of the Associations, NHBRC attends the meetings of Associations which are hosted by any of the member countries. The IHA holds its meeting twice a year and the Annual General meeting is held in conjunction with the International Builders Show (IBS) in the United States.

HIGHLIGHTS OF THE OUTCOMES OF THE MEETINGS

International Housing and Home Warranty Conference

NHBRC participated in the International Housing and Home Warranty Conference held in September 2014 in Vancouver, Canada. The NHBRC delegates were accompanied by officials from the Department of Human Settlements, led by the Deputy Minister, Ms Zou-Kota Fredericks.

The IHHWC provides opportunities for different speakers and delegates from across the globe to share best practice in building practice, risk management, warranty, remediation and many other themes that will help inform the planning and implementation of local and domestic solutions to this pressing global issue.

The IHHWC is held every three years, the last conference was hosted by the NHBRC and was held in Cape Town, in 2011. The next IHHWC conference will be hosted by Japan in 2017 and will be held in Tokyo.

Issues of main interest that were discussed were as follows:

- Managing claims – international best practice
- Addressing social housing needs
- Strategies, standards and tools for building energy efficient homes
- Roles of inspection and control during construction
- Warranty regulations and models in Canada and Australia
- Measuring home warranty risk with customer satisfaction
- Innovation in housing (Contour crafting and application of 3D printing to housing)

NHBRC presented the following papers at the conference:

- Affordable housing strategies – South African Approach, Chaired by the Deputy Minister of Human Settlements
- Green Building Certification in South African Residential Sector: Challenges for affordable housing
- Measurement of Quality of Homes in South Africa – A Building Quality Inspection Index for Houses

Working Groups and Meetings

NHBRC is part of the Working Groups on the following subject areas:

- Counterfeit and non-conforming products
- Green building and energy efficiency
- Affordable and social housing
- Building information modelling

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
- Sharing market and business intelligence

The attendance at the international meetings has enabled NHBRC to enhance and improve its business operations. The following projects are currently being undertaken by NHBRC:

- Exploring the development of economic indicators in partnership with the Bureau of Economic Research (University of Stellenbosch)
- Development and implementation of the Green Building Star Rating System for residential houses in partnership with the Green Building Council of South Africa
- Assist developers in technology transfer of Innovative Building Technologies





SECTION 6
PERFORMANCE BY DIVISION

The division comprises of four sections, Customer Services, Technical Services, Inspections and Project Management Office. The purpose of the division is to deliver service offerings to customers within approved turnaround times.

CUSTOMER SERVICES

Customer Services is the critical support function of the overall division. The section supports the Business Services division in terms of evaluating the quality of home builders who are registered with the NHBC.

It is responsible to ensure that every home built is enrolled with the NHBC and that each home is inspected. There are six service offerings within Business Services division; namely:

Registrations of Home Builders and Renewal of Registered Home Builders

Any person who is in the business of home building is required to register with the NHBC in terms of the Act. Registration refers to the process undertaken by the

applicant to register with NHBC as a home builder. Renewal refers to the process undertaken by a home builder to renew registration with NHBC.

Graph 8 below highlights the number of home builders who registered with the NHBC over a seven- year period. For the 2014/2015 period, a total of 4 740 new home builders were registered.

Home builders must renew their registration with the NHBC on an annual basis. A total of 12 192 builders renewed their registrations in the 2014/15 period. Combined with the new registrations in 2014/15, there were 15 622 active home builders during the 2014/15 period.

Enrolment of homes in the Non-Subsidy Sector

Enrolment refers to a request submitted by a home builder for a particular home to be entered into the records of the NHBC and the acceptance and approval by NHBC. When the private sector intends to construct a home, the home builder submits an application with the intention to enrol it before commencement of construction.

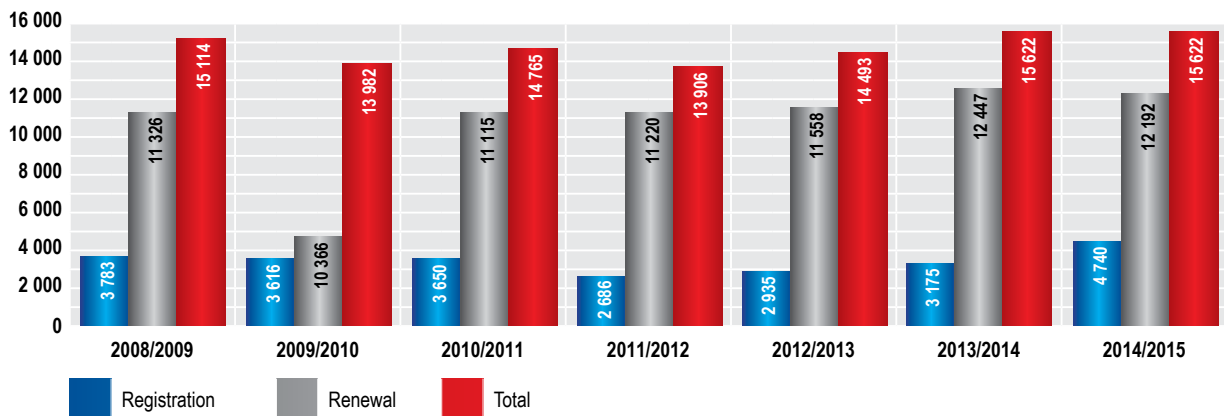


Figure 8: New Registration of Home Builders and Renewal of Registrations

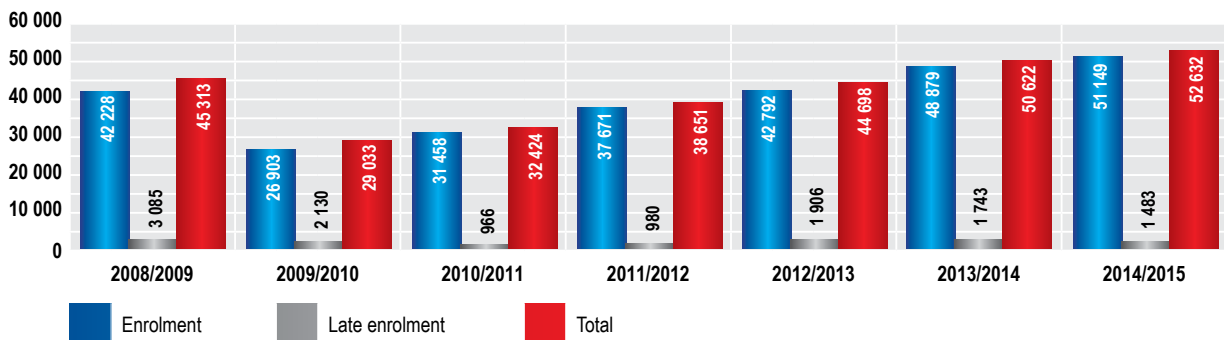


Figure 9: 7-Year Enrolment and Late Enrolment of Homes: Non-Subsidy

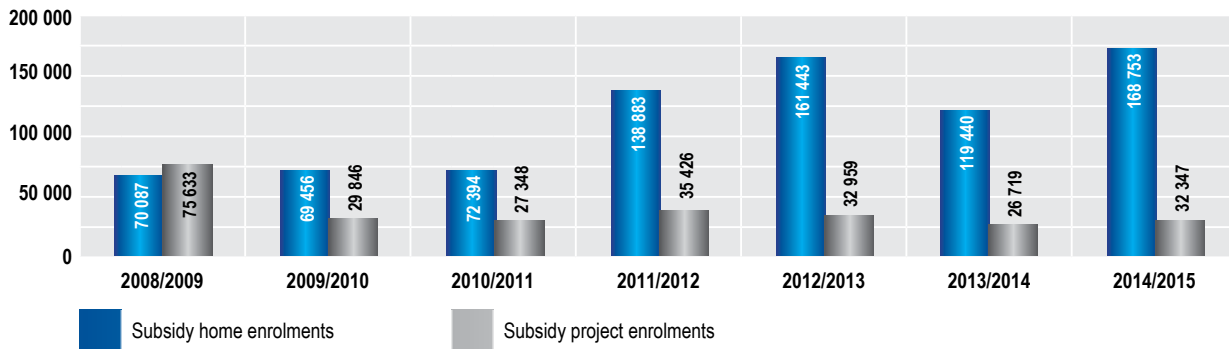


Figure 10: 7-Year Subsidy Home Enrolment and Project Enrolment

Houses enrolled by the private sector are called non-subsidy houses. Subsidy enrolments mean the enrolment of a home where a house is financed from Government funds.

Figure 9 indicates that 52 632 non-subsidy homes were enrolled with NHBRC for 2014/15. That is an increase of 2 010 homes when compared with the performance of the 2013/14 period. After the construction sector experienced a decline in the property market in the 2009/10 period, the enrolments in the non-subsidy sector have been on the rise.

Figure 10 above highlights the number of homes enrolled in the subsidy sector. The total number of subsidy homes enrolled in the 2014/15 period was 168 753, which is 49 313 more than in the 2013/14 period. In the same year, 32 347 sites were serviced in the subsidy sector.

Figure 11 below shows the total number of homes enrolled over the seven years indicating that enrolments have been on the increase, due to enrolment in the subsidy sector.

Inspection of homes

Enrolment triggers the inspection of a home during construction. An inspection is a visit by a NHBRC home inspector to the site of construction to ensure that the building activities on the enrolled homes are compliant with the NHBRC Home Building Manual and other technical standards. NHBRC conducts a minimum of four and a maximum of eight inspection stages per home. A total of 528 182 inspection stages were conducted during 2015/14.

Complaints, conciliation and remedial works

NHBRC's strategic intent is to ensure that home builders deliver sustainable quality homes without infringing on the rights of housing consumers. Housing consumers are obliged to inform the NHBRC of a complaint that has been laid against the home builder, should there be defects in a house under construction or after occupation by the housing consumer. NHBRC has 23 contact centres

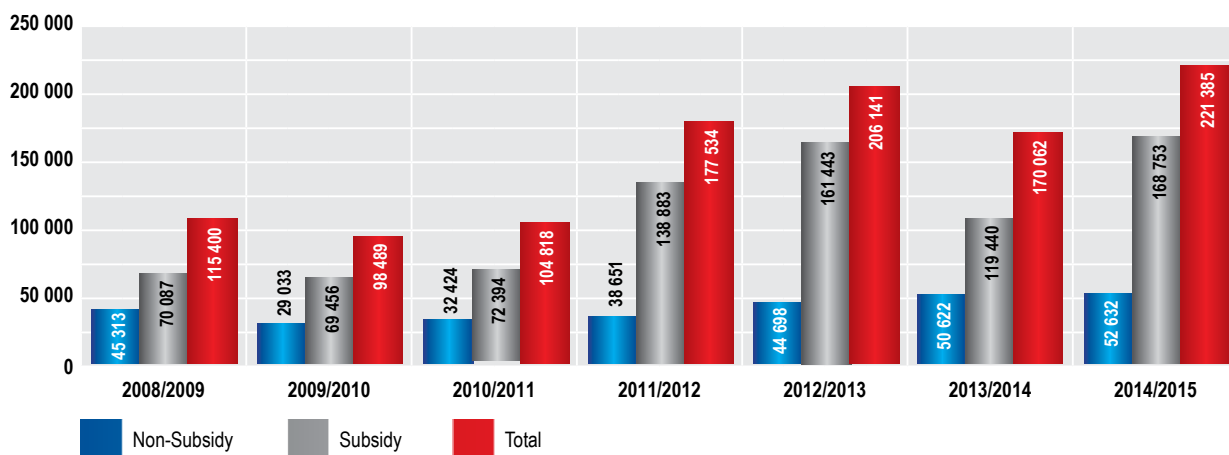


Figure 11: 7-Year Subsidy and Non-Subsidy Enrolment of Homes

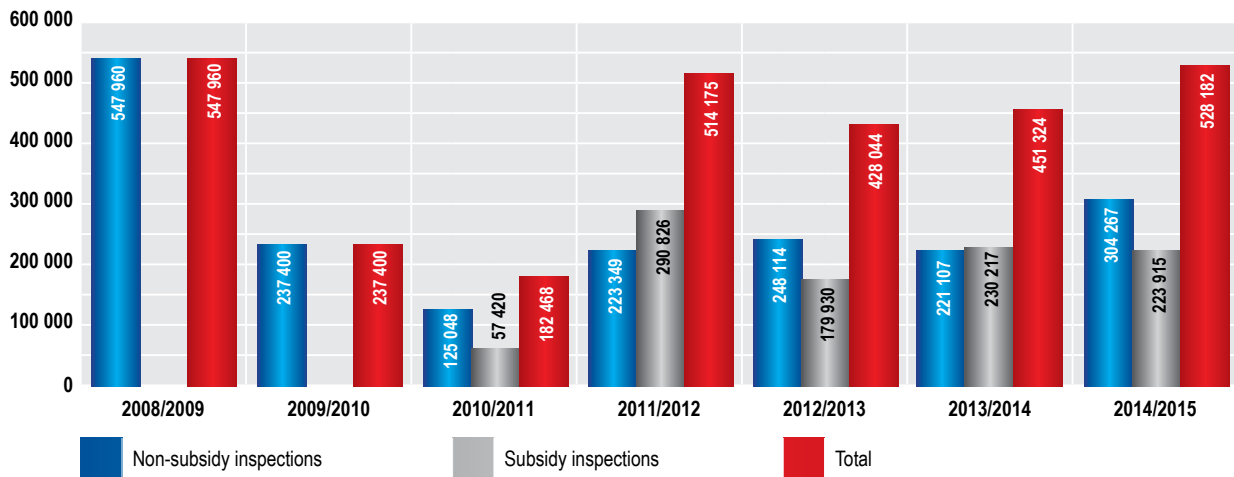


Figure 12: 7-Year Subsidy and Non-Subsidy Inspections of Homes

nationwide where housing consumers can be assisted to lodge their complaints against home builders. The NHBRC warranty covers the following defects:

- Should there be a roof leak within the first 12 months from the date of occupation of the house by the housing consumer from date of occupation.
- Housing consumers have five years to report on any major structural defects in the home. A major structural defect means, a defect which gives rise or will likely give rise to damage of a house structure. The house might require extensive repairs or partial rebuilding.
- Where the complaint is maintenance in nature, the housing consumer must inform the home builder within three months of taking occupation of a home.

Figure 13 shows that a total of 471 new complaints were lodged with NHBRC during 2014/15. It should be noted that complaints lodged in a particular year are not necessarily closed or resolved in the same year. There will always be complaints brought forward from the previous

years' depending on a stage it is at. These delays are due to number of variable processes involved in every stage. Of the complaints attended to in 2014/15, 23% were maintenance related, 66% were related to potentially major structural defects and 11% were of roof leaks.

Of the total complaints received, 108 were closed at complaint stage, requiring no further action. A total of 256 were escalated to conciliation for further investigation. Of the 256 that were escalated, 152 were resolved and 34 were escalated to remedial. Of the 34 escalated to remedial, 16 were resolved at remedial by end of the financial year.

Figure 13 shows that there is a noticeable decrease in 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 the 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.



Figure 13: Complaints lodged and resolved over 7 years

PROJECT MANAGEMENT OFFICE

Background

The NHBRC is continuously in search of alternatives and better ways to deliver services and projects successfully. In this regard, tested tools and techniques in project management have proven instrumental in delivering key services and products. It is on this basis that in June 2012, the NHBRC established the Project Management Office (PMO), with its primary function being, a unit through which the NHBRC can deliver “added value” to

housing consumers through consistent use of project management principles, to reduce wastage and eliminate errors and maximise yield potential of projects.

Purpose

The purpose of PMO is to create an enabling environment, where projects, through the use of project management principles can flourish and be timeously enrolled and executed.

Performance of the section in relation to targets as contained in the level 1 scorecard

| | Key Performance Area | Target 2014/2015 | Performance of 2014/2015 financial year |
|---|------------------------------------|---|--|
| 1 | Conduct forensic investigation | Commence forensic investigation within 30 days from date of receipt of appointment letter | Commence forensic investigation was above 30 days from date of receipt of appointment letter |
| 2 | Conduct geotechnical investigation | Commence geotechnical investigation within 45 days from date of receipt of appointment letter | Commence geotechnical investigation was above 45 days from date of receipt of appointment letter |

Show a comparison of 2014/15 performance of set targets against the performance of 2013/2014 financial year

| | Key Performance Area | Performance of 2013/2014 financial year | Performance of 2014/2015 financial year |
|---|------------------------------------|--|--|
| 1 | Conduct forensic investigation | Commence forensic investigation was above 30 days from date of receipt of appointment letter | Commence forensic investigation was above 30 days from date of receipt of appointment letter |
| 2 | Conduct geotechnical investigation | Commence geotechnical investigation was above 45 days from date of receipt of appointment letter | Commence geotechnical investigation was above 45 days from date of receipt of appointment letter |

Challenges experienced and intervention to address the challenges

| | Challenges experienced | Interventions to address the challenges |
|---|--|---|
| 1 | Contracting and starting with construction of subsidy projects without adequate designs (i.e. Architectural/civil/structural) | Avail and assist provincial departments and municipalities with a data base of professional service providers for all required engineering skills and expertise. |
| 2 | Construction of subsidy projects taking place outside the areas of geotechnical investigations and other technical imperatives due to changes in social project priorities | NHBRC to provide PDoHS with all architectural and standard civil and structural engineering assistance including costing of typologies to be built within the province |
| 3 | | <p>PMO has embarked on a project to get all typologies re-drafted, incorporating the newly revised standards. When completed, contractors will tender on properly specified plans, with costs estimates to assist government on the true costs of building a 40 square metres house in a particular province</p> <p>PMO successfully completed resourcing all provincial departments, with engineers located at their respective offices</p> <p>PMO continues to encourage and up-skill internal resources so that it closes voids left by external services providers, as and when we continue to comply with treasury directives on limiting the usage of consultants, with several new recruits being supported and guided to register as full professionals</p> |

Background

Corporate Services Division is made up of three units, namely, Human Capital Management, Business Management Solutions (BMS) and Facilities Management.

Purpose

Corporate Services Division aims to ensure smooth operations by providing, maintaining and managing the information system, equipment and related infrastructure. The division also ensures that the organisation attracts, retains and looks after competent human capital. Furthermore, the division ensures that appropriate facilities are established for NHBRC and are regularly maintained.

Strategy of the division in relation to the strategies of the organisation

This division has gone through strategic changes to improve the effectiveness and efficiency of the organisation. This financial year, a new Enterprise Resource Planning system was developed to automate most of the procedures and to ensure that NHBRC has one system to replace the legacy systems which needed different specialists to use and maintain. This project was

awarded to a company . In order for this to happen, the new infrastructure needed to be sourced to host the new system. This project was awarded to a company . Before SAP can run, the data needed to be cleaned to ensure that it is in line with SAP requirements. This project was awarded to a company .

BMS also embarked on improving the communication system by installing a new telephone system which would be standardised throughout the country. This project also includes hosting of emails and improvement of internet connectivity. This project was also awarded to a company.

The unit's structure was reviewed to place the human capital section in line with SAP requirements. Most staff members were trained in at least two modules to multi-skill them and to ensure there is continuity in carrying out their duties.

Corporate Services division went through a complete revamp this year. Most policies were reviewed in the 2014/15 financial year and were subjected to the process of approval by the relevant committees of Council.

NHBRC has improved the management of its facilities. The Executive Committee approved the review of the unit's structure to ensure there is capacity to look after NHBRC's facilities.

Performance of the division in relation to targets as contained in the level 1 scorecard

| | Key Performance Area | Target 2014/2015 | Performance against target for 2014/2015 |
|---|---|--|--|
| 1 | Completion of SAP project | 100% completion of SAP segment 1 project | 66% completion of SAP segment 1 project |
| 2 | Completion of SAP project | 20% completion of SAP segment 2 project | 66% completion of SAP segment 2 project |
| 3 | Maintenance of up-time | 95% maintenance of up-time resources to avoid downtime | 95% maintenance of up-time resources to avoid downtime |
| 4 | % achievement of employee satisfaction | 70% achievement of employee satisfaction | Employee satisfaction survey was not conducted |
| 5 | % execution of HR re-engineering strategy | 100% execution of HR re-engineering strategy | 86% execution of HR re-engineering strategy |

Show a comparison of 2014/15 performance of set targets against the performance of 2013/2014 financial year

| | Key Performance Area | Performance of 2013/2014 financial year | Performance of 2014/2015 financial year |
|---|---|---|---|
| 1 | % improvement of NHBRC perception survey | 0% improvement of NHBRC perception survey | 0% improvement of NHBRC perception survey |
| 2 | % execution of HR re-engineering strategy | No execution of HR re-engineering strategy was planned for the year | 86% execution of HR re-engineering strategy |

Challenges experienced and intervention to address the challenges

| | Challenges experienced | Interventions to address the challenges |
|---|--------------------------------------|---|
| 1 | Slow turnaround in filling vacancies | Measures are being put in place to be able to meet the target |

HUMAN CAPITAL MANAGEMENT SECTION

Background

Human Capital is constituted by four elements which are Recruitment, Talent Management, Employment Relations and Payroll.

Purpose

The unit ensures that there is seamless human capital management. It aims to attract and retain talent, to develop and capacitate human capital to ensure optimum productivity, to ensure that all labour matters are dealt with in a fair and smooth manner and to ensure that all employees and Council members are paid correctly and on time. The unit strives to comply with all human capital related legislation including the South African Revenue Services (SARS) requirements.

Some of the achievements by the section were as follows:

- A key highlight for the year was the appointment of all executives and critical managers; this has ensured that the leadership gap was filled. Another

key highlight for the year was the implementation of the Human Capital Revamp partner – remarkable progress has been made both in the development of the human capital staff and the development of the organisation. Significant progress was made in the organisational development and change management within the NHBRC.

- The financial year began with wage negotiations that were only concluded in November 2014 amicably with strike action averted and this had a positive impact on the Union Management Relationship.
- A key lowlight was the suspension of five employees for matters relating to gross misconduct. This resulted in two dismissals of staff.
- There was a significant recruitment drive with emphasis on the recruitment of key positions in the organisation. The permanent staff compliment grew by 77 permanent employees.
- The Human Capital section manages a very successful Employee Wellness Programme with significant wellness interventions throughout the year.
- All Human Capital policies were revised and were in the process of approval by end of the financial year.

Performance of the division in relation to targets as contained in the level 1 scorecard

| | Key Performance Area | Target 2014/2015 | Performance against target for 2014/2015 |
|---|---|--|--|
| 1 | % achievement of employee satisfaction | 70% achievement of employee satisfaction | Employee satisfaction survey was not conducted |
| 2 | % execution of HR re-engineering strategy | 100% execution of HR re-engineering strategy | 86% execution of HR re-engineering strategy |

Workforce Profile as at 31st of March 2015

| Occupational Levels | Grades | Male | | | | Female | | | | Foreign Nationals | Total |
|---|--------|------------|-----------|----------|-----------|------------|-----------|----------|-----------|-------------------|------------|
| | | A | C | I | W | A | C | I | W | Male | |
| Top management | 1-2 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 2 |
| Senior management | 3-4 | 2 | 1 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 5 |
| Middle-management Professionally qualified | 5-6 | 13 | 2 | 2 | 4 | 9 | 0 | 1 | 1 | 0 | 32 |
| Skilled/technical qualified/Junior management | 7-12 | 187 | 24 | 5 | 11 | 241 | 11 | 5 | 19 | 0 | 503 |
| Skilled and discretionary decision making | 13-15 | 5 | 0 | 0 | 0 | 6 | 0 | 0 | 0 | 0 | 11 |
| Semi-skilled and defined decision making | 16-17 | 3 | 0 | 0 | 0 | 21 | 0 | 0 | 1 | 0 | 25 |
| TOTAL PERMANENT | | 211 | 27 | 7 | 15 | 280 | 11 | 6 | 21 | 0 | 578 |
| Temporary employees | | 8 | 2 | 1 | 1 | 7 | 0 | 0 | 1 | | 20 |
| GRAND TOTAL | | 219 | 29 | 8 | 16 | 287 | 11 | 6 | 22 | 0 | 598 |



Employment Equity by Gender

There are 260 males (45%) and 318 females (55%) employed by the NHBRC. In terms of race, 36% of the employee are African males and 48% reflect African females.

of the total NHBRC equity complement. Indian employees make up 2% of the staff complement. A focussed effort was placed on acquiring women at executive management levels and the target was achieved.

Employment Equity by Race

African employees make up 85% of the total staff complement, while Coloured employees make up 7% of the total staff complement. White employees make up 6%

Employment Equity of people with disabilities

The NHBRC is an employer of choice which does not discriminate against prospective employees with disabilities to apply for available positions within the organisation. The NHBRC does not have employees with disabilities for the current financial year under review.

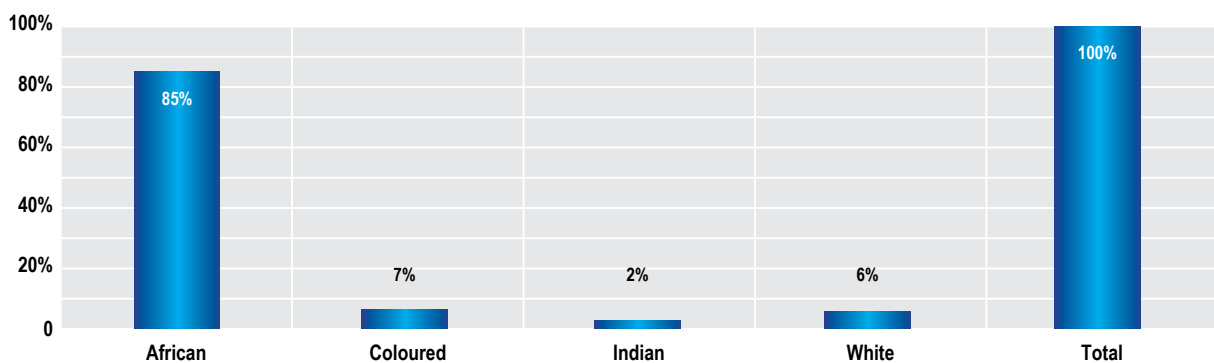


Figure 14: Employment Equity

BUSINESS MANAGEMENT SOLUTIONS

Background

The Business Management Solutions (BMS) section was formed in 2011 with the stated objective of redefining the IT department into a unit that has the required expertise, structures, resources and systems to address the problems experienced in the past and provide the business solutions that the organisation needs to meet its mandate.

The most significant challenge that negatively impacted business operations was the absence of a trusted and integrated IT system that catered for the information needs of the organisation.

Purpose

The purpose of the Business Management Solutions section is to deliver and support the business solutions, technical infrastructure and support services that are required to achieve the NHBRC's strategic objectives.

Strategic projects

- **SAP Implementation Project** – The primary objective of this project is to implement SAP as well as the related infrastructure and systems that are required to ensure the successful implementation of SAP. This is the most significant and strategically important project being undertaken by BMS, and has necessitated extensive restructuring, re-skilling of technical staff as well as an increase in the headcount of the team.

The SAP Implementation project was implemented in August 2014, and by end of March, the Initiation and Blueprint phases were successfully completed. As the end of the period under review, the project was in the Realisation phase with an overall status completion of 66%.

The go-live date for the project is August 2015.

- **Data Cleansing Project** – The primary objective of this project is to integrate the data from three legacy systems, address all known data quality issues, and ensure that the data transferred into SAP is accurate and reliable and makes it possible to decommission all legacy systems.

Performance of the division in relation to targets as contained in the level 1 scorecard

| | Key Performance Area | Target 2014/2015 | Performance against target for 2014/2015 |
|---|---------------------------|--|--|
| 1 | Completion of SAP project | 100% completion of SAP segment 1 project | 66% completion of SAP segment 1 project |
| 2 | Completion of SAP project | 20% completion of SAP segment 2 project | 66% completion of SAP segment 2 project |
| 3 | Maintenance of up-time | 95% maintenance of up-time resources to avoid downtime | 95% maintenance of up-time resources to avoid downtime |



Challenges experienced and intervention to address the challenges

| | Challenges experienced | Interventions to address the challenges |
|---|--|---|
| 1 | The absence of monitoring systems to enable proactive maintenance and quicker turnaround times in the resolution of technical problems | The implementation of the Microsoft Systems Centre suite of products is to ensure effective monitoring of all infrastructure and systems, the protection of all computers and servers with respect to viruses and malware, as well as the management of the ICT environment |
| 2 | The absence of an approved and tested Disaster Recovery Plan to ensure the protection of NHBRC information assets. | The procurement of server and storage infrastructure to host the SAP development and quality assurance environments |
| 3 | The absence of server and storage infrastructure strategies to enable the modernisation of the NHBRC server and storage infrastructure | The development, implementation and testing of a server virtualisation strategy for the SAP environment as well as a future platform for all NHBRC servers, the greatest benefit being the ease with which virtual servers can be created, restored and moved to different physical servers |
| | | The development of a Disaster Recovery Plan for the NHBRC, was awarded to Business Connection (BCX). The Business Impact Analysis, which forms the foundation for the design and implementation of the required backup and recovery plans was completed for all NHBRC departments |
| 4 | The number of labour matters has increased; a major source of concern is the number of employees on suspension | A process has been put in place to address all labour matters |

- **Unified Communications Project** – The deliverables of a successful implementation are a managed, redundant and integrated network that links all 22 NHBRC offices, an outsourced and managed switchboard for the entire organisation, as well as a managed hosting environment for NHBRC servers. By end of March, almost all offices were prepared for the rollout in terms infrastructure. The Unified Communications Project must be completed prior to the go-live date of the SAP project in August 2015.
- **SAP Hosting Environment** – Telkom was awarded a tender to host the SAP Production Environment. The required 21 virtual servers were successfully created and deployed at Telkom to host the SAP hosting environment.
- **Audit of SAP Implementation** – Ernst and Young (EY) was appointed to provide quality assurance

services for the SAP implementation project. The NHBRC has already derived considerable benefits from the involvement of EY in the project. The involvement of EY will ultimately result in a well-documented and quality implementation.

Conclusion

- The Human Capital revamp process has been successful and to date we have achieved a total of 86% against the target. The project will be concluded at the end of May 2015
- The implementation of SAP will be successfully completed, decommissioning all legacy systems, and implement all related infrastructure and systems that will result in well managed and reliable systems

LEGAL COMPLIANCE AND ENFORCEMENT SECTION

Purpose of the Section

To entrench a culture of compliance with applicable legislative and regulatory framework, ensure effective enforcement processes and provide cutting edge litigation and legal advisory services.

Performance of section in relation to targets as contained in the level 1 scorecard

- During 2014/15 financial year, the Disciplinary Committee adjudicated upon 339 matters, 83% of which were heard within a period of 180 days calculated from the date of suspension of the home builder. See Table 1 in this regard
- To ensure continued strengthening of enforcement of the Act, the above turnaround time will be reduced to 160 days from the date of suspension during the 2015/16 financial year
- A total of 233 home builder suspensions were approved and recorded on the system during the financial year
- The offences before the Disciplinary Committee ranged from failure by the home builder to rectify major structural defects, failure to rectify workmanship

related defects, failure to enrol homes and matters related to code of conduct.

Over this period, a total of 85 code of conduct related matters were received either from the general public or the NHBRC's hotline. About 50% of these matters were resolved either as a result of them being:

- Adjudicated at the Disciplinary Committee with parties reaching an amicable solution or the complainant deciding not to proceed with the matter
- About 60 cases were instituted at various police stations by investigators in terms of section 21 of the Act across the country. While there were few admissions of guilt by home builders for carrying on the business of a home builder without having registered as such in terms of section 10 of the Act, progress in this area remains a challenge. In order to expedite the prosecution of these matters and to ensure effective enforcement of the Act, the NHBRC's investigators and prosecutors have initiated engagements and workshops to forge relationships and cooperation with the relevant officials of the South African Police Services (SAPS) and National Prosecuting Authority (NPA) within their respective provinces
- As at March 2015, a total of R1.9 million was recovered as penalties imposed by the Disciplinary Committee against defaulting home builders

Disciplinary Committee Hearings for 2014/2015

| Provinces | Suspensions | Total DC Hearings | Not Guilty Verdict | Warning | Fine Imposed | Registration Withdrawn | Matters Postponed/ Struck off the Roll | Charges Withdrawn |
|---------------|-------------|-------------------|--------------------|-----------|--------------|------------------------|--|-------------------|
| Western Cape | 71 | 79 | 1 | 7 | 37 | 2 | 19 | 9 |
| KwaZulu-Natal | 16 | 38 | 0 | 2 | 24 | 2 | 4 | 6 |
| Gauteng | 28 | 56 | 1 | 23 | 8 | 1 | 19 | 4 |
| Eastern Cape | 8 | 23 | 0 | 0 | 22 | 0 | 1 | 0 |
| Mpumalanga | 19 | 20 | 1 | 3 | 7 | 3 | 4 | 2 |
| Limpopo | 79 | 80 | 2 | 4 | 41 | 4 | 15 | 14 |
| North West | 9 | 25 | 0 | 2 | 17 | 2 | 2 | 2 |
| Northern Cape | 0 | 4 | 0 | 2 | 2 | 0 | 0 | 0 |
| Free State | 3 | 14 | 0 | 4 | 5 | 0 | 4 | 1 |
| TOTAL | 233 | 339 | 5 | 47 | 163 | 14 | 68 | 38 |

A comparison of 2014/2015 performance of set targets against the performance of 2013/2014 financial year

- As per the table and graph below, matters adjudicated upon by the Disciplinary Committee increased from 328 during 2013/14 to 339 in 2014/15 financial year. The graph also shows the performance per province

- Home builder suspensions also increased from 202 to 233 during the financial year
- The key focus during the current financial year was to improve the turnaround times as part of the section's efforts not only to ensure strengthened enforcement of the Act, but also to ensure fairness and justice by expediting the disciplinary processes

A comparison of 2014/2015 performance of set targets against the performance of 2013/2014 financial year

| Provinces | 2013/2014 Financial Year | | 2014/2015 Financial Year | |
|---------------|--------------------------|-------------------|--------------------------|-------------------|
| | 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 |

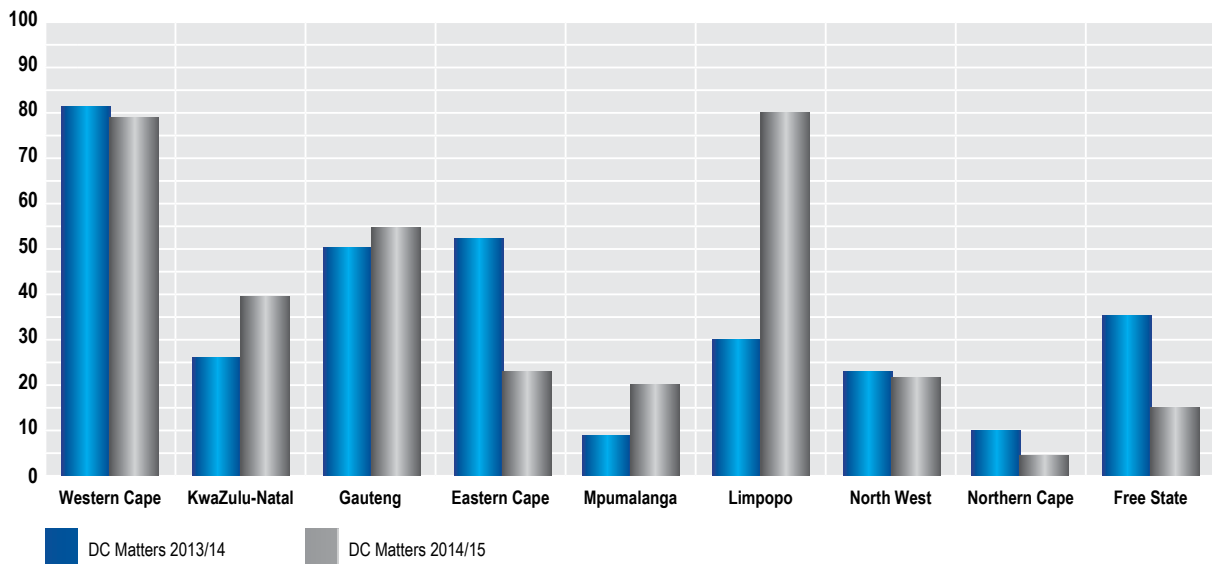


Figure 15: Comparison of performance for disciplinary hearing matters for the periods 2013/2014 and 2014/2015 by province

Challenges experienced and intervention to address the challenges

| | Challenges experienced | Interventions to address the challenges |
|---|---|---|
| 1 | Delayed promulgation of the Bill | The Bill escalated to appropriate channels to ensure its finalisation during the financial year 2015/2016 |
| 2 | Limited cooperation or willingness from SAPS re. enforcement of section 21 of the Act | Meetings/workshops with relevant members of SAPS to forge working relations have commenced |
| 3 | Minimum knowledge or understanding of the Act affecting efficient enforcement thereof | Meetings/workshops/training with relevant stakeholders to forge working relations |
| 4 | Limited compliance with applicable laws and regulations | Continuous training of relevant stakeholders re. applicable legislative/regulatory framework Monitoring and reporting of compliance issues to be focused on in 2015/2016 |

Compliance Section

Performance of section in relation to targets as contained in the level 1 scorecard

- Continuous update of the regulatory universe as well as an analysis of the primary laws that apply to the NHBRC
- Compliance Policy approved by the Council for implementation
- Compliance Framework finalised and ready for approval
- Commenced with the training of managers on the CURA system to ensure efficient management and monitoring of compliance risk in the organisation
- In cooperation with the Risk Section, facilitated the appointment and training of Risk and Compliance Champions
- Commenced with compliance monitoring within the Human Capital section, with the focus on the Labour Relations Amendment Act
- Continued to provide formal and informal opinions on compliance risk issues as and when required

Show comparison of 2014/2015 performance against 2013/2014

| | Target 2014/2015 | Performance against target for 2014/2015 |
|---|---|---|
| 1 | Formulated a regulatory universe as well as an analysis of the primary laws that apply to the NHBRC | Continuous update on the regulatory universe as well as an analysis of the primary laws that apply to the NHBRC |
| 2 | Finalised a draft compliance policy specifically tailored to the NHBRC's operations | Compliance Policy approved by the Council for implementation |
| 3 | N/A | Compliance Framework finalised and ready to undergo approval |
| 4 | In the process of implementing a world-class compliance risk management software in order to empower the NHBRC to manage compliance risk in an efficient manner | Commenced with the training of managers on the CURA system to ensure efficient management and monitoring of compliance risk in the organisation |
| 5 | Initiated awareness programmes on the importance and benefits of compliance and ethical conduct by means of various internal mechanisms such as newsletter articles | N/A |
| 6 | Continued to provide formal and informal opinions on compliance risk issues as and when required | Continued to provide formal and informal opinions on compliance risk issues as and when required |
| 7 | N/A | In cooperation with the Risk Section, facilitated the appointment and training of Risk and Compliance Champions |
| 8 | N/A | Commenced with compliance monitoring within the Human Capital section, focusing on the Labour Relations Amendment Act |



SUPPLY CHAIN

The NHBRC remains committed in its endeavours to empower historically disadvantaged individuals (HDI), as it posts another report on its preferential procurement spend of 58.66% against a 51% target. The cost of doing business remains a daily operational priority within the NHBRC's supply chain, while at the same time ensuring that the quality of goods and services is not compromised.

The following four legislative acts continue to govern the supply chain activities of the NHBRC and, as the pillars of regulatory compliance are taken into account in daily procurement operations:

- Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) (as amended)
- Public Finance Management Act, 1999 (Act No. 1 of 1999) (as amended)
- Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)
- National Treasury practice notes, guides, circulars and letters as they are continuously reviewed, updated and improved

The NHBRC is committed to the tenets of the Broad Based Black Economic Empowerment (BBBEE) and subscribes fully to legal, social and moral imperatives of BBBEE. It is important to view the BBBEE as an economic imperative which requires financial investment and commitment from the company in addressing the

identified challenges. The NHBRC must remain relevant as a State Owned Enterprise, by promoting transformation through attracting and supporting meaningful participation of BBBEE compliant individuals and enterprises when doing business with the NHBRC.

The table below shows the actual value of purchases placed with suppliers with shareholdings by historically disadvantaged individuals (HDI's).

Table of procurement spend for 2014/2015

| | | |
|--|------------|--------|
| Procurement spend: HDI institutions | 61 849 079 | 58.66% |
| Procurement spend: non-HDI institutions | 43 579 809 | 41.34% |

Of the R105,428,889 spent on procurement for the year, R61,849,079 was through HDI institutions, representing 58.66% of the total expenditure. The figures shown in the above table are an indication of the continued efforts of the NHBRC's in meeting the targets set by the institution in contributing to the empowerment of historically disadvantaged individuals.

The focus of the Supply Chain Section for the year was to address previous audit findings. While significant progress has been made in this regard, the implementation of improvement plans is continuing to improve the procurement processes compliance with regulatory requirements.

PERFORMANCE INFORMATION

| KPA | KPI no. | KPI | Key activity | Yearly target | Target met or target not met | Actual achievement | Reason for variation |
|---|---------|--|----------------------------------|---|------------------------------|---|--|
| 1. ADMINISTRATION PROGRAMME | | | | | | | |
| 1. Business Management Solutions | 1.1 | Completion of SAP project | Manage SAP project | 100% completion of SAP segment 1 project | Target not met | 66% completion of SAP segment 1 project | Despite the delay in the start of the project, it has reached 66% completion and is on track with regard to the revised and approved schedule |
| | 1.2 | Completion of SAP project | Manage SAP project | 20% completion of SAP segment 2 project | Target met | 66% completion of SAP segment 2 project | Despite the delay in the start of the project, it has reached 66% completion and is on track with regard to the schedule |
| | 1.3 | Maintenance of up-time | Avoid downtime | 95% maintenance of up-time resources to avoid downtime | Target met | 95% maintenance of up-time resources to avoid downtime | Performance is based on an estimate as there is currently no automated system in place to accurately measure system uptimes |
| 2. Human Capital | 2.1 | % achievement of employee satisfaction | Conduct satisfaction survey | 70% achievement of employee satisfaction | Target not met | 0% achieved in measuring employee satisfaction | Employee satisfaction survey not done |
| | 2.2 | % execution of HR re-engineering strategy | Implement approved strategy | 100% execution of human resource re-engineering strategy | Target not met | 86% execution of HR re-engineering strategy | Failure to stick to project timelines |
| 3. Finance | 3.1 | % controllable expenditure to exceed revenue by 14% | Manage revenue | Controllable expenditure to exceed revenue by 14% | Target met | Controllable expenditure was below revenue by 38% | Cost containment measures implemented |
| | 3.2 | % resolution of audit findings | Resolve audit queries | 100% resolution of audit findings | Target not met | 68% resolution of audit findings | Certain finding will be resolved when the new ERP system is implemented as it would be fruitless to improve controls on the outgoing system |
| | 3.3 | % spent on BEE | Monitor spending patterns | BEE spend > 51% | Target met | BEE spend > 51% (58% was achieved) | Lack of qualifying BEE service providers on certain projects and/failure by qualifying BEE companies to meet statutory requirements such as SARS tax clearance certification |
| 4. Audit Management | 4.1 | % implementation of audit plan | Implement approved audit plan | 90% implementation of audit plan | Target met | 92% implementation of the audit plan | Audit plans were affected by special projects that emerged during the year and required the intervention of the internal audit. These special projects cause the re-scheduling of some of the planned activities |
| | 4.2 | % investigation of fraud incidents reported | Investigate fraud incidents | 100% investigations of fraud incidents reported | Target met | 100% investigations of fraud incidents reported | Certain incidents received required specialised skills which the organisation does not have in its employment and therefore resulted in incidents not being investigated by the end of the financial year |
| | 4.3 | % tracking of the implementation of corrective management plan | Track corrective management plan | 100% tracking of the implementation of corrective management plan | Target met | 100% tracking of the implementation of corrective management plan | The status of corrective management plan was reported quarterly to management to ensure compliance is achieved |

| KPA | KPI no. | KPI | Key activity | Yearly target | Target met or target not met | Actual achievement | Reason for variation |
|--|---------|--|--------------------------------------|---|------------------------------|--|--|
| 2. REGULATION PROGRAMME | | | | | | | |
| 2.1 Registration | 2.1.1 | % of certificates issued within a maximum of 5 working days from date of full payment of all applicable fees and successful technical assessment | Register homebuilders | 100% of certificates issued within a maximum of 5 working days from date of full payment of all applicable fees and successful technical assessment | Target not met | 90% of certificates issued within a maximum of 5 working days from date of full payment of all applicable fees and successful technical assessment | Turnaround time measure included some of the parameters outside NHBC control |
| | 2.2.1 | % of renewal notifications sent 30 days before date of expiry of registrations | Renew homebuilder registration | 100% of renewal notifications sent 30 days before date of expiry of registrations | Target not met | 88% of renewal notifications sent 30 days before date of expiry of registrations | Inefficient monitoring tool to measure the KPI and this will be improved when the new system is implemented in 2015/16 |
| 2.2 Renewal of homebuilder registration | 2.2.2 | 80% renewal of active homebuilders | Renewal of home builder registration | 80% renewal of active home builders | Target not met | 78% renewal of active home builders | Few home builders submitted applications to renew but renewal of membership was rejected due to failure to attend to notice of non-compliance and failure to meet qualifying criteria such as technical and financial capabilities |
| | 2.3.1 | Achieve a ratio of 4 for subsidy inspections | Attain an inspection ratio of 4 | Achieve a ratio of 4 for subsidy inspections | Target not met | Achieve a ratio of 3 for subsidy inspections | Homes enrolled are not constructed and completed within the same financial year and therefore construction will overlap to a new financial period |
| 2.3 Quality Assurance | 2.3.2 | Achieve a ratio of 4 for non-subsidy inspections | Attain an inspection ratio of 4 | Achieve a ratio of 4 for non-subsidy inspections | Target not met | Achieve a ratio of 3 for non-subsidy inspections | Homes enrolled are not constructed and completed within the same financial year and therefore construction will overlap to a new financial period |
| | 2.4.1 | % execution of training strategy | Execute the approved strategy | 100% execution of training strategy | Target not met | 50% execution of training strategy | Failure by the section to execute the strategy |
| 2.4 Homebuilder training | 2.4.2 | Number of homebuilders trained | Train homebuilders | Train 1 200 homebuilders in critical stages of construction | Target met | A total of 2 629 homebuilders were trained | Ability of the section to respond to special training requests and implement scheduled programmes |
| | 2.4.3 | Number of youth trained | Train youths | Train 2 000 youth in critical stages of construction | Target not met | A total of 1 184 youth were trained | Failure by trainees to attend and complete trainings as scheduled. Homebuilders are reluctant to withdraw their employees for training when work volumes require additional resources |

| KPA | KPI no. | KPI | Key activity | Yearly target | Target met or target not met | Actual achievement | Reason for variation |
|---|---------|--|---|---|------------------------------|--|---|
| 3. PROTECTION PROGRAMME | | | | | | | |
| 3.1 SUB-PROGRAMME 1: SUBSIDY SECTOR | | | | | | | |
| 3.1 Project enrolment | 3.1.1 | % of projects approved or applications rejected within 15 working days from date of receipt | Enrol projects | 100% of projects approved or applications rejected within 15 working days from date of receipt. | Target not met | 76% of projects approved or applications rejected within 15 working days from date of receipt | Received documentations do not meet all the technical requirements and there is a delayed response from professional service providers handling the projects on behalf of Government |
| 3.2 Home Enrolment | 3.2.1 | % of homes approved or applications rejected within 15 working days from date of receipt | Enrol projects | 100% of homes approved or application rejected within 15 working days from date of receipt | Target not met | 27% of homes approved or applications rejected within 15 working days from date of receipt | Received documentations do not meet all the technical requirements and there is a delayed response from professional service providers handling the projects of behalf of Government |
| 3.3 Late Enrolment | 3.3.1 | % of late enrolment certificates issued within 3 working days from date of providing a guarantee | Issue certificate | 100% of late enrolment certificates issued within 3 working days from date of providing a guarantee | Target not met | 73% of late enrolment certificates issued within 3 working days from date of providing a guarantee | Turnaround time measure included some of the parameters outside NHBRC control |
| | 3.3.2 | % of late home enrolments | Late enrolment of homes | Less than 5% of total home enrolments | Target met | 2.8% total home enrolments were achieved | Effective induction that is offered to all newly registered home builders and home builder awareness campaigns by other sections |
| 3.4 Stakeholder relations management | 3.4.1 | % execution of the revised stakeholder management | Implement stakeholder relations management document | 100% execution of the revised stakeholder management | Target not met | 38% execution of the revised stakeholder management | There were special projects during the year that had to be prioritised therefore affecting other activities within the approved plan |
| | 3.5.1 | Number of days it takes to conduct forensic investigation | Conduct forensic investigation | Commence forensic investigation within 30 days from date of receipt of appointment letter | Target not met | Commence forensic investigation was above 30 days from date of receipt of appointment letter | Internal resources were not sufficient to deal with the volume of forensic investigations and the appointment of external service providers took time to complete, due to failure by potential companies to meet all the technical and statutory requirements |
| 3.5 Project Support Unit | 3.5.2 | Number of days it takes to conduct geotechnical investigation | Conduct geotechnical investigation | Commence geotechnical investigation within 45 days from date of receipt of appointment letter | Target not met | Commence geotechnical investigation was above 45 days from date of receipt of appointment letter | Internal resources were not sufficient to deal with the volume of geotechnical investigations and the appointment of external service providers took time to complete, due to failure by potential companies to meet all the technical and statutory requirements |

| KPA | KPI no. | KPI | Key activity | Yearly target | Target met or target not met | Actual achievement | Reason for variation |
|--|---------|--|--|---|------------------------------|--|---|
| 3. PROTECTION PROGRAMME | | | | | | | |
| 3.1 SUB-PROGRAMME 1: SUBSIDY SECTOR (continued) | | | | | | | |
| 3.6 Risk Management | 3.6.1 | % implementation of approved risk plan | Implement approved risk plan | 90% implementation of approved risk plan | Target not met | 86% implementation of approved risk plan | Security policies and procedures not reviewed and Risk Tolerance/appetite was still in draft by end of the financial year |
| | 3.6.2 | % implementation of OHS plan | Implement OHS plan | 100% implementation of OHS plan | Target not met | 67% implementation of OHS plan | Training of management was postponed to 2015/16 financial year |
| | 3.6.3 | % implementation of BCM strategy | Implement BCM strategy | 100% implementation of BCM strategy | Target not met | 30% implementation of BCM strategy | Implementation of BCM is planned for May 2015/16 in line with new ERP system |
| | 3.6.4 | % implementation of the fraud plan | Implement fraud plan | 100% implementation of the fraud plan | Target not met | 85% implementation of the fraud plan | Implementation of Fraud Plan is planned for May 2015/16 in line with new ERP system |
| 3.2 SUB-PROGRAMME 2: NON-SUBSIDY SECTOR | | | | | | | |
| Normal Enrolment | 3.2.1 | % of certificates issued within 3 working days from date of full payment of applicable fees | Issue warranty certificates | 100% of certificates issued within 3 working days from date of full payment of applicable fees | Target not met | 53% of certificates issued within 3 working days from date of full payment of applicable fees | Turnaround time measure included some of the parameter outside NHBC control |
| | 3.3.1 | % of certificates issued within 15 working days from date of full payment of applicable fees | Issue warranty certificates | 100% of certificates issued within 15 working days from date of full payment of applicable fees | Target not met | 59% of certificates issued within 15 working days from date of full payment of applicable fees | Turnaround time measure included some of the parameter outside NHBC control |
| 3.4 Multistorey/rational design enrolments | 3.4.1 | % of certificates issued within 21 working days from date of full payment of applicable fees | Issue warranty certificates | 100% of certificates issued within 21 working days from date of full payment of applicable fees | Target not met | 4% of certificates issued within 21 working days from date of full payment of applicable fees | Turnaround time measure included some of the parameter outside NHBC control |
| | 3.5.1 | % execution of reputation management strategy | Implement reputation management strategy | 100% execution of reputation management strategy | Target not met | 84% execution of reputation management strategy | Rescheduling of activities to respond to market demands and tap into available opportunities |
| 3.6 Complaints and Conciliations | 3.6.1 | % complaints investigated and concluded within 30 days from date of capture | Investigate complaints | 100% complaints investigated and concluded within 30 days from date of capture | Target not met | 60% complaints investigated and concluded within 30 days from date of capture | The process of handling complaints exceeded 30 days and the policy and procedures were revised in 2014/15 |
| | 3.6.2 | % of conciliations concluded within 30 days from date of escalation | Handle conciliations matter | 100% of conciliations concluded within 30 days from date of escalation | Target not met | 16% of conciliations concluded within 30 days from date of escalation | The process of handling complaints exceeded 30 days and the policy and procedure were revised during 2014/15 |

| KPA | KPI no. | KPI | Key activity | Yearly target | Target met or target not met | Actual achievement | Reason for variation |
|--|---------|---|--|--|------------------------------|--|--|
| 3.2 SUB-PROGRAMME 2: NON-SUBSIDY SECTOR (continued) | | | | | | | |
| 3.6 Complaints and Conciliations (continued) | 3.6.3 | Number of days it takes to hand over site for remedial work from date of escalation | Conduct remedial works | Hand over site to remedial works contractor within 30 days from date of escalation | Target not met | Hand over site to remedial works contractor was above 30 days from date of escalation | Current ERP system does not cater for the measurement and has been improved in the new ERP solution |
| | 3.7.1 | Number of days to suspend homebuilders | Suspension of defaulting homebuilders | Suspension of defaulting homebuilders within 10 days from date of receipt | Target not met | 60% Suspension of defaulting homebuilders within 10 days from date of receipt | The number of matters escalated for DC has increased substantially resulting in prosecutors spending more time outside the office attending to DC matters. Secondly, there are various correspondence internally and externally regarding further information (which delays the suspension) between the date of escalation and the date of actual suspension |
| 3.7 Legal Compliance and Enforcement | 3.7.2 | Number of days it takes to prosecute defaulting homebuilders | Prosecute defaulting homebuilders | Prosecute defaulting homebuilders within 180 days from date of suspension | Target met | 81% of home builders prosecuted within 180 days from date of suspension | Prosecution team takes measures to meet turnaround times as per approved Balance Score Card |
| | 3.7.3 | % of compliance assessment (% implementation of the approved compliance plan) | Assess compliance level of NHBR (Implement the approved compliance plan) | 100% assessment of compliance level (100% implementation of the approved compliance plan) | Target not met | 89% assessment of compliance level (100% implementation of the approved compliance plan) | The submission of the framework was postponed to next the financial year to initiate compliance monitoring for supply chain and human capital |
| 3.8 Technical Support | 3.8.1 | Number of days it takes to evaluate structural claims | Evaluate structural claims | 20 days taken to evaluate structural claims | Target not met | More than 20 days taken to evaluate structural claims | Lack of internal capacity within Technical section which is addressed in 2015/16 financial year |
| | 3.8.2 | Number of training sessions conducted in provinces | Conduct training sessions | Conduct 9 training sessions in provinces | Target not met | 2 training sessions were conducted in provinces | Formal training/sessions for inspectors were incorporated into training module and will be implemented in 2015/16 financial year |
| | 3.8.3 | Number of days it takes to ensure that subsidy projects are enrolled timeously | Enrol subsidy projects | Ensure that subsidy and non-subsidy projects are enrolled timeously within 15 working days | Target not met | Projects were enrolled in more than 15 working days for subsidy and non-subsidy | Received documentations that do not meet all the technical requirements and there is a delayed response from professional service providers in handling the project of behalf of Government |
| 3.9 Foundation | 3.9.1 | % review and publish the home building manual | Review home building manual | Publish the home building manual | Target met | Guidelines to home building manual published | Guidelines were published to improve the quality of building in the industry |
| | 3.9.2 | Review and revise the research agenda | Review research agenda | Review and revise the research agenda | Target met | Review and revise the research agenda | Management adhered to project timelines |

| KPA | KPI no. | KPI | Key activity | Yearly target | Target met or target not met | Actual achievement | Reason for variation |
|--|---------|---|--------------------------------------|--|------------------------------|--|--|
| 3.2 SUB-PROGRAMME 2: NON-SUBSIDY SECTOR (continued) | | | | | | | |
| 3.9 Foundation (continued) | 3.9.3 | Number of projects using innovative building | Use innovative building technologies | 4 projects using innovative building | Target met | 4 projects using innovative building | Management adhered to project timelines |
| | 3.9.4 | Certification of inspectors by ECSA | Certification of home inspectors | Certification of inspectors by ECSA | Target not met | Certification of inspectors by ECSA was not done for the quarter | Strategy changed to have inspection accreditation by SAQA/SACPCMP and discussions in process |
| | 3.9.5 | Number of technical publications (research) developed | Publish technical papers | 8 knowledge management technical publications produced based on research | Target met | 8 knowledge management technical publications produced based on research | Publications were produced as per plan to share acquired knowledge with the industry |





SECTION 7
ANNUAL FINANCIAL
STATEMENTS

The Council, which is the Accounting Authority of the National Home Builders Registration Council (NHBRC), is responsible for the preparation, integrity and fair presentation of the annual financial statements of the NHBRC.

The annual financial statements for the year ended 31 March 2015 presented on pages 78 to 121 have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board.

They are based on appropriate accounting policies that have been consistently applied and that are supported by reasonable and prudent judgements and estimates. The going concern basis has been adopted in preparing the annual financial statements. The Council has no reason to believe that the NHBRC will not be a going concern in the foreseeable future, based on forecasts and available cash resources.

The Council is also responsible for the NHBRC's system of internal controls. This is designed to provide reasonable, but not absolute, assurance as to the reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability of assets. These controls are monitored throughout the NHBRC by management and employees in an attempt to address the segregation of authority and duties with available resources. The Council continues to design and implement processes to monitor internal controls, to identify material breakdowns and to implement timely corrective action.

The Council and NHBRC management treat corporate governance matters seriously, and whenever any instances of non-compliance with regulation are uncovered or reported, appropriate disciplinary measures in terms of policy and legislation are instituted.

The annual financial statements were approved by the Council on 30 July 2015 and are signed on its behalf:



Mr. Abbey Chikane

Acting Chairperson of Council



Mr. Mongezi Mnyani

Chief Executive Officer

REPORT OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE NATIONAL HOME BUILDERS REGISTRATION COUNCIL

REPORT ON THE FINANCIAL STATEMENTS INTRODUCTION

1. I have audited the financial statements of the National Home Builders Registration Council set out on pages 78 to 121 which comprise the statement of financial position as at 31 March 2015, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and section 15(6)(c) of the Housing Consumers Protection Measures Act, 1998 (Act No. 95 of 1998), 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.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Home Builders Registration Council as at 31 March 2015 and its financial performance and cash flows for the year then ended, in accordance with South African Standards of Generally Recognised Accounting Practice and the requirements of the PFMA and section 15(6)(c) of the Housing Consumers Protection Measures Act.

Emphasis of matter

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

Significant uncertainties

8. 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.

Additional matter

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

Unaudited supplementary information

10. The supplementary information set out on page 122 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In accordance with the Public Audit Act of South Africa, 2004 (Act No.25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report, non-compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected programmes presented in the annual performance report of the public entity for the year ended 31 March 2015:

- Programme 2: Regulation on page 67
- Programme 3: Consumer Protection on pages 68 to 71

13. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
14. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. The material findings in respect of the selected programmes are as follows:

Programme 2: Regulation

Usefulness of reported performance information

Consistency of targets

17. Treasury Regulation 30.1.3(g) requires the annual performance plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 38% of the reported targets were not consistent with those in the approved annual performance plan. This was due to reported and planned targets not being applied and measured consistently.

Measurability of indicators and targets

18. Performance targets should be measurable as required by the FMPPI. I could not measure the required performance for 38% of the targets.

19. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 38% of the indicators were not well defined.

Reliability of reported performance information

20. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

Programme 3: Consumer Protection

Usefulness of reported performance information

Measurability of indicators and targets

21. Performance targets should be measurable as required by the FMPPI. I could not measure the required performance for 39% of the targets.
22. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 39% of the indicators were not well defined

Reliability of reported performance information

23. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures for the accurate recording of actual achievements.

Additional matter

24. I draw attention to the following matter:

Achievement of planned targets

25. Refer to the annual performance report on pages 66 to 71 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected programmes reported in paragraphs 19 to 23 of this report.

Compliance with legislation

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

Strategic planning and performance management

27. Effective, efficient and transparent systems of risk management and internal controls with respect to performance information and management were not maintained as required by section 51(1)(a)(i) of the PFMA.

Procurement and contract management

28. 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

29. Steps taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the Public Finance Management Act, were in certain instances not effective.

Internal control

30. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on non-compliance with legislation, included in this report.

Leadership

31. The accounting authority and management did not exercise effective oversight responsibility regarding performance reporting and compliance and related internal controls.

Financial and performance management

32. The entity did not have a proper filing system to maintain information that supported the reported information in the annual performance report.
33. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

Auditor-General

Pretoria

31 July 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Statement of

FINANCIAL POSITION

as at 31 March 2015

| | NOTES | 2015 R | 2014 R |
|-------------------------------------|-------|----------------------|----------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 2 | 103,827,107 | 98,259,299 |
| Intangible assets | 3 | 87,814,430 | 57,007,633 |
| Investments | 4 | 1,987,130,080 | 2,425,159,325 |
| | | 2,178,771,617 | 2,580,426,257 |
| Current assets | | | |
| Investments | 4 | 3,003,357,047 | 1,997,005,731 |
| Inventories | 5 | 876,149 | 181,503 |
| Trade and other receivables | 6 | 19,321,214 | 35,678,126 |
| Cash and cash equivalents | 7 | 171,719,372 | 147,483,450 |
| | | 3,195,273,782 | 2,180,348,811 |
| TOTAL ASSETS | | 5,374,045,399 | 4,760,775,068 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Accumulated surplus | | 3,776,648,826 | 3,274,279,231 |
| Emerging contractor reserve | | 41,237,883 | 20,419,828 |
| | | 3,817,866,709 | 3,294,699,059 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Provision for outstanding claims | 9 | 32,554,742 | 30,143,782 |
| Provision for unearned premium | 9 | 497,969,460 | 371,762,257 |
| Provision for unexpired risk | 9 | 491,208,654 | 645,731,568 |
| | | 1,021,732,856 | 1,047,637,607 |
| Current liabilities | | | |
| Trade and other payables | 10 | 192,365,234 | 171,891,207 |
| Provisions | 11 | 2,978,582 | 3,095,266 |
| Provision for outstanding claims | 9 | 13,072,062 | 11,947,734 |
| Provision for unearned premium | 9 | 326,009,956 | 231,504,195 |
| | | 534,425,834 | 418,438,402 |
| Total equity and liabilities | | 5,374,045,399 | 4,760,775,068 |

Statement of

FINANCIAL PERFORMANCE

for the year ended 31 March 2015

| | NOTES | 2015 R | 2014 R |
|--|-------|--------------------|---------------------|
| Insurance premium revenue | 12 | 740,770,044 | 339,061,175 |
| Fee revenue | 13 | 50,680,650 | 30,951,855 |
| Technical services revenue | 14 | 24,124,500 | 42,214,463 |
| Other income | 16 | 23,229,935 | 5,425,437 |
| Net income | | 838,805,130 | 417,652,930 |
| Insurance claims and loss adjustment expenses | 17 | 14,638,847 | 2,273,540 |
| Inspections and operating expenses | | 1,708,314 | 62,894,274 |
| Technical services expenditure | | 5,368,647 | 26,652,774 |
| Administration expenses | | 627,804,025 | 416,724,764 |
| Expenses | | 649,519,834 | 508,545,351 |
| Profit/(loss) from operating activities | | 189,285,296 | (90,892,421) |
| Net Investment income | | 338,272,291 | 305,467,316 |
| Interest received and investment income | 15 | 271,072,480 | 218,047,369 |
| Unrealised profit on sale of financial assets | 4 | 32,394,978 | 75,540,246 |
| Realised profit on sale of financial assets | 4 | 42,672,415 | 21,645,322 |
| Asset management services | | (7,867,582) | (9,765,621) |
| Net profit before finance costs | 18 | 527,557,587 | 214,574,893 |
| Finance costs | 19 | 4,369,938 | - |
| Surplus for the year | | 523,187,649 | 214,574,893 |

Statement of

CHANGES IN NET ASSETS

for the year ended 31 March 2015

| | NOTES | Accumulated surplus R | Emerging contractor reserve R | Total R |
|--|-------|--------------------------|-------------------------------------|----------------------|
| Balance at 31 March 2013 - Restated | | 3,051,094,676 | 29,029,492 | 3,080,124,167 |
| Surplus for the year ended 31 March 2014 | | 214,574,893 | - | 214,574,893 |
| Reserve utilised (note 8) | 8 | 8,609,664 | (8,609,664) | - |
| Balance at 31 March 2014 Restated | | 3,274,279,231 | 20,419,828 | 3,294,699,060 |
| Surplus for the year ended 31 March 2015 | | 523,187,649 | - | 523,187,649 |
| Transfer to NDR | | (30,000,000) | 30,000,000 | - |
| Reserve utilised (note 8) | 8 | 9,181,946 | (9,181,946) | - |
| Balance at 31 March 2015 | | 3,776,648,826 | 41,237,883 | 3,817,886,709 |

CASH FLOW STATEMENT

for the year ended 31 March 2015

| | NOTES | 2015 R | 2014 R |
|---|-------------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 20.1 | 336,202,205 | 252,657,978 |
| • Cash receipts from customers | | 831,932,106 | 412,283,151 |
| • Cash paid to suppliers and employees | | (495,729,901) | (159,625,173) |
| Interest paid | | (4,369,938) | - |
| Interest received | | 9,453,309 | 6,255,651 |
| Net cash inflow from operating activities | | 341,285,575 | 258,913,629 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (14,864,346) | (68,122,400) |
| Purchase of intangible assets | | (51,081,760) | (20,529,482) |
| Purchase of financial assets | | (418,839,481) | (324,000,000) |
| Proceeds on sale of financial assets | 20.2 | 178,839,493 | 174,981,484 |
| Net cash outflow from investing activities | | (305,946,094) | (237,670,399) |
| Cash flows from financing activities | | | |
| Claims paid | | (11,103,559) | (8,266,727) |
| Net cash outflow from financing activities | | (11,103,559) | (8,266,727) |
| Net increase in cash and cash equivalents | | 24,235,922 | 12,976,502 |
| Cash and cash equivalents at beginning of year | | 147,483,450 | 134,506,947 |
| Cash and cash equivalents at the end of the year | 20.3 | 171,719,372 | 147,483,450 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The NHBRC is a statutory body incorporated in terms of the Housing Consumers Protection Measures Act, (Act No. 95 of 1998). Its principle business is the regulation of the home building industry and protection of housing consumers by the establishment of a warranty fund.

1.1 Basis of preparation

In terms of section 55(1) of the Public Finance Management Act (Act No.1 of 1999) (PFMA), the NHBRC is required to comply with the South African Statements of Generally Recognised Accounting Practice.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments measured at fair value;
- Financial instruments at fair value through profit or loss are measure at fair value;
- Technical liabilities are measure at actuarial values.

The methods used to measure fair value are detailed in note 1.13.

During the year, a number of standards of GRAP became effective for the current financial period. A brief description of these standards as well as an estimate of the impact is contained in Note 1.3. A full list of the GRAP Framework is contained in Directive 5. In the absence of a GRAP standard, the GRAP hierarchy in GRAP 3 - Accounting policies, changes in accounting estimates and errors are used to develop an appropriate accounting policy. In terms of GRAP 3, judgment must be used when developing an accounting policy. In applying judgement, GRAP 3 requires that management refers to and considers the applicability of the following sources in descending order:

- (a) the requirements and guidance in Standards of GRAP dealing with similar and related issues; and
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements.

These accounting policies are consistent with those of the prior financial year.

The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value less point of sale costs, and incorporate the principal accounting policies set out below.

The NHBRC concluded that the annual financial statements present fairly the Council's financial position, financial performance and cash flow for the year ended in accordance with SA Standards of GRAP and in the manner required by the PFMA and section 15 (6)(c) of the Housing Consumer Protection Measures Act (Act no.95 of 1998).

1.2 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is given in the following notes:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

- Technical liabilities;
- Impairment of financial assets;
- Measurement of the recoverable amount from Provincial Departments.

1.3 Application of new accounting standards

The following standards, amendments to standards and interpretations which are relevant to the Council, have been adopted in these financial statements:

GRAP 1: Presentation of Financial Statements

Incorporates guidance on how entities as part of their accounting policies should disclose the extent to which they have taken advantage of any transitional provisions in adopting the standards of GRAP and commentary should be added to explain where there has been a departure from a particular Standard of GRAP and that departure is material, entities cannot claim compliance with Standards of GRAP.

GRAP 3: Changes in Accounting Estimates and Errors

Provides clarity that changing an entity's basis of accounting is a change in an accounting policy, and that certain changes within a basis of accounting may also be a change in accounting policy.

GRAP 9: Revenue from Exchange Transactions

The definition of revenue in terms of GRAP 9 incorporates the concept of service potential. Revenue is the gross inflow of economic benefits or service potential when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Entities may derive revenue from exchange or non-exchange transactions.

An exchange transaction is one in which the entity receives resources or has liabilities extinguished, and directly gives approximately equal value to the other party in exchange.

Non-exchange revenue transaction is a transaction where an entity receives value from another entity without directly giving approximately equal value in exchange.

An entity recognises revenue when it is probable that economic benefits or service potential will flow to the entity, and the entity can measure the benefits reliably.

Clarifies that this standard only applies to revenue from exchange transactions. This standard will not have a material impact on the NHBRC.

GRAP 12: Inventories

The fair value measurement has been removed. Inventories are not measured at their fair value except if the entity is a commodity broker, which is not common in the public sector.

GRAP 13: Leases

Incorporates additional guidance on the concept of substance and legal form of a transaction, to illustrate the difference between lease and other contracts and on operating lease incentives. In certain circumstances, legislation may prohibit

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

the entering into certain types of lease agreements. If the entity has contravened these legislative requirements, the entity is still required to apply the requirements of GRAP 13.

Other than the abovementioned requirements, there is no other impact on the initial adoption of GRAP13.

GRAP 14: Events after the reporting date

An event, which could be favourable or unfavourable, that occurs between the reporting date and the date the annual financial statements are authorised for issue. The impact of the standard is not material.

GRAP 16: Investment Property

This standard prescribes the accounting treatment for investment property and related disclosure requirements. The impact of the standard is not material.

GRAP 17: Property, Plant and Equipment

Does not require or prohibit the recognition of heritage assets, but if an entity recognises heritage assets the entity needs to comply with GRAP 17 disclosure requirements.

Additional commentary has been included to clarify the recognition and measurement of exploration and evaluation assets in terms of GRAP 17.

Where assets are held for rental to others in the ordinary course of operations and the entity subsequently sells the assets, the Standard of GRAP on Non-current Assets held for Sale and Discontinued Operations does not apply. The sale of such assets is treated under GRAP 12 on inventories.

The disclosure requirement for temporarily idle, fully depreciated property, plant and equipment that are retired from active use is encouraged rather than required.

The disclosure of the cost of property, plant and equipment measured at fair value is no longer required.

The impact of the standard is not material but will result in additional disclosure.

GRAP 19: Provisions, Contingent Liabilities and Contingent Assets

Excludes from its scope those provisions and contingent liabilities arising from social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits.

For the purpose of GRAP 19, social benefits refers to goods, services and other benefits provided in the pursuit of the social policy objective of a government. This standard includes guidance on the accounting of these social benefits.

Outflow of resources embodying service potential also needs to be considered when assessing if a present obligation that arises from past events exists or not.

Additional disclosure for each class of provision regarding reductions in the carrying amounts of provisions that result from payments or other outflows of economic benefits or service potential made during the reporting period and reductions in the carrying amounts of provisions resulting from re-measurement of the estimated future outflow of economic

benefits or service potential, or from settlement of the provisions without cost to the entity. The impact of the standard is not material.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

GRAP 104: Financial Instruments

Financial Instruments should also be applied retrospectively, except where indicated otherwise. In previous reporting periods, entities would have applied IAS 39 or, they may have used GRAP 104 to formulate their accounting policies. The main difference between GRAP 104 and IAS 39 is the elimination of certain categories of financial assets in GRAP 104. As a result of these differences in categorisation, entities should analyse the financial assets recognised as at 31 March/30 June 2012 and categorise them using the requirements in GRAP 104. Entities should also take note of the carrying values and fair values of any instruments at that date as these will form the basis of either the fair value or carrying value going forward.

The Impact of this standard is material and has been applied retrospectively with additional disclosure.

1.3.1 Standards, interpretations and amendments to published standards effective for reporting periods commencing on or after 1 April 2012 not adopted by the NHBRC.

GRAP 100: Discontinued operations

The impact of the standard is not material but will result in additional disclosure.

1.4.1 The following Standards of GRAP should be applied by public entities, constitutional institutions, Municipalities and municipal entities for the period beginning 01 April 2015:

- GRAP 18: Segment Reporting;
- GRAP 105: Transfer of Functions between Entities under Common Control;
- GRAP 106: Transfer of Control between Entities not Under Common Control;
- GRAP 107: Mergers;

1.4.2 Effective GRAP Standards affected by the improvements project

- GRAP 1: Presentation of Financial Statements;
- GRAP 2: Cash Flow Statements;
- GRAP 3: Accounting policies, Changes in Accounting Estimates and Errors;
- GRAP 7: Investments in Associates;
- GRAP 10: Financial Reporting in Hyperinflationary Economies;
- GRAP 11: Construction Contracts;
- GRAP 13: Leases;
- GRAP 17: Property Plant and Equipment;
- GRAP 19 : Provisions, Contingent Liabilities and Contingent Assets;
- GRAP 21: Impairment of Non-cash- generating units;
- GRAP 24: Presentation of Budget Information in Financial Statements;
- GRAP 25: Employee Benefits;
- GRAP 26: Impairment of cash-generating Assets;
- GRAP 31: Intangible Assets;
- GRAP 103 : Heritage Assets;
- GRAP 104 : Financial Instruments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

1.5 Insurance technical result

The technical result is determined on an annual basis whereby the incurred cost of insurance claims and related expenses, together with any change in other technical provisions is charged against the earned proportion of insurance premiums, as follows:

Insurance premiums written

Insurance premiums are defined as an enrolment fee in terms of Section 14 of the Housing Consumers Protection Measures Act. Insurance premiums written relate to business incepted during the year, together with any differences between booked insurance premiums for prior years and those previously accrued. They include the insurance premiums for the whole of the period of risk covered by the warranty regardless of whether or not these are wholly due for payment in the accounting period.

Insurance premiums written comprise the total insurance premiums payable by the insured to which the insurer is contractually entitled and are shown net of insurance premium refunds. Insurance premiums written exclude value added taxation.

Unearned insurance premiums

In terms of the Housing Consumers Protection Measures Act (Act no. 95 of 1998), the Council shall provide a warranty to housing consumers for a maximum period of five years from the date of occupation. Insurance premiums are earned over the period of the policy commensurate with the expected incidence of risk. In reaching its assessment of the pattern of risk the Council makes reference to past insurance claims experience. Unearned insurance premiums represent the proportion of insurance premiums written that is held to cover expenses, claims and profits attributable for future years of warranty cover.

In determining the unearned premium provision, initial expenses are deducted from the enrolment fee. The remaining portion of the enrolment fee is assumed to be earned over the life of the policy in accordance with the earnings curve. Initial expenses are earned uniformly over two quarters. The unearned premium provision includes an allowance for the future release of profits.

Insurance claims incurred

Insurance claims incurred, comprise insurance claims and related expenses paid in the year and changes in the outstanding claims provision, including provisions for insurance claims incurred but not reported and related expenses, together with any other adjustments to insurance claims from previous years. Insurance claims are typically reported relatively quickly after the insurance claims event and are therefore subject to significantly less uncertainty than future insurance claims events.

Insurance claims outstanding represent the cost of settling all insurance claims arising from events that have occurred up to the balance sheet date, including the provision for insurance claims incurred but not reported, less any amounts paid in respect of those insurance claims.

In estimating the cost of notified but not paid insurance claims, the Council has regard to the insurance claim circumstances as reported. Basic chain ladder techniques are applied to project outstanding remedial work payments for each complaint period. The difference between the ultimate claims and the claims paid to date produced a result which includes both the "Incurred But Not Reported" and "Notified Outstanding Claims" provisions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

Unexpired risk provisions

An unexpired risk provision is made where the estimated cost of insurance claims, related expenses and deferred acquisition costs exceed unearned insurance premiums, after taking account of future investment income. An assessment is made at the year-end for the estimated cost of insurance claims, which will arise during the unexpired terms of policies in force at the balance sheet date. The estimated cost of insurance claims includes expenses to be incurred in settling insurance claims.

The provisions are inevitably subject to inherent uncertainties because of the range of factors, which could give rise to potentially significant insurance claims over the five year period covered by the “unexpired risk provision”. The time expected to elapse between the inceptions of policies, the manifestation of events giving rise to insurance claims, and the notification to and settlement by the Council of such insurance claims accentuate these uncertainties.

In calculating the estimated cost of future insurance claims, actuarial and statistical projections of the frequency and severity of future insurance claims events are used to project ultimate settlement costs.

Such projections are based on current facts and circumstances. Due to inherent uncertainties a significant degree of caution has been included in exercising the judgement required for setting the unexpired risk provision at a level such that the Council is confident that it is not understated.

Given the inherent uncertainty in estimating the cost of future insurance claims, it is likely that the final outcome will prove to be different from the estimate established at the balance sheet date. Any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified.

Liability adequacy test

The solvency of the warranty fund is tested annually by an independent actuarial service company. The assessment is to confirm the solvency of the organisation and its ability to meet its future obligations. The results of the actuarial valuation indicated that the NHBRC as a whole, including both subsidy and non-subsidy houses, is solvent and able to fund its liabilities on a run-off basis. The change in mix of business between subsidy and non-subsidy houses and enrolment fee structures will in future determine the solvency position of the NHBRC.

1.6 Revenue recognition

Revenue arising from registration, renewal, late enrolment, non-subsidy enrolments, and subsidy home enrolments are recognised on the accrual basis when cash and appropriate supporting documentation is obtained.

Revenue arising from subsidy project enrolments fees and technical services are recognised on the accrual basis.

Revenue from the sale of goods and service are recognised when significant risks and rewards of ownership have been transferred to the buyer.

Interest income is accrued on a time proportion basis, taking into account the principal outstanding amount and the effective interest rate over the period to maturity.

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA, or any legislation providing for procurement procedures in Government.

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of Government or organ of state and expenditure in the form of a grant that is not permitted in terms of the PFMA.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

All irregular, unauthorised, fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.7 Irregular, unauthorised, fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA, or any legislation providing for procurement procedures in Government.

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of Government or organ of state and expenditure in the form of a grant that is not permitted in terms of the PFMA.

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

All irregular, unauthorised, fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.8 Taxation

No provision has been made for South African Normal Tax as the Council has been granted exemption in term of Section 10 (1) (cA) (i) of the Income Tax Act No 58 of 1962.

1.9 Property, plant and equipment

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

Items of property plant and equipment are initially recognised at cost, being the cash price equivalent at the recognition date. Expenditure on additions and improvements to property, plant and equipment including the cost of related interest is capitalised as the expenditure is incurred. Subsequent to initial recognition, items of property plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Change in useful lives

Management re-assessed the useful lives of computer equipment and office furniture.

Depreciation is charged to surplus or deficit so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The following rates are used for the depreciation of property, plant and equipment:

| Item | Rate |
|-------------------------|-----------|
| Computer equipment | 25.0% p.a |
| Office furniture | 6.7% p.a |
| Office Equipment | 10% p.a |
| Motor vehicles | 20.0% p.a |
| Buildings | 5.0% p.a |
| Minor Assets | 1 year |
| Land is not depreciated | |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

The residual values, useful lives and economic consumption patterns for all items of property, plant and equipment are reviewed annually and, if necessary, the consequent depreciable amounts, rates and methods are adjusted at each balance sheet date. Any changes are accounted for as changes in accounting estimates and included in surplus or deficit for the current and future periods by adjusting the relevant future depreciation charges.

The gain or loss arising from the disposal or retirement of an asset is determined by deducting the carrying value from the proceeds on the date of disposal and are included in surplus or deficit.

1.10 Intangible assets

The intangible assets are purchased and have a finite life. Amortisation is recorded by a charge to income computed on the straight line basis, after adjusting for residual value at the end of their useful life, so as to write off the cost of the assets over their expected useful lives. Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives of intangible assets from the date that they are available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year and adjusted if appropriate. The useful life of intangible assets was reviewed and the following rate is used for the amortisation of intangible assets:

| Item | Rate |
|-------------------|------------|
| Computer software | 14.29% p.a |

Subsequent expenditure is capitalised only when it creates the future economic benefits embodied in the specific asset to which it relates. All other expenditure including expenditure on internally generated goodwill and brands is recognised in profit or loss when incurred.

1.11 Impairment

The carrying values of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where the carrying value exceeds the estimated recoverable amount, such assets are written down to their estimated recoverable amount.

Impairment losses are recognised as an expense in the statement of financial performance.

Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income.

1.12 Inventories

Inventories are initially measured at cost and subsequently written down to the lower of cost and estimated net realisable value. Any write-down is recognised in surplus or deficit. Cost is calculated using the first-in-first-out method and comprises direct purchase costs. Estimated net realisable value is the estimated selling price in the ordinary course of business, less any costs to be incurred in distribution.

1.13 Financial instruments

Significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed below:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets are classified into the following specified categories: financial instruments at fair value, financial instruments at amortised cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Financial instruments at fair value

Unlisted shares and listed redeemable notes, traded in an active market are classified as financial instruments at fair value and are stated at fair value. Fair value is determined in the manner described in note 24. Gains arising from changes in fair value are recognised directly in the statement of comprehensive income, this is not consistent with prior years as a result of the adoption of GRAP 104 which has been applied retrospectively. Impairment losses are recognised directly in surplus or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised is included in surplus or deficit for the period.

Financial instruments at amortised cost

Trade receivables, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial instruments at amortised cost. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. For unlisted shares classified as fair value financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, including financial assets at amortised cost, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in surplus or deficit.

With the exception of fair value derivative financial assets, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through surplus or deficit to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

De-recognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from that asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Where the risks and rewards of ownership are not transferred or retained continue to control the transferred asset, the retained interest in the asset and the associated liabilities are recognised. Where risks and rewards of ownership are retained, the financial asset and a collateralised borrowing are recognised.

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period.

The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

De-recognition of financial liabilities

Financial liabilities are derecognised when, and only when, the obligations are discharged, cancelled or they have expired.

1.14 Cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand and short term bank deposits.

1.15 Leased assets

Rentals payable under operating leases are charged to surplus or deficit on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

1.16 Investments

Investments are made in terms of an approved investment policy and investment strategy approved by the accounting authority in terms of Treasury regulation 31.3.1 and 31.3.2.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

1.17 Value Added Tax

No provision has been made for Value Added Taxation as the Council was deregistered as a vat vendor on 01 April 2011 in terms of the Revenue Laws Amendment Acts Nos. 45 of 2003 and 32 of 2004 which came into operation on 01 April 2005.

1.18 Financial Guarantees

Financial guarantees are contracts that require a Bank to make specified enrolment payments to the NHBRC at the expiration of a certain period stated in the financial guarantee. Financial guarantees are initially recognised at their fair value and the initial value is amortised over the life of the financial guarantee. The guarantee liabilities are included in other current liabilities.

1.19 Provisions

Provisions are recognised if, as a result of a past event, the NHBRC has a present legal or constructive obligation that can be estimated reliably and is probable that an outflow of economic resources will be required to settle the provision.

Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

1.20 Events after the reporting period

An event, which could be favourable or unfavourable, that occurs between the end of the reporting period and the date that the financial statements are authorised for issue.

Adjusting event: An event that after the reporting period provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.

Non-adjusting event: An event after the reporting period that is indicative of a condition that arose after the reporting period.

1.21 Related parties

The NHBRC operates in an economic environment currently dominated by entities directly owned by the South African Government. As a result of the constitutional independence of all spheres of government (National, provincial and local) in South Africa, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with authority and responsibility for planning, directing and controlling the activities of the NHBRC. All individuals from Council to Executive management are key management individuals.

Close family members of key management personnel are considered to be those family members who may be expected to influence or be influenced by key management in their dealings with the NHBRC.

Other related party transactions are also disclosed in terms of the requirements of IAS 24. The objective of the standard and the financial statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

1.22 Critical accounting judgements and key sources of estimation uncertainty

Certain critical accounting policies require the use of judgement in their application or require estimates of inherently uncertain matters. Listed below are those policies that the Council believe are critical and require the use of complex judgement in their application.

Insurance technical result

The accounting for the insurance technical result as disclosed in note 1.4 requires the Council to make certain assumptions that have a significant impact on the revenues, expenses and liabilities that are recorded for these insurance premiums. The expected impact as recorded in note 10 are based on historical performances, current and long-term outlooks and the actuarial statistics compiled and updated by the actuarial industry on an on-going basis.

Plant and equipment

Residual values and estimated useful lives are assessed on an annual basis. The residual values of vehicles are estimated on published second hand vehicle values as well as trading history. The residual values of all other assets are estimated to be zero.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

2. PROPERTY, PLANT AND EQUIPMENT

| | Computer equipment R | Office furniture and equipment R | Motor vehicles R | Land R | Buildings R | Total R |
|---------------------------------|-------------------------|-------------------------------------|---------------------|-------------------|-------------------|--------------------|
| Year ended 31 March 2015 | | | | | | |
| Opening net book amount | 7 052 221 | 11 755 677 | 496 046 | 17 751 947 | 61 203 408 | 98 259 299 |
| Additions | 3 400 653 | 4 625 090 | - | - | 6 838 603 | 14 864 346 |
| Disposals | (8 007 155) | (5 067 683) | (37 000) | - | - | (13 111 838) |
| Depreciation on disposal | 7 901 573 | 4 071 436 | 37 000 | - | - | 12 010 009 |
| Depreciation charge | (2 990 813) | (2 028 273) | (188 429) | - | (2 987 194) | (8 194 710) |
| Closing net book amount | 7 356 480 | 13 356 247 | 307 617 | 17 751 947 | 65 054 816 | 103 827 107 |

At 31 March 2015

| | | | | | | |
|--------------------------|------------------|-------------------|----------------|-------------------|-------------------|--------------------|
| Cost | 14 576 576 | 22 280 058 | 1 099 897 | 17 751 947 | 75 439 412 | 131 147 890 |
| Accumulated depreciation | (7 220 096) | (8 923 812) | (792 280) | - | (10 384 597) | (27 320 784) |
| Net book amount | 7 356 480 | 13 356 247 | 307 617 | 17 751 947 | 65 054 816 | 103 827 107 |

Year ended 31 March 2014

| | | | | | | |
|--------------------------------|------------------|-------------------|----------------|-------------------|-------------------|-------------------|
| Opening net book amount | 6 382 241 | 8 865 486 | 371 880 | 1 453 947 | 19 375 902 | 36 449 456 |
| Additions | 3 644 153 | 4 841 033 | 244 197 | 16 298 000 | 43 095 017 | 68 122 400 |
| Disposals | (3 594 859) | (1 328 810) | (695) | - | - | (4 924 364) |
| Depreciation on disposal | 3 330 708 | 1 309 907 | 695 | - | - | 4 641 310 |
| Depreciation charge | (2 710 022) | (1 931 939) | (120 031) | - | (1 267 511) | (6 029 503) |
| Closing net book amount | 7 052 221 | 11 755 677 | 496 046 | 17 751 947 | 61 203 408 | 98 259 299 |

At 31 March 2014

| | | | | | | |
|--------------------------|------------------|-------------------|----------------|-------------------|-------------------|-------------------|
| Cost | 19 183 077 | 22 722 652 | 1 136 897 | 17 751 947 | 68 600 810 | 129 395 382 |
| Accumulated depreciation | (12 130 856) | (10 966 974) | (640 850) | - | (7 397 402) | (31 136 082) |
| Net book amount | 7 052 221 | 11 755 677 | 496 046 | 17 751 947 | 61 203 408 | 98 259 299 |

| Fully Depreciated Assets At 31 March 2015 | Computer equipment R | Office furniture and equipment R | Motor vehicles R | Total R |
|---|-------------------------|-------------------------------------|---------------------|--------------|
| Cost | 8 128 025 | 6 750 264 | 322 652 | 15 200 941 |
| Accumulated Depreciation | (8 128 025) | (6 750 264) | (322 652) | (15 200 941) |
| Net Book Value | - | - | - | - |

Land

Land comprises of ERF's 1085 & 1086 situated in Leeuwkop road Sunninghill, and Soshanguve A Township, Registration Division JR, Province of Gauteng; under General Plan No A9923/1996 and held by Certificate of Registered Title No. T4866/1997. The register of land is available at the Council's premises.

Buildings

Buildings comprise of Head Office located in Leeuwkop Road ,Sunninghill, show houses, a training centre and a conference centre at the Eric Molobi Housing Innovation Hub. The Hub was established towards the end of 2005 at Thorntree View, Soshanguve A, in the Tshwane Metropolitan Municipality in Gauteng.

Useful lives

The residual values and estimated useful lives are reflected under "Critical accounting judgements and key sources of estimation uncertainty" (note 1.9) in the summary of significant accounting policies and note 1.21 "Critical accounting judgements".

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

| 3. INTANGIBLE ASSETS | Computer software R | Total R |
|--|--------------------------------|--------------------|
| Year ended 31 March 2015 | | |
| Opening net book amount | 57 007 633 | 57 007 633 |
| Additions | 51 081 760 | 51 081 760 |
| Disposals | (5 948 119) | (5 948 119) |
| Impairment on ERP solution* | (19 338 784) | (19 338 784) |
| Amortisation on disposals | 5 948 119 | 5 948 119 |
| Amortisation charge | (936 178) | (936 178) |
| Closing net book amount | 87 814 430 | 87 814 430 |
| At 31 March 2015 | | |
| Cost | 140 852 135 | 140 852 135 |
| Accumulated amortisation | (53 037 705) | (53 037 705) |
| Net book amount | 87 814 430 | 87 814 430 |
| Year ended 31 March 2014 | | |
| Opening net book amount | 40 577 524 | 40 577 524 |
| Additions | 20 529 482 | 20 529 482 |
| Disposals | (73 790) | (73 790) |
| Amortisation on disposals | 73 790 | 73 790 |
| Amortisation charge | (4 099 373) | (4 099 373) |
| Closing net book amount | 57 007 633 | 57 007 633 |
| At 31 March 2014 | | |
| Cost | 115 057 279 | 115 057 279 |
| Accumulated amortisation | (58 049 646) | (58 049 646) |
| Net book amount | 57 007 633 | 57 007 633 |
| Fully Depreciated Intangible Asset At 31 March 2015 | | |
| Cost | 5 955 639 | 5 955 639 |
| Accumulated amortisation | (5 955 639) | (5 955 639) |
| Net Book value | - | - |

Impairment*

The carrying value of the assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated.

The impairment raised relates to the amount incurred on the SAP ERP which has been written down to its net reliable value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

| 4. INVESTMENTS | 2015 R | 2014 R |
|----------------|-----------|-----------|
|----------------|-----------|-----------|

Investments represent investments in cash, listed bonds, securities and equities, which generate interest and dividend income and trading gains/losses.

Investments carried at fair value comprise the following:

| | | |
|--|----------------------|----------------------|
| Money Market investments | 2 841 607 562 | 1 844 480 030 |
| CPD Money Market | 161 749 486 | 152 525 702 |
| Listed bond securities and equity | | |
| - Short-term < 7 years | 918 862 130 | 1 174 542 976 |
| - Medium-term 7 to 12 years | 190 098 374 | 129 180 190 |
| - Long-term > 12 years | 412 812 910 | 365 521 124 |
| - Inflation linked bonds, equity and Derivatives | 2 019 424 | 459 331 551 |
| | 4 527 149 884 | 4 125 581 574 |

| | | |
|--|----------------------|----------------------|
| Derivative Financial Instruments at fair value | 463 337 243 | 296 583 483 |
| | 4 990 487 127 | 4 422 165 056 |

Split between non-current and current

| | | |
|---------------------|----------------------|----------------------|
| Non-Current portion | 1 987 130 080 | 2 425 159 325 |
| Current portion | 3 003 357 047 | 1 997 005 731 |
| Total | 4 990 487 127 | 4 422 165 056 |

None of these financial assets are either past due or impaired.

Reconciliation of opening and closing balance

| | | |
|---|----------------------|----------------------|
| Opening balance | 4 422 165 056 | 3 974 429 199 |
| Capital Additions | 418 839 481 | 324 000 000 |
| Interest accrued | 252 425 930 | 202 857 272 |
| Dividend income | 9 193 239 | 8 934 445 |
| Disposals | (178 839 495) | (174 981 484) |
| Administration fee | (8 364 484) | (10 259 944) |
| Unrealised profit on sale of financial assets | 32 394 978 | 75 540 246 |
| Realised profit on sale of financial assets | 42 672 415 | 21 645 322 |
| | 4 990 487 121 | 4 422 165 056 |

4.1 Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

| | 2015 R | 2014 R |
|---|----------------------|----------------------|
| 4. INVESTMENTS (continued) | | |
| Financial Assets at Fair Value (Bonds, Money Market, Equities and Structured Products) | | |
| Fitch | | |
| F1 | 146 488 331 | 181 689 238 |
| F2 | 6 016 732 | 1 809 077 |
| F1+ | 1 022 738 912 | 1 638 377 123 |
| BB- | - | 40 411 986 |
| A | 51 969 947 | 1 082 008 |
| A- | 5 078 754 | 57 315 788 |
| A+ | 1 160 224 462 | 626 138 553 |
| AA | 708 157 120 | 406 888 738 |
| AA- | 110 116 672 | 206 844 182 |
| AA+ | 87 289 485 | 47 417 250 |
| AAA | 555 399 429 | 152 525 702 |
| Aaa | - | 9 965 265 |
| B | 18 842 150 | - |
| BBB- | 161 749 486 | 306 047 923 |
| CCC | 45 580 608 | - |
| | 4 079 652 087 | 3 676 512 833 |
| Moody | | |
| A1 | 76 406 555 | 26 128 783 |
| A2 | 16 167 312 | 41 768 277 |
| Aaa | 7 109 141 | 309 125 545 |
| Aa2 | - | 23 912 179 |
| Aa3 | - | 8 997 080 |
| Baa1 | 7 570 638 | - |
| Baa2 | 279 101 986 | 3 522 282 |
| Baa3 | - | 56 591 745 |
| CCC | 9 363 294 | - |
| | 395 718 926 | 470 045 891 |
| GCR | | |
| A | 12 916 562 | 19 627 130 |
| A+ | - | 10 156 334 |
| AA+ | - | 4 988 241 |
| BBB+ | 5 684 612 | 3 905 453 |
| BBB | 1 012 950 | - |
| A- | - | 7 616 900 |
| | 19 614 125 | 46 294 058 |
| S&P | | |
| AA- | 44 640 620 | - |
| BBB+ | 1 971 577 | - |
| | 46 612 197 | |
| Issuer Rated | | |
| AA | 3 402 313 | 1 002 739 |
| | 3 402 313 | 1 002 739 |
| Equity Exposure | | |
| | 445 487 478 | 228 309 533 |
| | 4 990 487 126 | 4 422 165 054 |

Fitch ratings were available for all the above listed financial assets in 2014. In 2015 GCR, Moody, S&P and Issuer ratings were used where Fitch ratings was not available.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

4. INVESTMENTS (continued)

4.2 Fair value hierarchy for financial assets measured at fair value.

Fair value measurement at end of the year using:

| 2015 | R | Level 1 R | Level 2 R |
|--|---------------|---------------|---------------|
| Financial assets at fair value through profit or loss | | | |
| Equities | 476 420 843 | 476 420 843 | - |
| Government bonds | 703 329 873 | - | 703 329 873 |
| Corporate bonds | 409 287 263 | 409 287 263 | - |
| Money market instruments | 2 584 139 410 | - | 2 584 139 410 |
| Other investment(Structured Products) | 817 309 736 | 817 309 736 | - |
| | 4 990 487 125 | 1 703 017 842 | 3 287 469 283 |

Fair value measurement at end of the year using:

| 2014 | R | Level 1 R | Level 2 R |
|--|---------------|---------------|---------------|
| Financial assets at fair value through profit or loss | | | |
| Equities | 470 505 924 | 470 505 924 | - |
| Government bonds | 642 354 462 | - | 642 354 462 |
| Corporate bonds | 355 055 149 | 355 055 149 | - |
| Money market instruments | 2 351 618 115 | - | 2 351 618 115 |
| Other investment(Structured Products) | 602 631 406 | 602 631 406 | - |
| | 4 422 165 056 | 1 428 192 479 | 2 993 972 577 |

The fair value assets are classified using a fair value hierarchy that reflects the significance of the inputs used in determining the measurements. The fair value hierarchy has the following levels:

Level 1- These are assets measured using quoted prices in an active market.

Level 2- These are assets measured using inputs other than quoted prices included within level 1, that are either directly or indirectly observable.

Level 3- These are assets measured using inputs that are not based on observable market data. The scheme does not have any assets falling under level 3.

The table below details the valuation techniques and observable inputs for assets falling under level 2:

| Description | Valuation techniques | Observable Input |
|---|---|---|
| Financial assets at fair value through profit or loss: | | |
| Ulisted: | | |
| Debt securities | Reference to listed benchmark bond | Risk free yield to maturity curve, risk free zero curve |
| Money market securities | Discount cash flow valuation, black-scholes Model | Published exchange swap curve,published interest rate curve,published credit spread curve/implied credit spread curve,risk free yield to maturity curve, risk free zero curve, swap yield to maturity curve,swap zero curve |
| Other investments | Reference to listed benchmark bond | Risk free yield to maturity curve, risk free zero curve |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

5. INVENTORIES

Builders manuals at cost

| | 2015 R | 2014 R |
|--------------------------|-----------|-----------|
| Builders manuals at cost | 876 149 | 181 503 |

6. TRADE AND OTHER RECEIVABLES

Net trade receivables

- Trade receivables
- Less provision for impairment

Other receivables:

- Deposits
- Sundry debtors

The fair values of trade and other receivables are as follows:

Trade receivables

Deposits

Ageing of past due but not impaired is as follows:

Amounts in 60 to 120 days

Amounts in 120 days +

| | | |
|---------------------------------|-------------------|-------------------|
| Net trade receivables | 5 527 160 | 19 422 603 |
| • Trade receivables | 34 889 629 | 32 850 549 |
| • Less provision for impairment | (29 362 470) | (13 427 946) |
| Other receivables: | | |
| • Deposits | 1 007 149 | 971 648 |
| • Sundry debtors | 12 786 905 | 15 283 875 |
| | 19 321 214 | 35 678 126 |
| Trade receivables | 34 889 629 | 32 850 549 |
| Deposits | 1 007 149 | 971 648 |
| | 35 896 778 | 33 822 197 |
| Amounts in 60 to 120 days | 4 325 807 | 2 053 584 |
| Amounts in 120 days + | 29 362 470 | 13 427 946 |
| | 33 688 277 | 15 481 530 |

Movements on the provision for impairment of trade receivables is as follows:

At 1 April 2014

Unused amounts reversed

Additional provision raised

At 31 March 2015

| | | |
|-----------------------------|---------------------|---------------------|
| At 1 April 2014 | (13 427 946) | (15 167 727) |
| Unused amounts reversed | - | 1 739 781 |
| Additional provision raised | (15 934 523) | - |
| At 31 March 2015 | (29 362 470) | (13 427 946) |

In determining the recoverability of a trade receivables, the NHBRC considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is high due to the customer base being Provincial Human Settlement Departments.

6.1 Credit quality of financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

Trade receivables

Counterparty with external credit rating (Fitch)

BBB

Total trade receivables

| | | |
|--------------------------------|-------------------|-------------------|
| BBB | 34 889 629 | 32 850 549 |
| Total trade receivables | 34 889 629 | 32 850 549 |

Note: The customer is the National and Provincial Department of Human Settlements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

| | 2015 R | 2014 R |
|-------------------------------------|--------------------|--------------------|
| 7. CASH AND CASH EQUIVALENTS | | |
| Cash balances | 171 676 159 | 147 446 236 |
| Short-term bank deposits | 43 213 | 37 214 |
| | 171 719 372 | 147 483 450 |

FNB uses the credit rating of FirstRand Bank Ltd which has a credit rating of BBB.

NHBRC currently has a guarantee with FNB in favour of Barinor Properties (Pty) Limited to the value of R 274 794.66. This guarantee was issued on 15 June 2012 and expires on 31 May 2015.

8. EMERGING CONTRACTOR RESERVE

The reserve was established to develop programmes to assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building in terms of Section 3(h) of the Housing Consumers Protection Measures Act (Act no. 95 of 1998). The emerging contractor reserve has been established, with Ministerial approval, to develop programmes targeted at the empowerment of emerging home builders registered with the NHBRC, which will enable learners to be able to start and manage their own construction contracting businesses. The Council utilised R9 181 946 (2014: R 8 609 664) for home builder training in the current financial year. During the current year an additional R 30 000 000 was transferred to the emerging contractor reserve resulting in the balance amounting to R 41 237 883 (2014: R20 419 828).

9. TECHNICAL ACTUARIAL LIABILITIES

| | Outstanding claims R | Unearned premium R | Unexpired risk R | Total R |
|---|-------------------------|-----------------------|---------------------|----------------------|
| Balance at 31 March 2013 | 48 084 703 | 400 004 015 | 563 324 404 | 1 011 413 122 |
| Increase during the year | 2 273 540 | - | - | 2 273 540 |
| Utilised during the year (note 17) | (8 266 727) | - | - | (8 266 727) |
| Increase during the year (note 12) | - | 203 262 437 | 82 407 164 | 285 669 601 |
| Balance at 31 March 2014 | 42 091 516 | 603 266 452 | 645 731 568 | 1 291 089 536 |
| Increase during the year | 14 638 847 | - | - | 14 638 847 |
| Utilised during the year (note 17) | (11 103 559) | - | - | (11 103 559) |
| Increase (decrease) during the year (note 12) | - | 220 712 964 | (154 522 914) | 66 190 050 |
| Balance at 31 March 2015 | 45 626 804 | 823 979 416 | 491 208 654 | 1 360 814 874 |
| Balance at 31 March 2014 | | | | |
| Current | 11 947 734 | 231 504 195 | - | 243 451 929 |
| Non-current | 30 143 782 | 371 762 257 | 645 731 568 | 1 047 637 607 |
| | 42 091 516 | 603 266 452 | 645 731 568 | 1 291 089 536 |
| Balance at 31 March 2015 | | | | |
| Current | 13 072 062 | 326 009 956 | - | 339 082 018 |
| Non-current | 32 554 742 | 497 969 460 | 491 208 654 | 1 021 732 856 |
| | 45 626 804 | 823 979 416 | 491 208 654 | 1 360 814 874 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

9. TECHNICAL ACTUARIAL LIABILITIES (continued)

9.2 Basis and methodology of valuation

Best practice actuarial techniques were applied to value the insurance liabilities of the NHBRC on a run-off basis, using best estimate assumptions per general practice in the South African short-term insurance industry and IFRS 4. The valuation followed as best as it could the Advisory Practice Note 401 (“APN401”) of the actuarial society.

The Outstanding Claims Provision (OCP) is determined at a 99.5% sufficiency level. This is consistent with the Financial Services Board’s proposed Financial Condition Reporting requirements, which will require companies to hold liabilities at the 75% level, and capital at 99.5%.

The OCP has been estimated by applying chain ladder techniques to a run-off triangle of remedial work claims paid grouped by quarter of complaint. The Bornhuetter Ferguson (BF) method was used to calculate the OCP, as this method was most suitable to the data. The methodology is consistent with that applied in the prior year. The OCP includes insurance claims incurred, changes in outstanding claims provision, and provision for insurance claims incurred but not yet reported.

The Unearned Premium Provision (UPP) has been estimated using the enrolment fee earnings curve, having deducted initial expenses which are assumed to be earned uniformly over the first two quarters following the enrolment date (being the estimated period between enrolment and occupation dates). This methodology is consistent with that used in the prior year.

The unexpired risk provision (URP) is the sum of all UPP’s plus any additional unexpired risk provision (AURP) that may be required if the unearned premium is considered to be inadequate to pay for the unexpired risks.

9.3 Assumptions

The basis of assumptions used are consistent with those used in the prior year valuation. The discount rate and inflation rates are consistent with the market. The ultimate complaint rate is dependent on a run-off triangle (historical and projected) of complaints. Actuarial judgement was applied on setting other assumptions supported by internal data.

| | 2015 | | 2014 | |
|------------------------------------|------------------------------------|----------|--------------------|----------|
| | Non-subsidy | Subsidy | Non-subsidy | Subsidy |
| Discount rate | 7.18% | 7.18% | 7.57% | 7.57% |
| General price inflation | 5.84% | 5.84% | 7.73% | 7.73% |
| Future building cost inflation | 5.84% | 5.84% | 7.73% | 7.73% |
| Historical building cost inflation | 3.50% | N/A | 4.40% | N/A |
| Ultimate complaint rate | 2.50% | 2.50% | 2.59% | 2.59% |
| BF complaints loss ratio | 2.31% | N/A | 2.39% | N/A |
| Remedial work rate | 3.00% | 3.00% | 2.64% | 2.64% |
| Average claim cost | R 200 853 | R 44 656 | R 202 498 | R 44 656 |
| Initial expense ratio | 58.00% | 35.00% | 68.00% | 8.00% |
| BF method loss ratio | 2.50% | 2.50% | 2.50% | 2.50% |
| BF method tail factor | 10.00% | 10.00% | 10.00% | 10.00% |
| Spread of risk period | Per earnings curve (of complaints) | | Per earnings curve | |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

9. TECHNICAL ACTUARIAL LIABILITIES (continued)

2015
R

2014
R

9.4 Sensitivity analysis

The various components of the provisions are sensitive to various factors. The UPP is mostly driven by the initial expense ratio and the earnings curve. The UPP is sensitive to the earnings curve, even though the high level of initial expenses in non-subsidy sector which results in only 42% of the enrolment fees being held as the UPP negates this sensitivity to some extent. The initial expense ratio affects the current component of the UPP held to meet inspection costs still ongoing. The requirement for AURP makes the total provisions insensitive to the initial expense ratio (for 2014/15). The OCP is sensitive to the net real discount rates and the BF Tail Factor. The AURP is also sensitive to the net real discount rate in addition to the average remedial claim amount, the remedial work rate, the ultimate complaint rate, and to a lesser extent the development of complaints as suggested by the earnings curve.

10. TRADE AND OTHER PAYABLES

| | | |
|---|--------------------|--------------------|
| Trade payables and accrued expenses | 90 730 434 | 44 718 915 |
| Operating lease accrual | 66 006 | 879 022 |
| Income received in advance (KwaZulu Natal Rectification Work and Eastern Cape Forensics projects) | 63 378 401 | 76 493 351 |
| Leave accrual | 16 710 312 | 15 428 260 |
| Unidentified receipts | 3 132 984 | 3 772 133 |
| Cash received in advance | 14 931 659 | 15 560 783 |
| Retentions | 3 415 439 | 15 038 742 |
| | 192 365 234 | 171 891 207 |

The NHBRC has financial risk management policies to ensure that all payables are paid within the credit time frame. Due to the short-term nature of the payables, management believes that the carrying amount approximates the fair value.

11. PROVISIONS

| | Legal Fees R | Other R | Total R |
|---------------------------------|------------------|----------------|------------------|
| Balance at 1 April 2014 | 2 978 582 | 116 684 | 3 095 266 |
| • Utilised during the year | (2 978 582) | (116 684) | (3 095 266) |
| • Raised during the year | 2 978 582 | - | 2 978 582 |
| Balance at 31 March 2015 | 2 978 582 | - | 2 978 582 |
| Balance at 1 April 2013 | 3 037 732 | 1 500 000 | 4 537 732 |
| • Utilised during the year | (3 037 732) | (1 500 000) | (4 537 732) |
| • Raised during the year | 2 978 582 | 116 684 | 3 095 266 |
| Balance at 31 March 2014 | 2 978 582 | 116 684 | 3 095 266 |

The "Other" provisions consists of professional fees payable which will be settled in the new financial year

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

| | 2015 R | 2014 R |
|---|--------------------|--------------------|
| 12. INSURANCE PREMIUM REVENUE | | |
| Premium received | 806 960 094 | 624 730 776 |
| Change in unearned premium provision (see note 9) | (220 712 964) | (203 262 437) |
| Change in unexpired risk provision (see note 9) | 154 522 914 | (82 407 164) |
| | 740 770 044 | 339 061 175 |

13. FEE REVENUE

| | | |
|---------------------------------|-------------------|-------------------|
| Annual registration fees | 2 494 216 | 1 614 223 |
| Annual renewal fees | 8 557 939 | 8 656 225 |
| Registration fees | 3 669 096 | 2 555 497 |
| Builder manual fees | 587 418 | 517 774 |
| Subsidy project enrolments fees | 33 420 077 | 16 515 161 |
| Late enrolment fees | 525 458 | 44 075 |
| Document sales | 1 426 446 | 1 048 900 |
| | 50 680 650 | 30 951 855 |

14. TECHNICAL SERVICES REVENUE

| | | |
|---|-------------------|-------------------|
| Forensic audit, Geo-tech and rectification work | 24 124 500 | 42 214 463 |
| | 24 124 500 | 42 214 463 |

15. INVESTMENT INCOME

Investment income earned on financial assets, analysed by category of asset, is as follows:

| | | |
|---|--------------------|--------------------|
| Income from investments | 252 425 932 | 202 857 272 |
| Dividend income | 9 193 239 | 8 934 445 |
| Income from loans and receivables (cash and cash equivalents) | 9 453 309 | 6 255 651 |
| | 271 072 480 | 218 047 369 |

16. OTHER INCOME

| | | |
|---------------|-------------------|------------------|
| Sundry Income | 22 532 435 | 4 259 233 |
| Penalties | 697 500 | 1 166 204 |
| | 23 229 935 | 5 425 437 |

17. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

| | | |
|--|-------------------|------------------|
| Current year warranty claims | 11 103 559 | 8 266 727 |
| Increase/ (decrease) in the outstanding claims provision | 3 535 288 | (5 993 187) |
| | 14 638 847 | 2 273 540 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

| | 2015 R | 2014 R |
|--|-------------|-------------|
| 18. RESULTS FROM OPERATING ACTIVITIES | | |
| Results from operating activities is arrived at after taking into account the following: | | |
| Auditor's remuneration | 3 499 724 | 3 610 150 |
| Depreciation | 8 194 710 | 6 029 503 |
| Computer equipment | 2 990 813 | 2 710 022 |
| Office furniture and equipment | 2 028 273 | 1 931 939 |
| Motor vehicles | 188 429 | 120 031 |
| Buildings | 2 987 194 | 1 267 511 |
| Amortisation of intangible assets | 936 178 | 4 099 373 |
| Impairment on ERP solution | 19 338 784 | - |
| Net loss on disposal of property plant and equipment | 1 101 829 | 283 055 |
| Emerging contractor training | 9 181 946 | 8 609 664 |
| Rentals in respect of operating leases | 10 001 079 | 17 170 432 |
| The Council leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. | | |
| The future minimum lease payments are as follows: | | |
| Not later than 1 year | 10 792 828 | 6 644 376 |
| Later than 2 years and not later than 5 years | 3 864 275 | 4 834 648 |
| Salaries and related costs | 6 928 552 | 1 809 728 |
| Directors' emoluments | 316 659 728 | 245 534 932 |
| Executive directors | 11 835 641 | 6 091 282 |
| - For managerial services | 10 317 547 | 4 787 307 |
| Non-executive directors | | |
| - For services as directors | 1 518 094 | 1 303 975 |
| 19. FINANCE COSTS | | |
| Interest paid - late payments | 4 369 938 | - |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

| | 2015 R | 2014 R |
|--|--------------------|--------------------|
| 20. NOTES TO THE CASH FLOW STATEMENT | | |
| 20.1 Cash generated from operations | | |
| Surplus for the year | 523 187 649 | 214 574 893 |
| Adjustments for: | | |
| Depreciation | 8 194 710 | 6 029 503 |
| Amortisation | 936 178 | 4 099 373 |
| Impairment on ERP solution | 19 338 784 | - |
| Administration fee | 8 364 484 | 10 259 944 |
| Net loss on disposal of property plant and equipment | 1 101 829 | 283 055 |
| Unrealised profit on sale of financial instruments | (32 394 978) | (75 540 246) |
| Realised profit on sale of financial instruments | (42 672 415) | (21 645 322) |
| Decrease in provisions | (116 684) | (1 442 466) |
| Increase in technical liabilities | 80 828 897 | 287 943 139 |
| Dividend received | (9 193 239) | (8 934 445) |
| Interest paid | 4 369 938 | - |
| Interest received | (261 879 240) | (209 112 923) |
| Operating income before working capital changes | 300 065 912 | 206 514 505 |
| (Increase)/decrease in inventories | (694 645) | 62 345 |
| Decrease in trade and other receivables | 16 356 912 | 55 659 |
| Decrease in trade and other payables | 20 474 026 | 46 025 468 |
| | 336 202 205 | 252 657 977 |
| 20.2 Proceeds on sale of financial assets | | |
| Net book value | 178 839 493 | 174 981 484 |
| | 178 839 493 | 174 981 484 |
| 20.3 Cash and cash equivalents | | |
| Cash and cash equivalents consist of cash balances and short term bank deposits. Cash and cash equivalents included in the cash flow statement comprise the following amounts. | | |
| Cash on hand and balances with banks | 171 719 372 | 147 483 450 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

21. REMUNERATION

| 21.1 Total cost - Non-executive council members | Fees R | Cell phone Allowance R | Subsistence and travel R | 2015 R | 2014 R |
|---|------------------|------------------------------|--------------------------------|------------------|------------------|
| S P Hlahane | 47 729 | 9 600 | 3 849 | 61 178 | 112 373 |
| S M Maja-Masilo | 105 566 | 9 600 | 15 804 | 130 969 | 175 251 |
| X Daku | 148 176 | 9 600 | - | 157 776 | 127 252 |
| IW Kotsoane | 168 472 | 9 600 | - | 178 072 | 123 557 |
| S Loonat ⁵ | 6 170 | 1 600 | 226 | 7 995 | 126 603 |
| Adv MB Madumise ¹ (Chairperson) | 203 559 | 8 000 | - | 211 559 | 192 648 |
| Mr A Chikane ² (Acting Chairperson) | 138 520 | - | 5 760 | 144 280 | - |
| BN Ndzo | 141 847 | 9 600 | - | 151 447 | 64 945 |
| G Manack ⁴ | - | - | - | - | - |
| SP Ngwenya | 67 429 | 9 600 | 2 207 | 79 236 | 83 826 |
| LA Potwana ⁴ | - | - | - | - | - |
| Z Vazi | 115 890 | 9 600 | - | 125 490 | 135 017 |
| M Ganiso ^{3,4} | - | - | - | - | - |
| B Madikizela | 67 103 | 9 600 | 5 916 | 82 619 | 23 895 |
| MC Markgraaf | 165 878 | 20 800 | 795 | 187 473 | 138 608 |
| | 1 376 338 | 107 200 | 34 556 | 1 518 094 | 1 303 975 |

¹ Special Leave from 28 January 2015

² Appointed to Council 28 January 2015

³ Appointed 30 September 2014

⁴ Public Service Employees do not receive non executive remuneration

⁵ Resigned 31 May 2014

| 21.2 Total cost - Top management | Salaries R | Cell phone Allowance R | Subsistence and travel and Acting Allowance R | Total 2015 R | 2014 R |
|--------------------------------------|------------------|------------------------------|---|--------------------|------------------|
| M Mnyani (Chief Executive Officer) | 2 588 144 | 42 000 | - | 2 630 144 | 2 439 513 |
| T Ngqobe (Chief Operations Officer) | 2 011 379 | 42 000 | 26 982 | 2 080 361 | 1 404 404 |
| | 4 599 523 | 84 000 | 26 982 | 4 710 505 | 3 843 917 |

21.3 Total cost - Executive Managers

| | | | | | |
|---|------------------|---------------|---------------|------------------|----------------|
| K Modise (Executive Manager Corporate Services) | 1 635 061 | 30 000 | 412 | 1 665 473 | 687 617 |
| S Abrahams (Chief Financial Officer) ¹ | 924 919 | 15 000 | - | 939 919 | - |
| W Bellingan (Executive Manager Business Service) ² | 748 694 | 15 000 | 48 423 | 812 117 | 255 773 |
| J Mahachi (Advisor: Special projects) | 2 030 122 | 30 000 | - | 2 060 122 | - |
| T Moshoeu (Executive Manager Business Service) ³ | 126 911 | 2 500 | - | 129 411 | - |
| | 5 465 706 | 92 500 | 48 835 | 5 607 042 | 943 390 |

¹ Appointed on 01 October 2014

² Resigned on 30 August 2014

³ Appointed on 01 March 2015

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

21. REMUNERATION (continued)

21.4 Bonuses

Executive Managers

| | 2015 R | 2014 R |
|---|----------------|----------------|
| T Ngqobe (Chief Operations Officer) | 118 512 | - |
| K Modise (Executive Manager Corporate Services) | 57 345 | - |
| J Mahachi (Advisor: Special projects) | - | 59 520 |
| C Thorp (Chief Financial Officer) | - | 57 134 |
| | 347 576 | 116 654 |

22. RELATED PARTIES

22.1 Transactions with the Department of Human Settlements

| | | |
|---|-------------|-------------|
| Subsidy project enrolment fee (note 13) | 33 420 077 | 16 515 161 |
| Insurance premium revenue | 202 575 128 | 196 438 477 |
| Technical service revenue (note 14) | 24 124 500 | 42 214 463 |

Subsidy project enrolment fee and Insurance premium revenue relates to transactions with the following Departments of Human Settlements:

KwaZulu Natal Department of Human Settlements, Eastern Cape Department of Human Settlements, Western Cape Department of Human Settlements, Gauteng Department of Human Settlements, Limpopo Department of Local Government and Housing, Mpumalanga Department of Human Settlements, Northwest Department of Human Settlements, Free State Department of Human Settlements and Northern Cape Department of Human Settlements.

Technical service revenue relates to:

KwaZulu Natal Department of Human Settlements
 Eastern Cape Department of Human Settlements

Balances with the Department of Human Settlements

| | | |
|--------------------------------------|--------------|--------------|
| Trade receivable (note 6) | 34 889 629 | 32 850 549 |
| Income received in advance (note 10) | (63 378 401) | (76 493 351) |

Income received in advance relates to the KwaZulu Natal Department of Human Settlements and the Eastern Cape Department of Human Settlements.

The NHBRC provides a warranty for both non subsidy and government subsidised homes. The fee payable by government in the subsidy market comprises 1% project enrolment fee, 0.75 % home enrolment fee and 2.01% for consolidated projects. The subsidy income is funded by national government through the Department of Human Settlements.

22.2 Transactions with other related parties

Key management are individuals who have authority and responsibility for planning, directing and controlling the activities of Council, directly or indirectly.

For remuneration of key management personnel refer to Note 21.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

| | 2015 R | 2014 R |
|---|--------------------|--------------------|
| 23. FRUITLESS, WASTEFUL AND IRREGULAR EXPENDITURE | | |
| 23.1 Reconciliation of fruitless and wasteful expenditure | | |
| Opening balance | 317 053 | 272 053 |
| Add: Fruitless and wasteful expenditure relating to prior year | - | - |
| Add: Fruitless and wasteful expenditure relating to current year | 5 149 879 | 45 000 |
| Less: Amounts condoned | - | - |
| Fruitless and wasteful expenditure awaiting condonation | 5 466 932 | 317 053 |
| Analysis of awaiting condonation per economic classification | | |
| Current | 5 149 879 | 45 000 |
| Capital | - | - |
| 23.2 Analysis of Current year's fruitless and wasteful expenditure | | |
| Incident | | |
| Interest paid to SARS | 4 369 938 | - |
| SARS penalty | 779 941 | - |
| Ligwa Chartered Accountants | - | 45 000 |
| | 5 149 879 | 45 000 |
| 23.3 Reconciliation of Irregular expenditure | | |
| Opening balance | 638 958 973 | 508 500 258 |
| | 53 969 489 | 130 458 715 |
| Add: Irregular expenditure relating to prior year | 33 100 430 | 95 494 087 |
| Add: Irregular expenditure relating to current year | 20 869 059 | 34 964 628 |
| Less: Amounts condoned | - | - |
| Irregular expenditure awaiting condonation | 692 928 462 | 638 958 973 |
| Analysis of awaiting condonation per age classification | | |
| Current year | 20 869 059 | 34 964 628 |
| Prior year | 672 059 403 | 603 994 345 |
| Total | 692 928 462 | 638 958 973 |

The additional irregular expenditure from prior year relates to transaction with a value from R 5 000 to R 500 000 which should have been procured by means of a three quotation system.

| Incident | Action taken | 2015 R | 2014 R |
|---|--|------------------|-------------------|
| Extension to non subsidy inspectorate ⁽²⁾ | Extension was approved by Council, contracts expired on 31 May 2014 | 956 468 | 29 985 987 |
| Miscellaneous expenditure ⁽³⁾ | Invoices approved by Line Managers. In some cases disciplinary action taken against responsible person | - | 641 494 |
| Rectification and Forensics appointments ⁽⁴⁾ | Action taken against responsible person and matter reported to National Treasury | 2 810 342 | 25 696 482 |
| Amount carried over to next page | | 3 766 810 | 56 323 962 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

23. FRUITLESS, WASTEFUL AND IRREGULAR EXPENDITURE (continued)

| Incident | Action taken | 2015 R | 2014 R |
|--|---|-------------------|--------------------|
| Amount carried forward from prior page | | 3 766 810 | 56 323 962 |
| Izenzonke Technology (Pty) Ltd [10] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked. | - | 3 933 |
| Nomkhanzi Trading CC[11] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked. | - | 291 145 |
| LMR and Projects[12] | All projects more than R500K are included on 2015/16 procurement plan. | - | 6 950 |
| Morena Corporate Service CC [13] | The bid is at BSC stage and the appointment of a new service following bid process will be finalised during quarter three. | 910 552 | 347 107 |
| ERP system [15] | Compliance checklist for bid process is implemented. | 6 990 114 | 22 383 922 |
| Training contracts [16] | Compliance checklist for bid process is implemented. | 2 183 054 | 2 064 659 |
| Security contracts [17] | Compliance checklist for bid process is implemented. | 4 143 713 | 2 857 423 |
| KwaZulu Natal Master Builders & Allied Industries Association [18] | All projects more than R500K are included on 2015/16 procurement plan. | - | 6 454 392 |
| Lebea Development and Projects [19] | Compliance checklist for bid process is implemented | - | 457 012 |
| Huge Telecom Managed Telecommunication [20] | Compliance checklist for bid process is implemented | 771 384 | 932 933 |
| THS Systems CC [21] | Compliance checklist for bid process is implemented | - | 93 024 |
| Experian South Africa (Pty) Ltd t/a Kreditinform [22] | Compliance checklist for bid process is implemented | - | 2 364 676 |
| Southbird Express ²⁴ | Submission to participate in National Treasury Transversal contract is submitted. The Expenditure will be fully addressed once approval is granted. | 462 903 | - |
| JKJ Express cc ²⁴ | Submission to participate in National Treasury Transversal contract is submitted. The Expenditure will be fully addressed once approval is granted. | 128 216 | - |
| Steiner ²⁴ | The bid is at BSC stage and the appointment of a new service following bid process will be finalised during quarter three | 1 084 565 | - |
| S Pather ²⁴ | The bid is in procurement process | 643 459 | - |
| Poswa ²⁴ | The bid is in procurement process | 40 177 | - |
| Cozens ²⁴ | The bid is in procurement process | 53 300 | - |
| Mkhabela ²⁴ | The bid is in procurement process | 242 050 | - |
| R Charles ²⁴ | The bid is in procurement process | 491 716 | - |
| Matabane Inc ²⁴ | The bid is in procurement process | 323 928 | - |
| Knowles Hussain ²⁴ | The bid is in procurement process | 71 406 | - |
| BBR Design SA (Pty) Ltd | Under investigation by Management | 15 558 459 | 9 928 943 |
| Amount carried over to next page | | 37 865 807 | 104 510 080 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

23. FRUITLESS, WASTEFUL AND IRREGULAR EXPENDITURE (continued)

| Incident | Action taken | 2015 R | 2014 R |
|---|--|-------------------|--------------------|
| Amount carried forward from prior page | | 37 865 807 | 104 510 080 |
| Travel Management Services [23 - 24] | Corrective measures have been put in place, we are currently a participant in Department of Education bid. | 7 129 028.99 | 20 033 740 |
| Ummsizi Office Supplies-NHB001[24] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked. | - | 310 764 |
| Ribex (Pty) Ltd [24] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked. | - | 151 058 |
| Jonti Tenders [24] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked. | - | 268 627 |
| Kgantsho Cleaning & Projects [24] | The bid is at BSC stage and the appointment of a new service following bid process will be finalised during quarter three. | 296 781 | 208 470 |
| Datacentrix [24] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked. | - | 579 832 |
| Generator Boys CC [24] | Single approved followed and approved by CEO. | - | 233 510 |
| Home Grown Solutions CC t/a Centre for Community Education [22] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked. | - | 739 796 |
| Leps Training consultants and service provider [22] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked. | - | 432 117 |
| Thuthuka skills training [22] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked. | - | 1 028 100 |
| Tjeka Training Matters (Pty) Ltd [22] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked. | - | 886 324 |
| Industries Education and Training Institute (Pty) Ltd [22] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked. | - | 600 210 |
| Expired Tax Clearance Certificates [25] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked. | - | 476 087 |
| Amount carried over to next page | | 45 291 617 | 130 458 715 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

23. FRUITLESS, WASTEFUL AND IRREGULAR EXPENDITURE (continued)

| Incident | Action taken | 2015 R | 2014 R |
|--|---|-------------------|--------------------|
| Amount carried forward from prior page | | 45 291 617 | 130 458 715 |
| Nongongo [24] | The bid is in procurement process | 173 972 | - |
| SA Truster [24] | The bid is in procurement process | 130 318 | - |
| Pukwana Attorneys [24] | The bid is in procurement process | 143 518 | - |
| Tokiso Dispute Settlements (Pty) Ltd [24] | The bid is in procurement process | 176 198 | - |
| Mbabane and Sokutu Inc [24] | The bid is in procurement process | 154 072 | - |
| ER Marivate t/a Marivate Attorneys [24] | The bid is in procurement process | 90 112 | - |
| NB Hewu t/a Hewu Attorneys [24] | The bid is in procurement process | 144 675 | - |
| Deneys Reitz Attorneys t/a Norton Rose [24] | The bid is in procurement process | 487 472 | - |
| Werksmans | The bid is in procurement process | 132 665 | - |
| Pule Incorporated [24] | The bid is in procurement process | 46 829 | - |
| Ditshaba [24] | The bid is in procurement process | 225 156 | - |
| Drake [24] | The bid is in procurement process | 101 412 | - |
| Lethamo [24] | The bid is in procurement process | 119 746 | - |
| Affirmative Portfolio [24] | The bid is in procurement process | 113 040 | - |
| Sekgala Careers Pty Ltd [24] | The bid is at BSC stage and the appointment of a panel following bid process will be finalised during quarter three | 115 196 | - |
| Murire and Company Pty Ltd [24] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked | 144 675 | - |
| Aande [24] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked | 209 646 | - |
| Shl Saville and Holdsworth Pty Ltd [24] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked | 114 441 | - |
| Courier, Storage and Photocopy Service [24] | Submission to participate in National Treasury Transversal contract is submitted. The Expenditure will be fully addressed once approval is granted. | 1 632 648 | - |
| FJD Builders CC [24] | Corrective measures have been put in place, Forensic panel is appointed for a period of three years following bid process | 1 060 084 | - |
| AON South Africa (Pty) Ltd [18] | Contract expiring 15/16 year. SCM procedures will be followed | 1 445 257 | - |
| Regency Embroiderers SA Pty Ltd [24] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked | 62 955 | - |
| Indaba Hotel [24] | Corrective measures have been put in place, SCM checklist is implemented where the three quotes system, TCC and SBD 4 forms are checked | 16 855 | - |
| Sakhisizwe Development Training and contractors [24] | Compliance checklist for bid process is implemented. | - | - |
| Ikemeleng Training and Development CC [24] | Compliance checklist for bid process is implemented. | - | - |
| Uvuko Civils Maintenance [17] | Contracts were terminated | 1 634 895 | - |
| North Rand Fire Services | Compliance checklist for bid process is implemented. | 2 038 | - |
| | | 53 969 489 | 130 458 715 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

23. FRUITLESS, WASTEFUL AND IRREGULAR EXPENDITURE (continued)

23.4 Details of irregular expenditure - current year continued

- (1) The extension to the Non Subsidy inspectorate contracts was outside the Delegation of Authority of CEO, as a result the expenditure has been classified as irregular
- (7) Relates to transactions with suppliers not on the data base and which did not follow the Supply Chain Management Policy, excluded are claims, sponsorships, and the Department of Human Settlements training
- (9) The appointment of the companies that performed the forensic investigations contravened the Supply Chain Management policy. The appointments were above the delegated authority of the CEO, as result the total expenditure for the rectification program have been classified as irregular.
- (10) - (13) Written price quotations were not obtained from at least three different prospective suppliers for procurement with a transaction value of between R 10 000 and R 500 000.
- (14) & (18) Goods and services with a transaction value of more than R 500 000 were not procured through a competitive bidding process.
- (15) - (17) Competitive bids were not advertised for a minimum period of 21 days before closure.
- (19) & (21) The preference point system was not applied in the procurement of goods and services above R 30 000.
- (20) Goods and services with a transaction value of more than R 500 000 were not procured through a competitive bidding process.
- (22) Competitive bids were not advertised for a minimum period of 21 days before closure.
- (23) Goods or services with a transaction value of R 2000 up to R 5000 were procured without obtaining at least three verbal or written quotes, or orders have not been placed against written confirmation for quotations submitted verbally.
- (24) Goods or services with a transaction value of R 5000 up to R 500 000 were procured without inviting at least three written quotations from prospective suppliers.
- (25) Tax Clearance certificates for the service providers could not be located, the issue is being investigated by management

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

24. FINANCIAL INSTRUMENTS

24.1 Categories of financial instruments and maturity profile

| 2015 | 0-1 Year R | >1 Year R | Total R |
|--|----------------------|----------------------|----------------------|
| FINANCIAL ASSETS | | | |
| Loans and receivables | | | |
| Trade and other receivables | 5 527 160 | - | 5 527 160 |
| Cash and cash equivalents | 171 719 372 | - | 171 719 372 |
| Financial assets at fair value | | | |
| Investments | 3 003 357 047 | 1 521 773 413 | 4 525 130 460 |
| Derivative Financial Instruments | - | 465 356 667 | 465 356 667 |
| Total financial assets | 3 180 603 579 | 1 987 130 080 | 5 167 733 658 |
| FINANCIAL LIABILITIES | | | |
| Financial liabilities at amortised cost | | | |
| Trade and other payables | 90 730 434 | - | 90 730 434 |
| 2014 | | | |
| FINANCIAL ASSETS | | | |
| Loans and receivables | | | |
| Trade and other receivables | 19 422 603 | - | 19 422 603 |
| Cash and cash equivalents | 147 483 450 | - | 147 483 450 |
| Financial assets at fair value | | | |
| Investments | 1 997 005 731 | 1 669 244 290 | 3 666 250 021 |
| Derivative Financial Instruments | - | 755 915 034 | 755 915 034 |
| Total financial assets | 2 163 911 785 | 2 425 159 324 | 4 589 071 109 |
| FINANCIAL LIABILITIES | | | |
| Financial liabilities at amortised cost | | | |
| Trade and other payables | 44 718 915 | - | 44 718 915 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

24. FINANCIAL INSTRUMENTS (continued)

24.2 Categories of financial instruments

| | Loans and Receivables R | Derivative Financial Instruments R | Fair value Investments R | Total R |
|----------------------------------|-------------------------------|---|--------------------------------|----------------------|
| 31 March 2015 | | | | |
| Derivative Financial Instruments | - | 463 337 243 | - | 463 337 243 |
| Fair value financial assets | - | - | 4 527 149 884 | 4 527 149 884 |
| Trade and other receivables | 19 321 214 | - | - | 19 321 214 |
| Cash and cash equivalents | 171 719 372 | - | - | 171 719 372 |
| Total | 191 040 586 | 463 337 243 | 4 527 149 884 | 5 181 527 713 |
| 31 March 2014 | | | | |
| Derivative Financial Instruments | - | 296 583 483 | - | 296 583 483 |
| Fair value financial assets | - | - | 4 125 581 574 | 4 125 581 574 |
| Trade and other receivables | 35 678 126 | - | - | 35 678 126 |
| Cash and cash equivalents | 147 483 450 | - | - | 147 483 450 |
| Total | 183 161 576 | 529 630 898 | 3 444 798 301 | 4 605 326 633 |

| | Financial liabilities at amortised cost R | Total R |
|--------------------------|--|--------------------|
| 31 March 2015 | | |
| Lease Liabilities | 66 006 | 66 006 |
| Trade and Other Payables | 192 299 228 | 192 299 228 |
| Total | 192 365 234 | 192 365 234 |
| 31 March 2014 | | |
| Lease Liabilities | 879 022 | 1 153 334 |
| Trade and Other Payables | 171 012 185 | 171 012 185 |
| Total | 171 891 207 | 172 165 519 |

24.3 Liquidity risk

Liquidity risk is the risk that the NHBRC will not be able to meet its financial obligations as they fall due.

The NHBRC manages liquidity risk by maintaining adequate reserves, and banking facilities, by continuously monitoring forecast and actual cashflows and matching the maturity profiles of financial assets and liabilities. Refer to note 24.1 for the maturity profile of financial instruments.

The amounts disclosed in table below are contractual undiscounted cashflows:

| | Less than 3 Months R | Between 3 months and 1 year R | Between 1 year and 2 years R | Over 2 years R |
|---------------------------|----------------------------|--|------------------------------------|-------------------|
| At 31 March 2015 | | | | |
| Operating Lease Liability | - | 66 006 | - | - |
| Trade and Other Payables | 94 145 873 | 98 153 356 | - | - |
| At 31 March 2014 | | | | |
| Operating Lease Liability | - | 879 022 | - | - |
| Trade and Other Payables | 59 757 657 | 111 254 528 | - | - |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

24. FINANCIAL INSTRUMENTS (continued)

24.4 Fair value of financial instruments

The NHBRC considers that the carrying amounts of trade and other receivables, cash and cash equivalents and trade and other payables approximates their fair values due to the short term nature of these assets and liabilities.

The fair values of financial assets represent the market value of quoted instruments and other traded instruments. For non-listed investments and other non-traded financial assets fair value is calculated using discounted cash flows with market assumptions, unless the carrying amount is considered to approximate fair value.

The fair values of financial liabilities carried at amortised cost is calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

24.5 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The NHBRC does not undertake transactions in foreign currencies and is thus not unduly exposed to foreign currency risk.

24.6 Capital risk

The NHBRC manages its capital to ensure that the NHBRC will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The NHBRC's overall strategy remains unchanged in 2014/ 2015 financial year.

24.7 Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the NHBRC. Financial assets, which potentially subject the NHBRC to concentrations of credit risk, consists principally of cash and cash equivalents and trade and other receivables.

The NHBRC's cash and cash equivalents are placed with high credit quality financial institutions. Refer to note 6 for further information on the NHBRC's exposure to credit risk with regards to trade and other receivables.

If there is no independent rating, credit quality of the Customer is assessed taking into account the customer's financial position, past experience and other factors.

There has been no significant change during the financial year, or since the end of the financial year, to the NHBRC's exposure to credit risk, the approach to the measurement or the objectives, policies and processes for managing this risk. The NHBRC does not grant credit limits to the the National Department of Human Settlements and does not expect any losses from non-performance by the Human Settlement Department.

24.8 Management risk

The underwriting risk of the NHBRC is governed by the Housing Consumers Protection Measures Act (Act no. 95 of 1998) and the risk of defaulting home builders.

The premiums on the non-subsidy sector are based on the selling price of the home to be constructed, and applied on a sliding scale limited to a maximum premium of R 34 000 and a maximum claim of R 500 000 per home

The premiums for the subsidy sector are based on 0,75% and 2.01% for consolidated subsidy projects.

The risk to the NHBRC and housing consumers is managed primarily through the assessment and registration of home builders who have the appropriate financial, technical, construction and management capacity for their specific business.

Within the insurance process, concentration of risks may arise in the subsidy market where a particular event or series of events could impact the NHBRC technical liabilities. Such concentrations may arise from a single contract or through a number of related contracts in concentrated housing developments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

24. FINANCIAL INSTRUMENTS (continued)

The NHBRC is invested predominantly in fixed interest investments and is exposed to interest rate risk. The investment strategy has moved closer, in the past 3 financial years, to the target of a return in excess of inflation as the NHBRC has inflation linked liabilities. Although the liabilities of the NHBRC are within five years, over 20% of assets are invested in fixed interest assets maturing beyond five years.

The results of the actuarial valuation indicate that the NHBRC as a whole, including both subsidy and non-subsidy houses, is solvent and in a sound financial position as at 31 March 2015 when valued on a run-off basis. The actuarial liabilities are 367% funded. However, for future business, the enrolment fees currently charged are adequate to cover expenses of the NHBRC and remedial claims for both subsidy and non-subsidy homes.

Enrolment Fee Adequacy

| Utilisation | All Houses | | Non-subsidy | | Subsidy | |
|-------------------------------|------------|-----|-------------|-----|---------|-----|
| | Amount | % | Amount | % | Amount | % |
| Enrolment and inspections | 3 035 | 58% | 6 871 | 65% | 1 119 | 45% |
| Complaints conciliations | 384 | 7% | 895 | 8% | 125 | 5% |
| Remedial claims | 222 | 4% | 459 | 4% | 102 | 4% |
| <i>average</i> | 70 | | 146 | | 32 | |
| <i>99.5% variation margin</i> | 152 | | 314 | | 70 | |
| Total expenses and claims | 3 641 | 70% | 8 171 | 77% | 1 346 | 54% |
| Average fee per enrolment | 5 220 | | 10 565 | | 2 511 | |
| Surplus | 1 579 | 30% | 2 394 | 23% | 1 165 | 46% |

Although there was downward management of expenses in 2010/11 and 2011/12, the continued trend of above inflation increases seen in 2012/13, 2013/14 and 2014/15 and the future planned increases in expenditure if not coupled with similar significant increases in business volumes, could threaten the future of the NHBRC business.

24.9 Insurance risk

The primary insurance activity carried out by the NHBRC assumes that the risk to the warranty fund relates to the warranty cover as defined in the Act as amended. The insurance premiums are received in advance as a "home enrolment fee" and a portion of the insurance premium is invested in terms of the NHBRC investment policy to cover future rectification of homes paid out under the warranty scheme.

The risks to the warranty fund are defined in section 3 of the Act "Objects of Council" which states:

The Council shall:

- represent the interests of housing consumers by providing a warranty protection against defects in new homes;
- regulate the home building industry;
- provide protection to housing consumers in respect of the failure of the home builders to comply with their obligations in terms of the Act;
- establish and promote ethical and technical standards in the home building industry;
- improve structural quality in the interests of housing consumers and the home building industry;
- promote housing consumer rights and provide housing consumer information;
- assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building; and
- achieve the stated objects in the subsidy housing sector.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

24. FINANCIAL INSTRUMENTS (continued)

There is no risk categorisation in determining the enrolment fees charged. The enrolment fee structure is promulgated in the regulations to the Act. Enrolment fees are charged on the selling price of the home (including land value) so that equal value homes yield equal enrolment fees. The subsidy and non subsidy markets each have their own enrolment fee structure. The NHBRC is exposed to the uncertainty surrounding the timing and severity of claims under the warranty contract. The NHBRC also has exposure to market risk through its insurance and investment activities.

The NHBRC uses several methods to assess and monitor insurance risk exposures for the protection of housing consumers. A home builder can only be registered if he has the appropriate financial, technical, construction and management capacity for the specific business carried on by the home builder in order to protect housing consumers and the Council from being exposed to unacceptable risks. The Council may withdraw the registration of a home builder where the home builder has been found guilty by the disciplinary committee as prescribed in the Act. The insurance risk is further mitigated by the inspection of houses under construction, interdicts issued against home builders who do not comply with the provisions of the Act and in cases of a late enrolments, a financial guarantee is required from the home builder, calculated on a risk model which takes the stage of completion of the house at enrolment date into account. The financial guarantee is held for the full five year warranty period.

Risk to the warranty fund is further controlled by the inspection of homes during the construction phase, and rectifications are enforced when construction of the home does not comply with the provisions of the Act.

The NHBRC is an insurer of last resort, as claims, are only paid where a home builder fails to perform the necessary remedial work, due to liquidation or unavailability. The maximum claim per home is limited to the insured value up to a maximum claimable amount of R 500 000 per home.

The NHBRC has an internal audit function which regularly reviews the degree of compliance with Council procedures.

Underwriting strategy

The registration of all home builders is prescribed in terms of section 10 of the Act. The NHBRC is obliged to register and insure all new homes constructed. The NHBRC may on the recommendation of the Council, on application made to it, in exceptional circumstances, exempt a person or home from any provision of the Act.

Reinsurance strategy

The NHBRC does not reinsure any portion of the risk it underwrites due to the current low claim rate experienced. Reinsurance of the exposure to losses has been identified as a medium term strategic objective.

Terms and conditions of Insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below:

The NHBRC's main business is highly specialised, and covers the rectification of:

- major structural defects in a home caused by non-compliance with the NHBRC technical requirements within a period of five years from the occupation date;
- non-compliance with or deviation from the terms, plans and specification or the agreement of any deficiency related to design, workmanship or material notified to the home builder by the housing consumer within three months from the occupation date; and
- repair roof leaks attributable to workmanship, design or materials occurring and notified to the home builder by the housing consumer within 12 months of the occupation date.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

24. FINANCIAL INSTRUMENTS (continued)

The event giving rise to a claim occurs with the insolvency, liquidation and protracted default of the home builder. The claim will be notified to the NHBRC in terms of the specific regulations to the Act. The business of the NHBRC can be classified as short to long term as the NHBRC may only be notified of a claim up to five years after occupation of the home in the instance of structural defects.

Concentration of insurance risk

Insurance risk by geographical area

Gauteng and Western Cape make up 67.65% of exposure with 52.23% and 15.42% respectively

Insurance risk by developer

The risk per developer is ranked by units of exposure (enrolments after Sep 2007). Liquidation of the 14 largest developers constitute R 311.3 million of sum insured (comparison of 346 179 home enrolments) which could potentially increase claims against the warranty fund.

24.10 Interest rate and price risk

Interest rate risk

Interest rate risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. All cash surpluses are invested with investment fund managers in terms of the investment policy. The exposure to interest rate risk is determined by the maturity profile of investments (see note 4).

Price risk

Price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or foreign currency risk. The NHBRC is exposed to equity price risk as it holds equity securities classified as at fair value. However, due to the investments in equities being immaterial, the exposure to equity risk is limited.

| 31-Mar-2015 | Carrying Amount at 31 March 2014 | Rand amount exposed to risk | Interest rate risk | | | |
|---------------------------------------|----------------------------------|-----------------------------|----------------------------|-------------------|---------------|---------------------|
| | | | Reasonable Possible change | | | |
| | | | Rate Increase | Rand amount | Rate Decrease | Rand amount |
| Financial Assets | | | | | | |
| Money Market Investments | 2 841 607 562 | 2 841 607 562 | 1% | 28 416 076 | -1% | (28 416 076) |
| CPD Money Market | 161 749 486 | 161 749 486 | | | | |
| Listed bond securities | | | | | | |
| - Short-term < 7 years | 918 862 130 | 918 862 130 | 1% | 9 188 621 | -1% | (9 188 621) |
| - Medium-term 7 to 12 years | 190 098 374 | 190 098 374 | 1% | 1 900 984 | -1% | (1 900 984) |
| - Long-term > 12 years | 412 812 910 | 412 812 910 | 1% | 4 128 129 | -1% | (4 128 129) |
| - Inflation linked bonds | 2 019 424 | 2 019 424 | 3% | 60 583 | -3% | (60 583) |
| Derivative Financial Instruments | 463 337 243 | 463 337 243 | 1% | 4 633 372 | -1% | (4 633 372) |
| Impact of financial assets on: | | | | | | |
| Statement of changes in net assets | - | - | - | - | - | - |
| Statement of financial performance | - | - | - | 43 694 392 | - | (43 694 392) |
| Impact on financial position | 4 990 487 128 | 4 990 487 128 | | 92 022 157 | | (92 022 157) |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

24. FINANCIAL INSTRUMENTS (continued)

| 31-Mar-2014 | Carrying Amount at 31 March 2014 | Rand amount exposed to risk | Interest rate risk | | | |
|---------------------------------------|----------------------------------|-----------------------------|--------------------|--------------------|-----------------|----------------------|
| | | | Reasonable | | Possible change | |
| | | | Rate Increase | Rand amount | Rate Decrease | Rand amount |
| Financial Assets | | | | | | |
| Money Market Investments | 1 844 480 030 | 1 844 480 030 | 1% | 18 444 800 | -1% | (18 444 800) |
| CPD Money Market | 152 525 705 | 152 525 705 | | | | |
| Listed bond securities | | | | | | |
| - Short-term < 7 years | 1 174 542 976 | 1 174 542 976 | 1% | 11 745 430 | -1% | (11 745 430) |
| - Medium-term 7 to 12 years | 129 180 190 | 129 180 190 | 1% | 1 291 802 | -1% | (1 291 802) |
| - Long-term > 12 years | 365 521 124 | 365 521 124 | 1% | 3 655 211 | -1% | (3 655 211) |
| - Inflation linked bonds | 459 331 550 | 459 331 550 | 3% | 13 779 947 | -3% | (13 779 947) |
| Derivative Financial Instruments | 296 583 483 | 296 583 483.00 | 1% | 2 965 835 | -1% | (2 965 835) |
| Impact of financial assets on: | | | | | | |
| Statement of changes in net assets | - | - | - | - | - | - |
| Statement of financial performance | - | - | - | 48 917 190 | - | (48 917 190) |
| Impact on financial position | 4 422 165 058 | 4 422 165 058 | | 100 800 214 | | (100 800 214) |

25. CONTINGENT LIABILITIES

There are outstanding claims pending in the Courts in relation to disputes between the NHBRC and other parties amounting to R 180 144 859, the outcome of which is unknown.

26. POST REPORTING DATE EVENTS

No material facts or circumstances have arisen after the reporting date which affects the financial position of the NHBRC as reflected in the annual financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

| 27. CONTRACTUAL COMMITMENTS | 2015 R | 2014 R |
|--|--------------------|-------------------|
| <p>Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.</p> <p>At 31 March 2015 the NHBRC had the following commitments:</p> | | |
| Operational Expenditure | | |
| Approved and contracted | | |
| Outsourced contracts for Risk management Service | 1 307 993 | - |
| Outsourced contract for Actuarial Services | 1 330 354 | 929 481 |
| Outsourced contracts for Security Services | - | 1 685 070 |
| Outsourced contract for Testing Machines for Eric Molobi | - | - |
| Outsourced contract for Training Assessment | 409 260 | - |
| Outsourced contract for Information Technology Services | 786 660 | - |
| Outsourced contract for Media Services | 6 089 301 | 12 976 572 |
| Outsourced contract for the review of the Home Building Manual | - | 2 106 891 |
| Outsourced contract for the review of the Human Capital Management service | 1 158 544 | - |
| Outsource contract for Telecommunication Services | 108 649 015 | - |
| Outsourced contract for the Remedial works | 1 104 245 | - |
| Outsourced contract for the Technical Service | 21 830 045 | - |
| | 142 665 418 | 17 698 014 |
| Capital Expenditure | | |
| Implementation of an integrated Enterprise Resource Planning Business Solution | 32 562 120 | - |
| Approved and contracted | 32 562 120 | - |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015 (continued)

28. RECONCILIATION OF BUDGET SURPLUS WITH THE SURPLUS IN THE STATEMENT OF FINANCIAL PERFORMANCE

| Actual 2013/14 R | Description | Actual 2014/15 R | Approved Budget 2014/15 R | Difference: Actual and Approved Budget R |
|------------------------|--|------------------------|---------------------------------|---|
| | Revenue | | | |
| 30 951 854 | Registration fees | 50 680 650 | 53 434 770 | (2 754 120) |
| 225 029 862 | Non-subsidy enrolments | 329 819 242 | 414 473 639 | (84 654 397) |
| 114 031 313 | Subsidy enrolments | 410 950 803 | 189 507 358 | 221 443 445 |
| 47 639 899 | Technical and other revenue | 47 354 435 | 102 837 460 | (55 483 025) |
| 417 652 928 | Total Revenue | 838 805 130 | 760 253 227 | 78 551 903 |
| | Expenses | | | |
| 91 820 588 | Operating Expenditure | 21 715 809 | 135 046 407 | (113 330 599) |
| 14 509 163 | General and Administration | 14 838 252 | 18 380 598 | (3 542 345) |
| 6 219 385 | Payroll Costs | 5 310 890 | 4 840 000 | 470 890 |
| 245 534 933 | Permanent Staff Costs | 316 659 729 | 458 195 725 | (141 535 996) |
| 100 358 753 | General Costs | 174 925 166 | 158 661 461 | 16 263 705 |
| 50 102 530 | Other Expenses | 116 069 988 | 78 079 438 | 37 990 551 |
| 508 545 351 | Total Expenses | 649 519 834 | 853 203 628 | (203 683 794) |
| (90 892 423) | Surplus / (Deficit) before investment income | 189 285 296 | (92 950 400.4) | (125 131 892) |
| | Investment income | | | |
| 305 467 316 | Interest received | 338 272 291 | 211 570 000 | 126 702 291 |
| | Interest paid | (4 369 938) | - | - |
| 214 574 893 | Surplus / (Deficit) for the period | 523 187 648 | 118 619 600 | 404 568 049 |

Revenue

Revenue increased by R 78 million compared to budget. The increase in the volumes of work done for technical services, as well enrolments contributed to this increase. The lower project enrolments fees in the subsidy sector was partly recovered by higher than budgeted non-subsidy home enrolments.

Technical provisions

The technical provisions are assessed annually by independent actuaries and are not budgeted for.

Expenditure

General and administration expenditure and permanent staff costs were stringently managed by the organisation so as to ensure savings in expenditure. Operating expenditure is higher than budget as technical expenditure was not budgeted for.

Income from investments

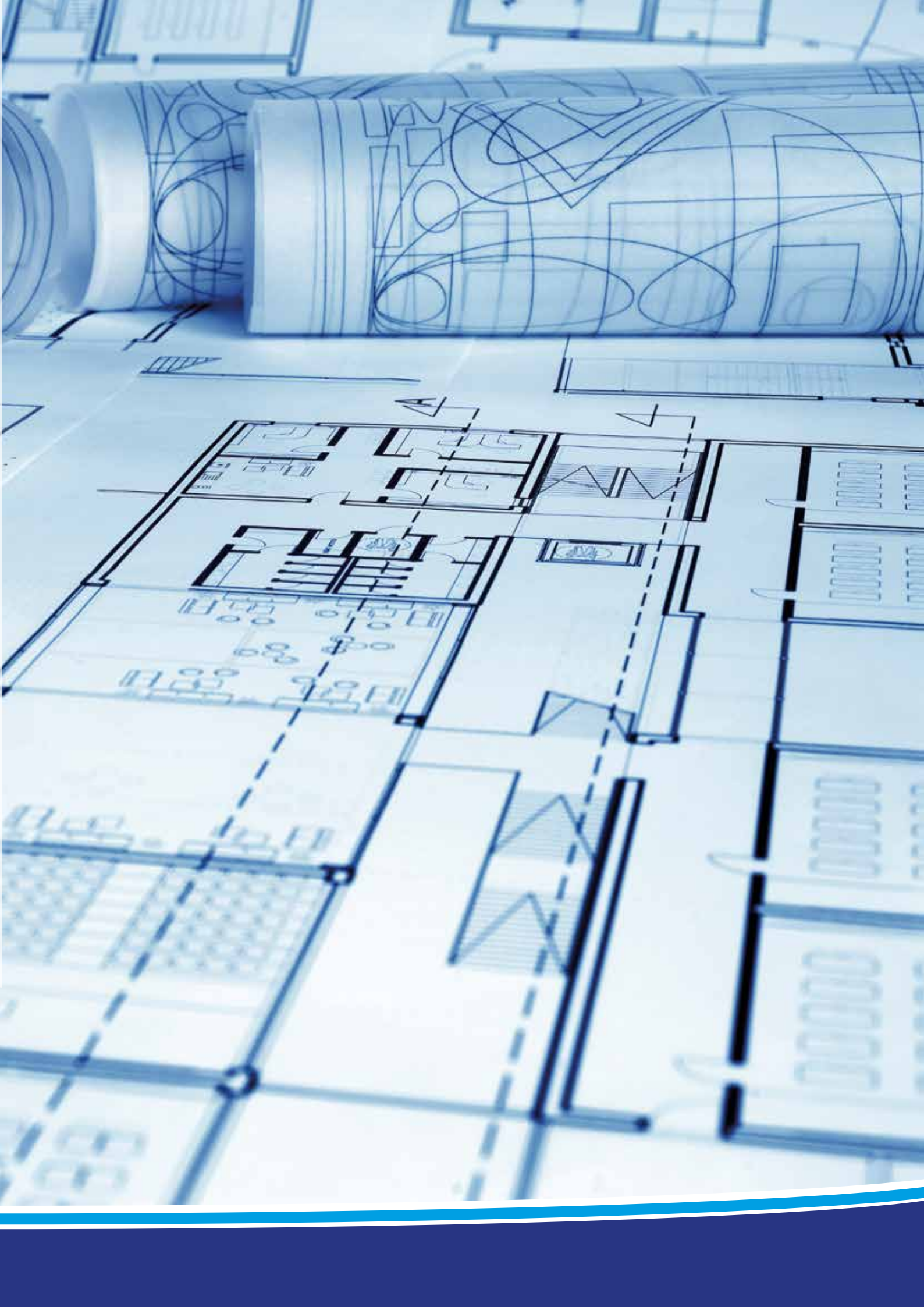
The investment strategy followed by the entity was to maximise the return on cash investments when the bond and equity market were declining.

SUPPLEMENTARY SCHEDULE

for the year ended 31 March 2015

DETAILED EXPENDITURE SCHEDULE

| | 2015 R | 2014 R |
|--|--------------------|--------------------|
| Insurance claims and loss adjustment expenses | 14 638 847 | 2 273 540 |
| Inspections and Operating expenses | 1 708 314 | 62 894 274 |
| - Inspection costs | (579 228) | 60 342 878 |
| - Accreditation fees | 2 035 223 | 2 273 385 |
| - Direct costs of Builder Manuals | 252 319 | 278 011 |
| - Direct costs of certificates | - | - |
| Technical services expenditure | 5 368 647 | 26 652 774 |
| - Forensic Investigations and Geotec | 5 424 778 | 16 635 438 |
| - Water tanks installations | (56 131) | 10 017 336 |
| Administration Expenses | 627 804 025 | 416 724 764 |
| - Amortisation | 936 178 | 4 099 373 |
| - Depreciation | 8 194 710 | 6 029 503 |
| - Motor vehicle expenses | 213 561 | 187 065 |
| - Office equipment and furniture expenses | 5 493 804 | 4 193 222 |
| - Payroll costs | 5 310 890 | 6 219 385 |
| - Permanent staff costs | 316 659 728 | 245 534 932 |
| - Insurance paid | 1 445 257 | 1 003 549 |
| - Information technology costs | 19 600 147 | 10 291 672 |
| - Legal fees | 6 357 112 | 6 898 302 |
| - Marketing fees | 29 543 767 | 8 996 145 |
| - Telephone expenditure | 18 779 182 | 12 420 249 |
| - Travelling expenditure | 48 734 610 | 21 068 775 |
| - Training | 25 283 098 | 16 013 199 |
| - Audit fees | 3 499 724 | 3 610 150 |
| - Staff costs | 21 682 272 | 20 056 715 |
| - Bank charges | 1 140 681 | 1 136 929 |
| - Bad debts written off | 15 934 523 | (1 739 781) |
| - Cleaning costs | 1 859 609 | 1 743 901 |
| - Conferences and seminars | 4 852 505 | 3 876 159 |
| - Consulting fees | 30 828 199 | 10 522 795 |
| - Courier and freight | 1 287 641 | 998 483 |
| - Water and electricity | 2 584 025 | 431 396 |
| - Rentals | 10 001 079 | 17 170 432 |
| - Security | 5 233 925 | 3 596 382 |
| - Other rentals costs | 6 709 975 | 5 180 159 |
| - Stationery | 1 466 589 | 1 399 356 |
| - Other expenses | 34 171 236 | 5 786 317 |
| Total Expenditure before interest paid | 649 519 834 | 508 545 351 |





NATIONAL HOME BUILDERS
NHBRC
REGISTRATION COUNCIL

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