



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



2015-16  
PFMA

Briefing to the Portfolio Committee: Human Settlements  
Audit outcomes of the portfolio for the 2015-16 financial year

1

# The AGSA's promise and focus



# Reputation promise

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The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

## Role of AGSA in the BRRR process

- Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role in assessing the performance of the entities taking into consideration the objective of the committee to produce a BRRR.
- To provide the portfolio committee with applicable information and guidance on the Human Settlements portfolio's 2015-16 audit outcomes so that they, the committee, can ensure effective oversight.
- To enable oversight to focus on areas that will lead to good governance.



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# Our annual audits examine three areas

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1

FAIR PRESENTATION AND  
RELIABILITY OF FINANCIAL  
STATEMENTS

2

RELIABLE AND CREDIBLE  
PERFORMANCE INFORMATION  
FOR PREDETERMINED  
OBJECTIVES

3

COMPLIANCE WITH KEY  
LEGISLATION ON FINANCIAL  
AND PERFORMANCE  
MANAGEMENT



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## Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements; and
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP); and
- observed/complied with key legislation in conducting their day-to-day to achieve on their mandate.

## Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements but struggled to:

- align their performance reports to the predetermined objectives they committed to in their APPs; and/or
- set clear performance indicators and targets to measure their performance against their predetermined objectives; and/or
- report reliably on whether they achieved their performance targets; and/or
- determine which legislation they should comply with and implement the required policies, procedures and controls to ensure compliance.

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## Qualified opinion



Auditee:

- had same challenges as those that were unqualified with findings but, in addition, they could not produce credible and reliable financial statements.
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.
- did not comply with key legislation in certain instances.

## Adverse opinion



Auditee:

- has so many material misstatements in their financial statements that we disagree with almost all the amounts and disclosures in the financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

## Disclaimed opinion



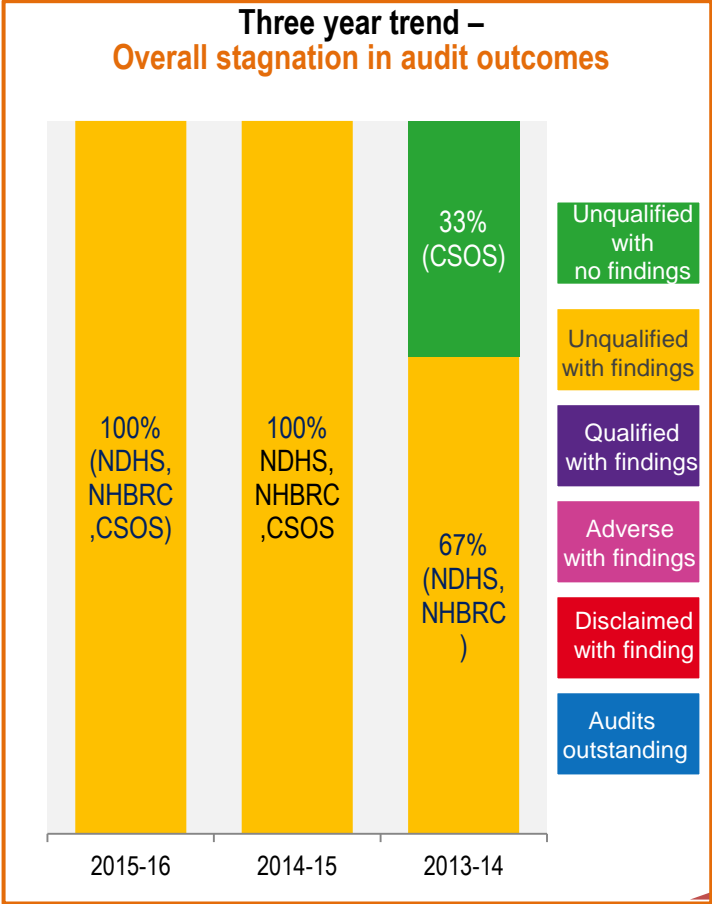
Auditee:

- could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

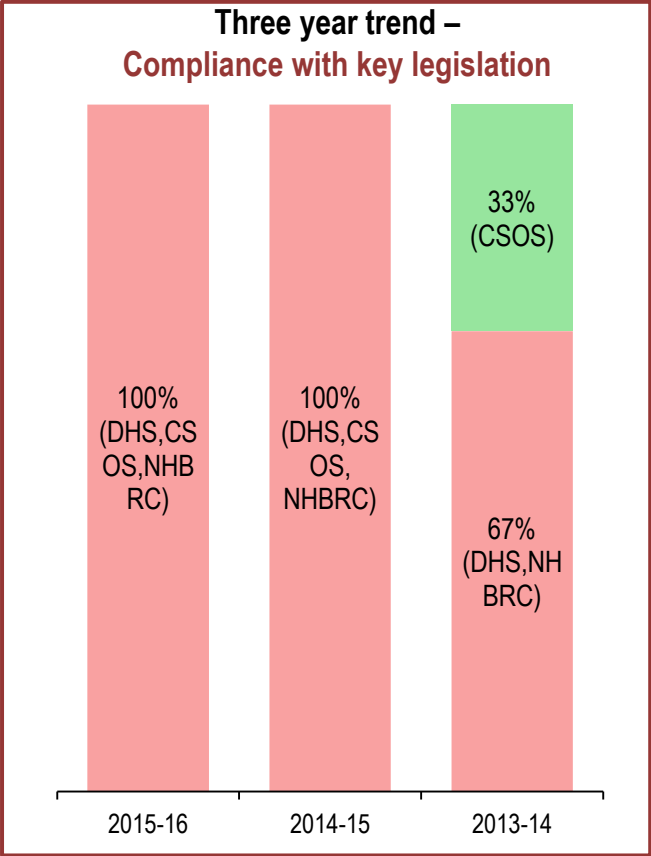
## The 2015-16 audit outcomes and key messages



# Regression in audit outcomes over 3 years



**1 To improve/maintain the overall audit outcomes,** financial statements processes, Audit outcomes are not improving as leadership at these entities have not instilled a culture where they continuously enhance key controls, implement recommendations timeously and hold staff accountable.

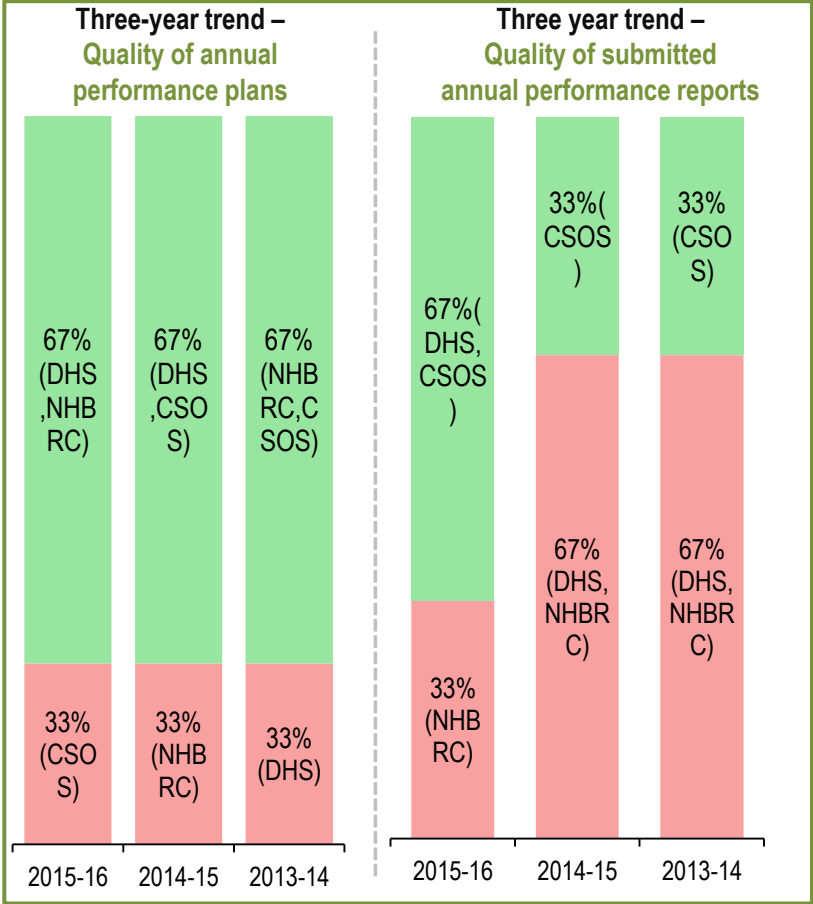


**2 .... compliance with key legislation and....**

Non-compliance was reported in the areas of :

- material misstatements in financial statements,
- irregular expenditure not prevented,
- payments not made to suppliers within 30 days,
- procurement from suppliers without SARS clearance,
- preference points incorrectly allocated and suppliers scoring highest points not selected,
- competitive bids not invited where the deviation is not justified,
- three written quotations not obtained and

This is mainly due to oversight and lack of monitoring and review of compliance with laws and regulations.



**3 .... performance planning and reporting must be improved by....**

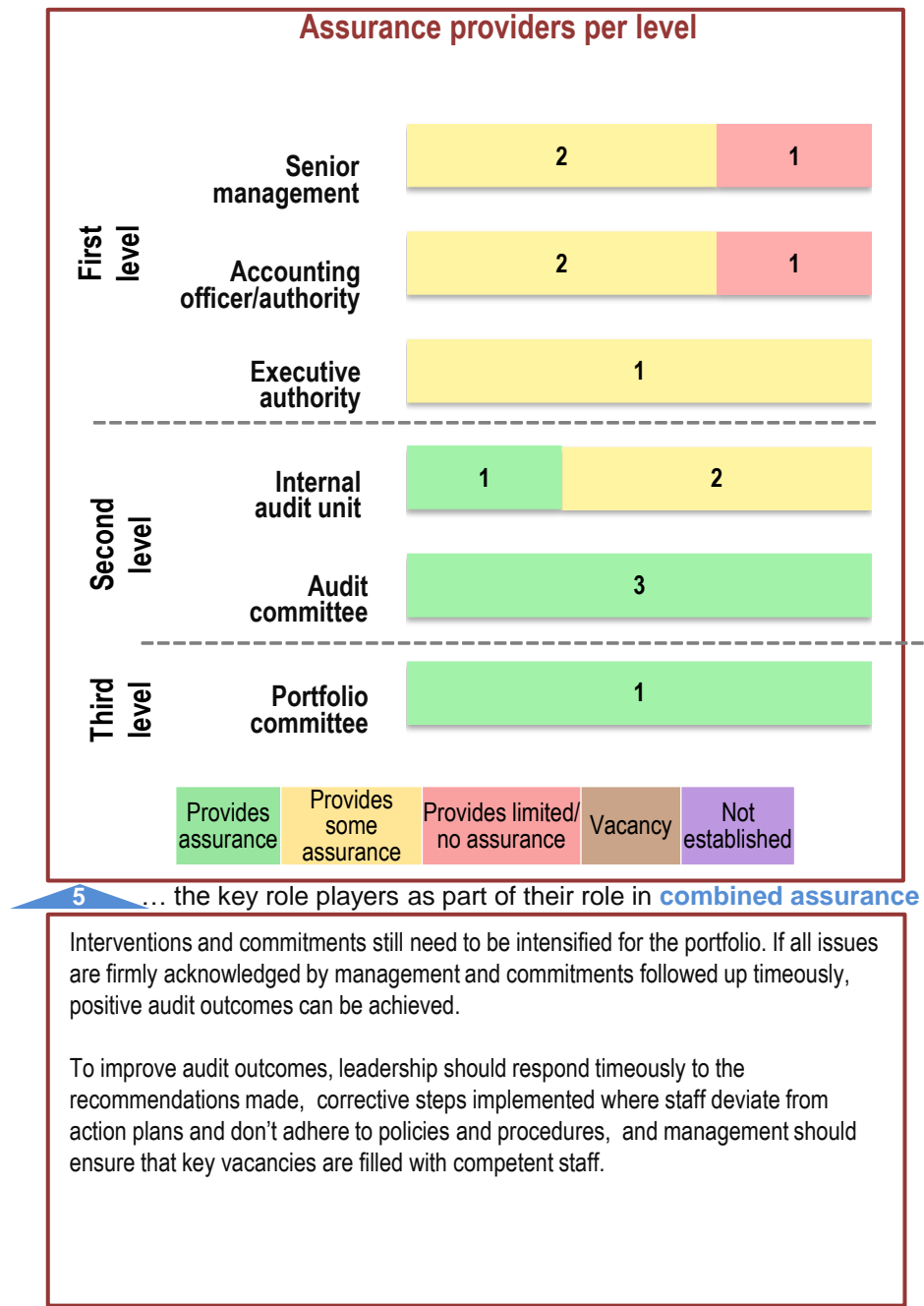
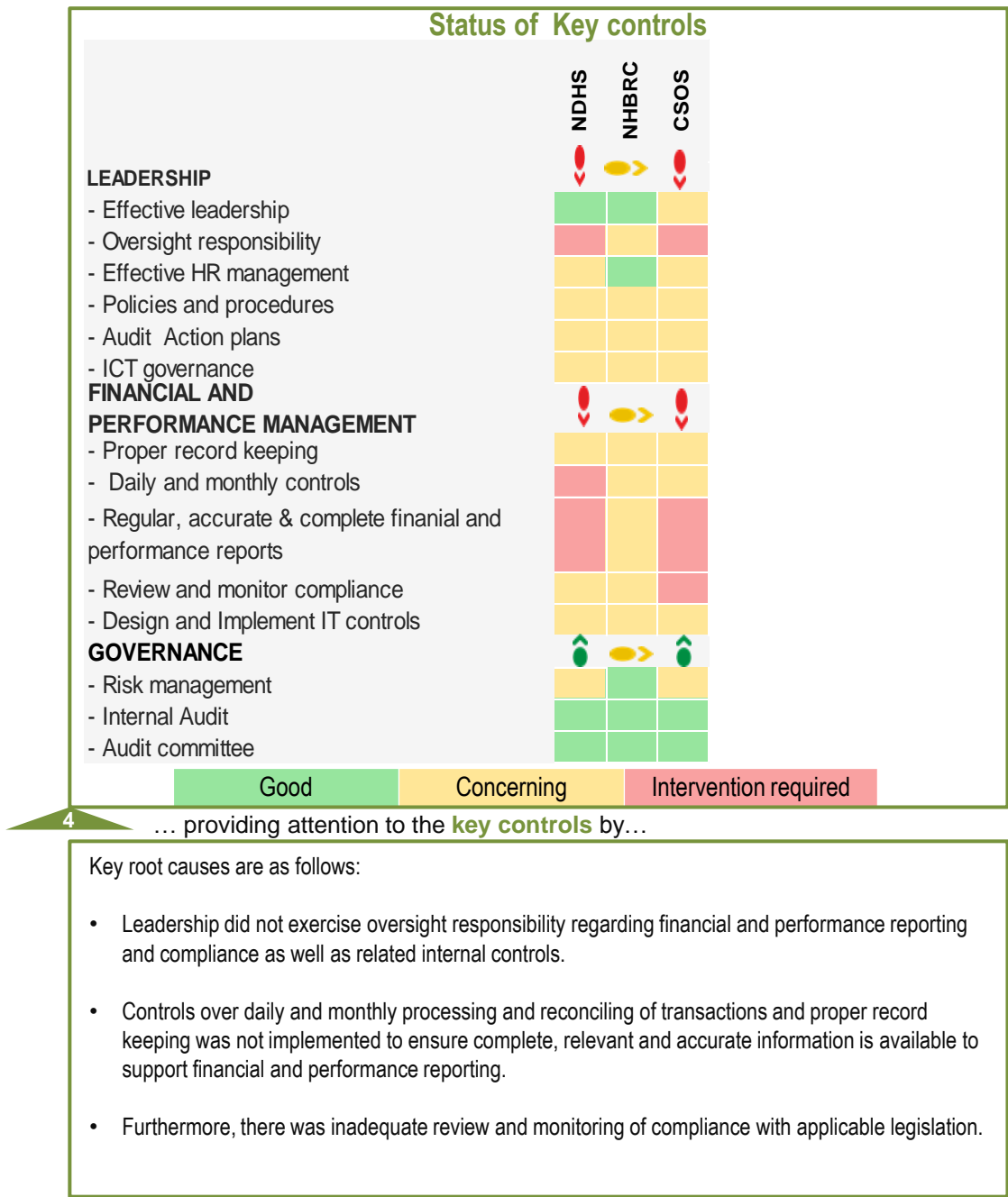
The usefulness issues identified were due to targets which are not relevant at CSOS.

The reliability issues identified were due to an inadequate system at the NHBRC.

In both instances the findings could have been avoided had leadership exercised oversight of the annual performance plans and reports. Action plans at the NHBRC was not adequate as the matter was reported in the previous years..



# Regression in audit outcomes over 3 years - continued






3

## Performance management linked to programmes/ objectives tested



# Quality of submitted annual performance reports slightly improved

Outcomes of programmes/objectives selected for testing:

Auditee:	Move ment	Programmes/ Objectives	Usefulness	Reliability
Department of Human Settlements		Programme 2: Human Settlements Policy, Strategy and Planning	No material findings reported.	No material findings reported.
		Programme 3: Human Settlements Delivery Support	No material findings reported.	No material findings reported.
		Programme 4: Housing Development Finance	No material findings reported.	No material findings reported.
National Home Builders Registration Council		Programme 2: Regulation	No material findings reported.	Reported performance information was not complete
		Programme 3: Consumer Protection	No material findings reported.	No material findings reported.
Community Schemes Ombuds Service		Objective 1 : Provide Community Schemes Dispute Resolution Services	No material findings reported.	No material findings reported.
		Objective 2 : Taking Custody and control of Schemes Governance Documentations	No material findings reported.	No material findings reported.
		Objective 4 : Manage the Sectional Titles Schemes Act as provided by the STSMA Act	Indicators/measures do not relate logically and directly to an aspect of the institution's mandate, and the realisation of strategic goals and objectives	No material findings reported.



## 4 Financial management





# Regression in compliance with legislation and quality of financial statements

Figure 1: Findings on compliance with key legislation – all auditees

Material misstatements in submitted annual financial statements



Prevention of unauthorised, irregular and/or fruitless and wasteful expenditure



Management of procurement and/or contracts



Establishment and/or control of expenditure and/or payment within 30 days

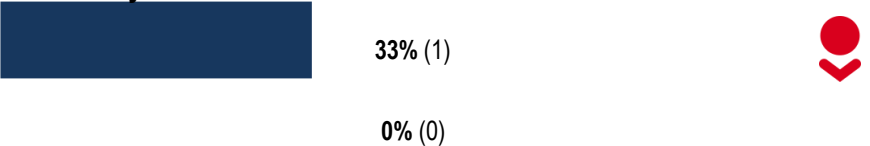
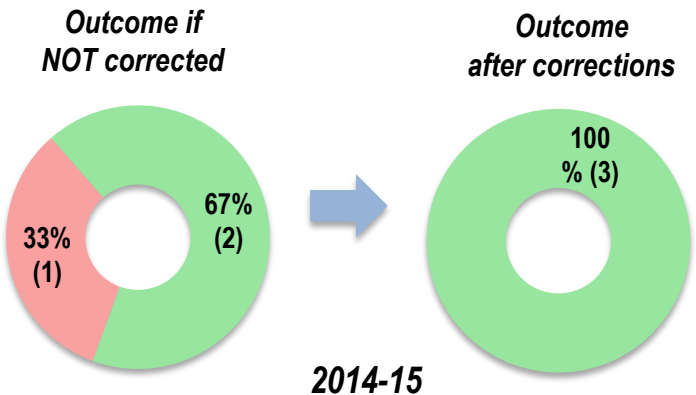
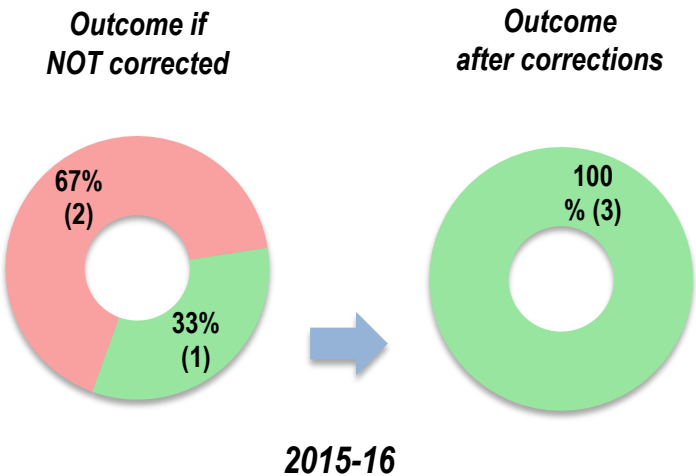
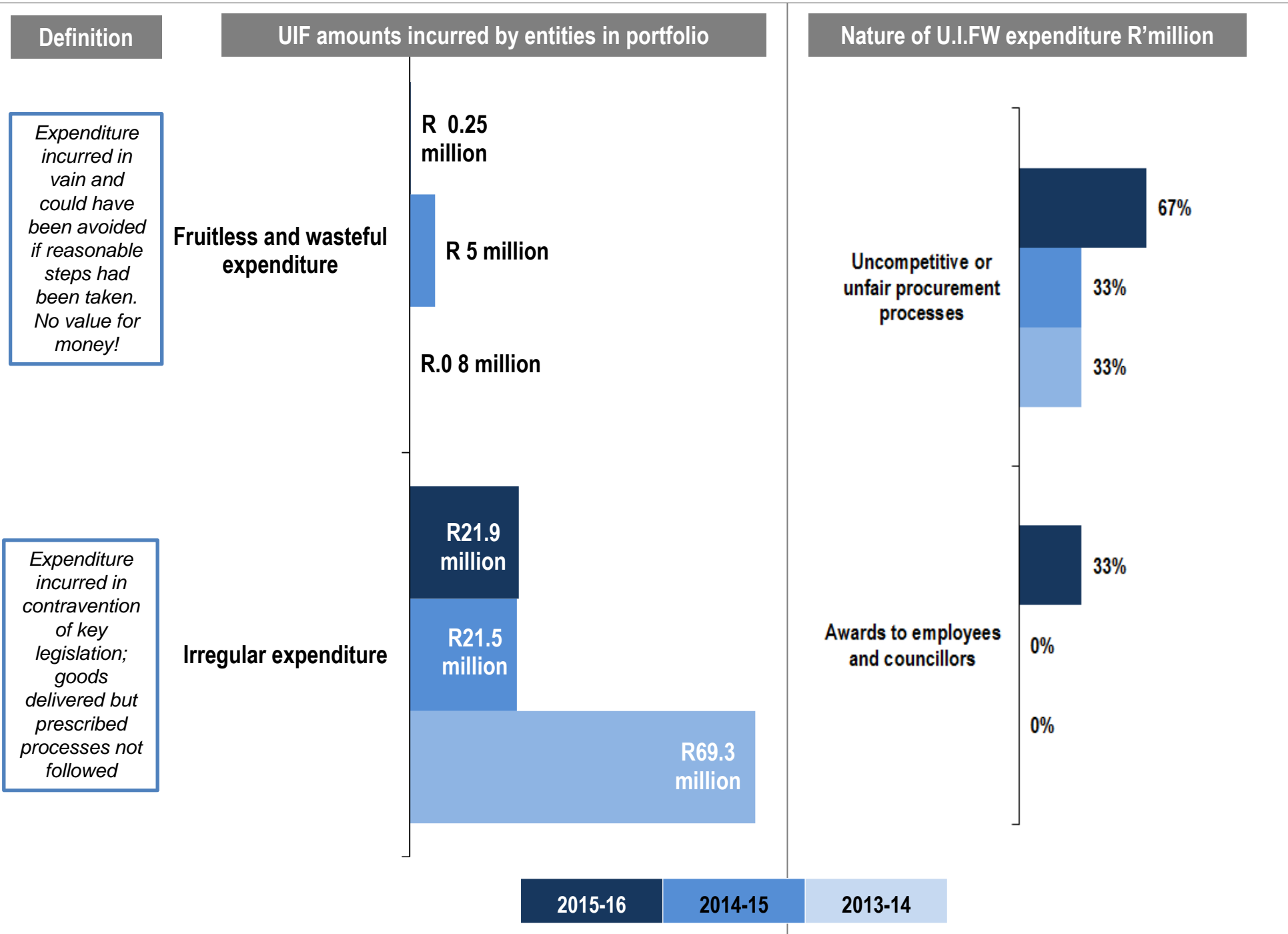


Figure 2: Quality of submitted financial statements

2 auditees (67%) [2014-15: 1 (33%)] avoided qualifications due to the correction of material misstatements during the audit process



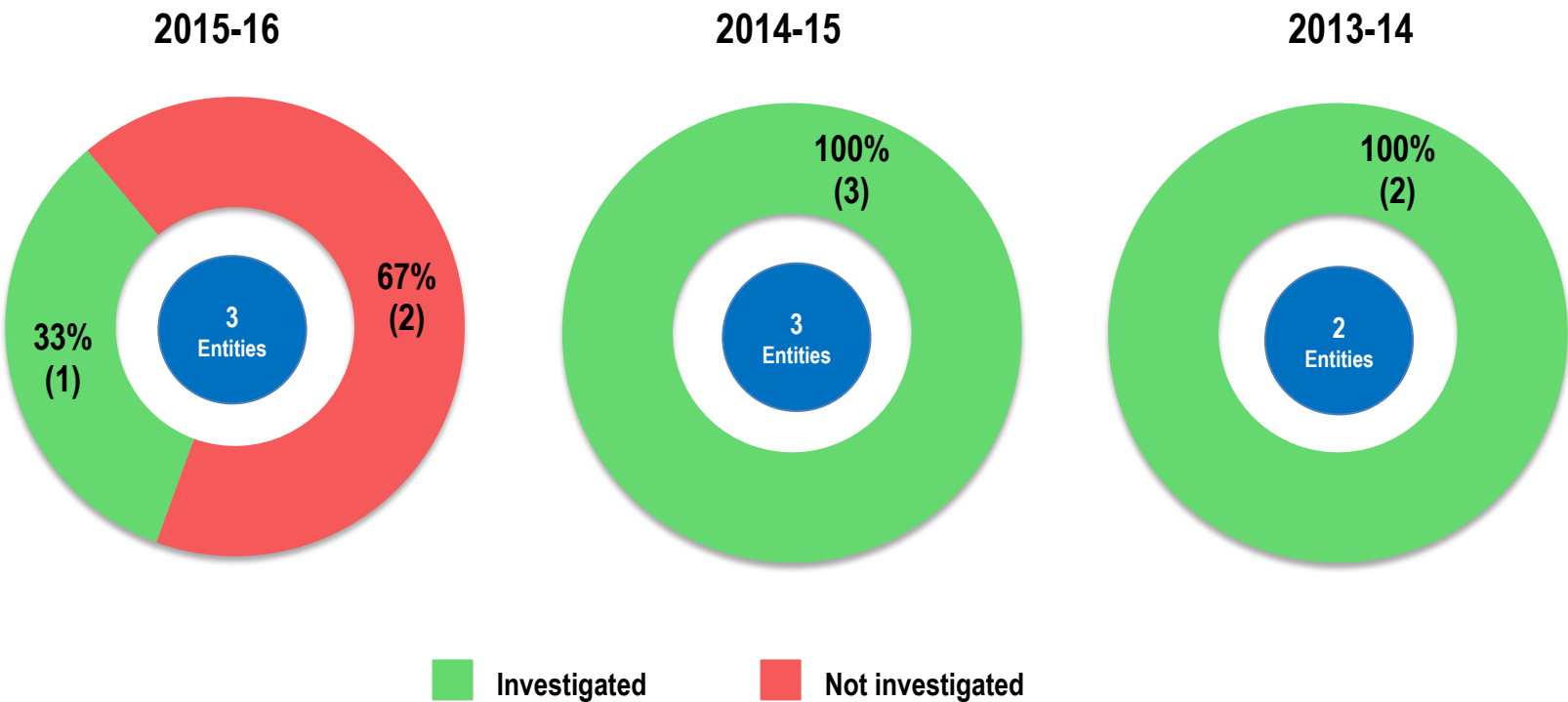
# Unauthorised, irregular as well as fruitless and wasteful expenditure increase over 3 years and follow up action



# Follow up action of unauthorised, irregular as well as fruitless and wasteful expenditure over 3 years

## Investigations of U.I.FW expenditure

1 auditee (33%) [2014-15: 3 (100%)] [2013-14: 2 (100%)] lodged investigations to determine root cause and consequences of U.I.F incurred.  
The investigations have not resulted in the dismissal of any official yet as the outcomes /recommendations



6

**Top three root causes, follow up on  
commitments and proposed  
recommendations**





# Top three root causes, follow up on commitments and proposed recommendations

1

... the following **root causes** must be addressed ...

## Root causes

### Slow response by management (Accounting officer and senior management)



### Lack of consequences for poor performance and transgressions



■ 2015-16 ■ 2014-15

Management has established action plans to address audit findings however these are not being implemented and monitored as deficiencies in annual financial statements and annual performance reports as well as non compliance has occurred.

Consequences for unsatisfactory performance and transgressions should be implemented.

2

... through honouring the following **commitments** made by the executive authority.....

## Status of key commitments by minister

The CFO must report monthly to the accounting officer on progress of the action plan.

The accounting officer must report quarterly to the audit committee and portfolio committee.

The progress on the action plan must be reviewed by the audit committee on a quarterly basis and the progress must then be confirmed by the audit committee and submitted to the minister..

The minister will monitor the progress on the preparation of proper monthly financial statements and the implementation of monthly key control assessments quarterly.

The minister will meet with the relevant audit committee chairpersons to discuss matters of concern identified by the committees.

Not implemented

In progress

Implemented

New

We met with the minister on the 10<sup>th</sup> February 2016. Specific internal control deficiencies were elevated for the minister's attention. The minister expressed her appreciation for the meetings with the AGSA.

3

... and implementation of the following **proposed commitments** by the Portfolio committee and management...

## Recommendations

1. The PC must request management to provide feedback on the implementation and progress of the action plan during quarterly reporting.
2. The PC must request management to provide quarterly feedback on the status of key controls.
3. The PC must request management to provide feedback on action taken against transgressors/poor performers.

## Performance by provinces and section 4(3) entities

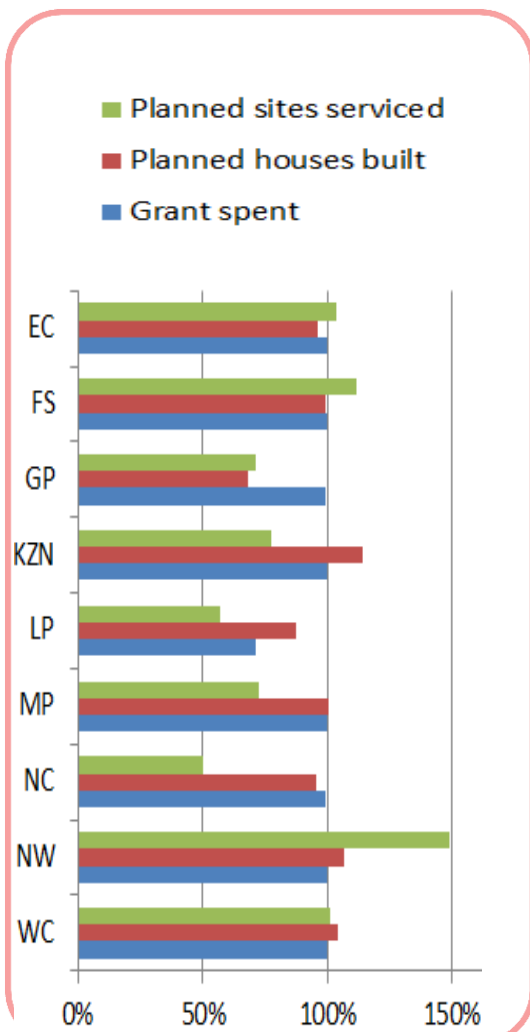


# Human Settlements Development Grant

The core focus of the Human Settlements Programme is to build cohesive and sustainable communities by ensuring that innovative services and infrastructure are provided to create sustainable human settlements. This programme promotes effective and efficient delivery of housing programmes

Objective

## Spending vs Achievement



## Financial Management (AFS)(qualifications)

Province	Irregular, fruitless and wasteful	Transfers	Commitments	Accruals and payables	misstatements corrected
EC	No material findings reported	No material findings reported	No material findings reported	No material findings reported	Material misstatements corrected
FS	Material findings reported	Material findings reported	No material findings reported	Material findings reported	No material findings reported
GP	No material findings reported	No material findings reported	No material findings reported	No material findings reported	Material misstatements corrected
KZN	Material findings reported	No material findings reported	No material findings reported	No material findings reported	No material findings reported
LP	No material findings reported	No material findings reported	No material findings reported	No material findings reported	Material misstatements corrected
MP	No material findings reported	No material findings reported	No material findings reported	No material findings reported	Material misstatements corrected
NC	No material findings reported	No material findings reported	No material findings reported	No material findings reported	Material misstatements corrected
NW	Material findings reported	No material findings reported	No material findings reported	Material findings reported	No material findings reported
WC	No material findings reported	No material findings reported	No material findings reported	No material findings reported	No material findings reported

## Compliance

Province	UIFW	30 days	DoRA	Procurement
EC	No material findings reported	Material findings reported	No material findings reported	No material findings reported
FS	Material findings reported	Material findings reported	No material findings reported	Material findings reported
GP	Material findings reported	Material findings reported	Material findings reported	No material findings reported
KZN	Material findings reported	Material findings reported	No material findings reported	Material findings reported
LP	Material findings reported	No material findings reported	No material findings reported	Material findings reported
MP	No material findings reported	No material findings reported	No material findings reported	Material findings reported
NC	Material findings reported	No material findings reported	Material findings reported	Material findings reported
NW	Material findings reported	Material findings reported	No material findings reported	No material findings reported
WC	No material findings reported	No material findings reported	No material findings reported	No material findings reported

## Pre-determined Objectives

Province	Usefulness	Reliability	Material misstatements
EC	No material findings reported	No material findings reported	Material misstatements corrected
FS	Material findings reported	Material findings reported	No material findings reported
GP	Material findings reported	Material findings reported	No material findings reported
KZN	No material findings reported	No material findings reported	Material misstatements corrected
LP	No material findings reported	No material findings reported	Material misstatements corrected
MP	No material findings reported	Material findings reported	No material findings reported
NC	No material findings reported	Material findings reported	No material findings reported
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WC	No material findings reported	No material findings reported	No material findings reported

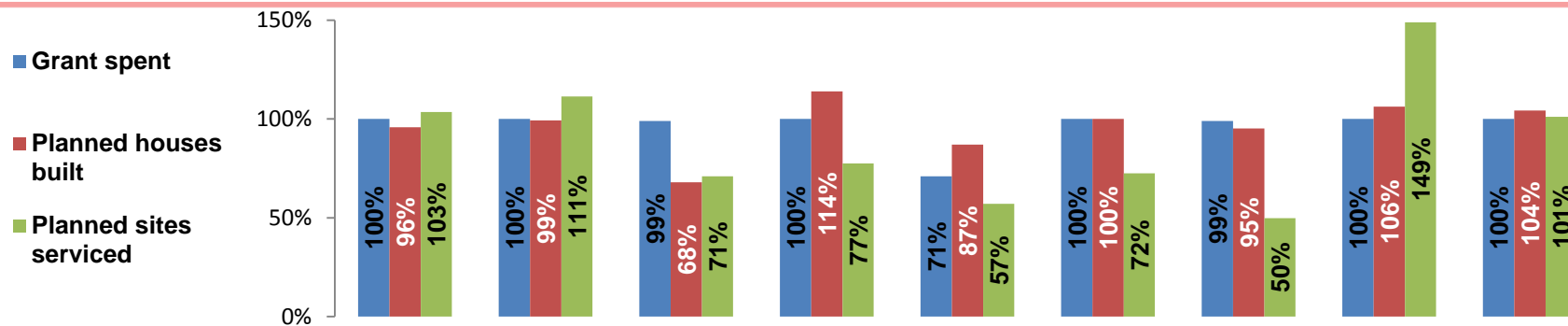


# Human Settlements Development Grant

Objective

The core focus of the Human Settlements Programme is to build cohesive and sustainable communities by ensuring that innovative services and infrastructure are provided to create sustainable human settlements. This programme promotes effective and efficient delivery of housing programmes

## Spending vs Achievement



Province

EC

FS

GP

KZN

LP

MP

NC

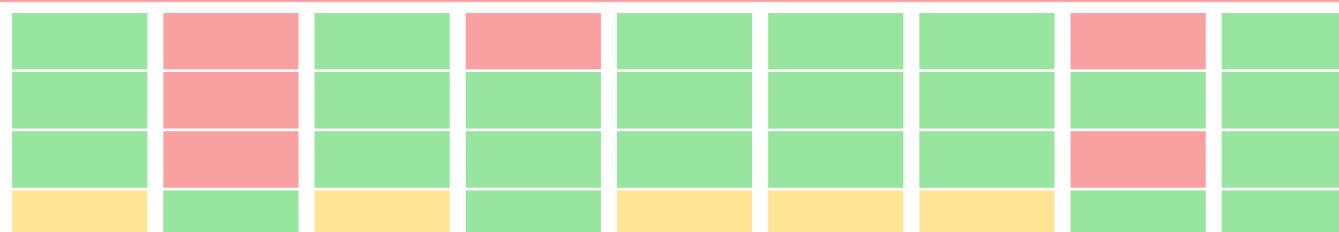
NW

WC

## Financial Management AFS- Qualification areas

Irregular, fruitless and wasteful Transfers

Accruals and payables misstatements corrected



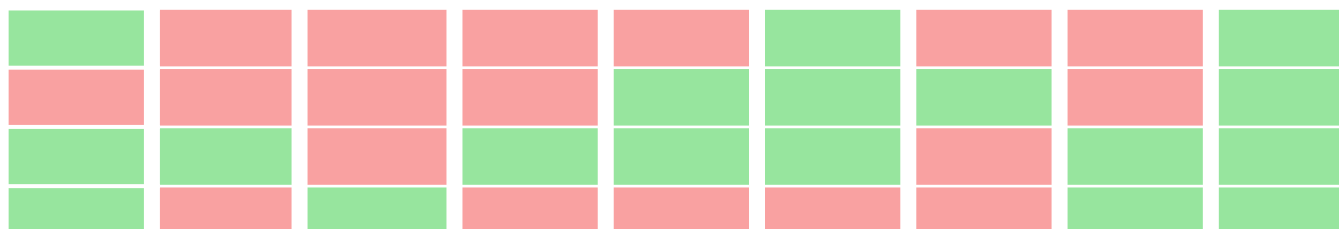
## Compliance

UIFW

30 days

DoRA

Procurement

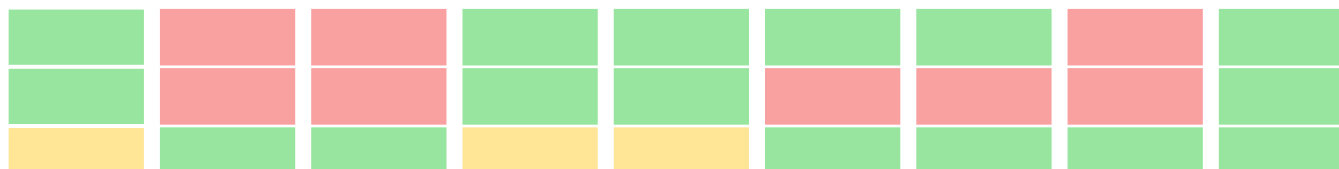


## Pre-determined Objectives

Usefulness

Reliability

Material misstatements



Key audit outcome per audit area





# Human Settlements Development Grant

## Objective

The core focus of the Human Settlements Programme is to build cohesive and sustainable communities by ensuring that innovative services and infrastructure are provided to create sustainable human settlements. This programme promotes effective and efficient delivery of housing programmes

### Spending vs achievement

97% allocated budget was spent.

Material under spending of the Human Settlements Development Grant (HSDG) was only identified in LP, due to inadequate SCM and planning processes

Provinces did not meet the delivery targets mainly due to:

- Poor planning and project management
- Lack of coordination between the various stakeholders
- Utilisation of grant monies for other purposes.

### Financial Management (AFS)

All the qualification areas include transactions relating to housing development grant.

The qualifications and material misstatements identified was due to:

- Leadership have not responded to issues identified during previous audits as the daily and monthly disciplines have not been established to ensure complete and accurate financial reporting.
- Staff still do not fully understand the requirements of financial reporting framework.

### Compliance

Non-compliance findings were due to:

- Leadership and senior management not responding to issues identified during previous audits.
- Inadequate review and monitoring of compliance with laws and regulations.
- Transgressors not held accountable.

### Pre-determined Objectives

Predetermined objectives findings are due to:


























































- Inadequate systems to collect, collate, verify and store performance information to valid, accurate and complete reporting of actual achievement was implemented.
- Management did not exercise oversight responsibility to ensure targets are measurable as the findings has occurred in the prior year as well. Technical indicator descriptions were not clear and specific.
- Lack of coordination from management within the department.
- Performance reports not reviewed regularly as required.
- Inadequate record management system to maintain information that supported the reported performance in the annual performance report.

Key audit outcome per audit area



### Entities included in the portfolio not audited by AGSA: PAA (section 4(3) audit entities


Three year audit outcome of auditees within the DHS portfolio which are not audited by the AGSA in terms of PAA section 4(3):


Auditee:	Three year Trend	Audit Outcomes 2015-16			Audit Outcomes 2014-15			Audit Outcomes 2013-14		
		AFS	AoPO	Compliance	AFS	AoPO	Compliance	AFS	AoPO	Compliance
Rural Housing Loan Fund (RHLF)										
National Urban Reconstruction and Housing Agency(NURCHA)										
Housing Development Agency (HDA)										
Social Housing Regulatory Authority(SHRA)										
Estate Agency Affairs Board (EAAB)										
National Housing Finance Corporation (NHFC)										
Thubelisha										
Sercvon										


# 2015-16 PFMA


- Improved
- Stagnant
- Regressed


AFS outcome  
*legend*


 Unqualified with no findings

 Unqualified with findings

 Qualified with findings

 Adverse  
with findings

 Disclaimed  
with finding

 Audits outstanding

### ✓ No Material Findings

## Material findings



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# Questions



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