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Acting Chief Executive Officer

**Briefing by NHBRC to deal with Irregular
Expenditure and Consequent Management**

**Portfolio Committee of Human Settlements, Old
Assembly**

21 February 2017



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NHBRC Mandate

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

Strategic Direction

Vision

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

Mission

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

Strategy

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

Strategic objectives

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

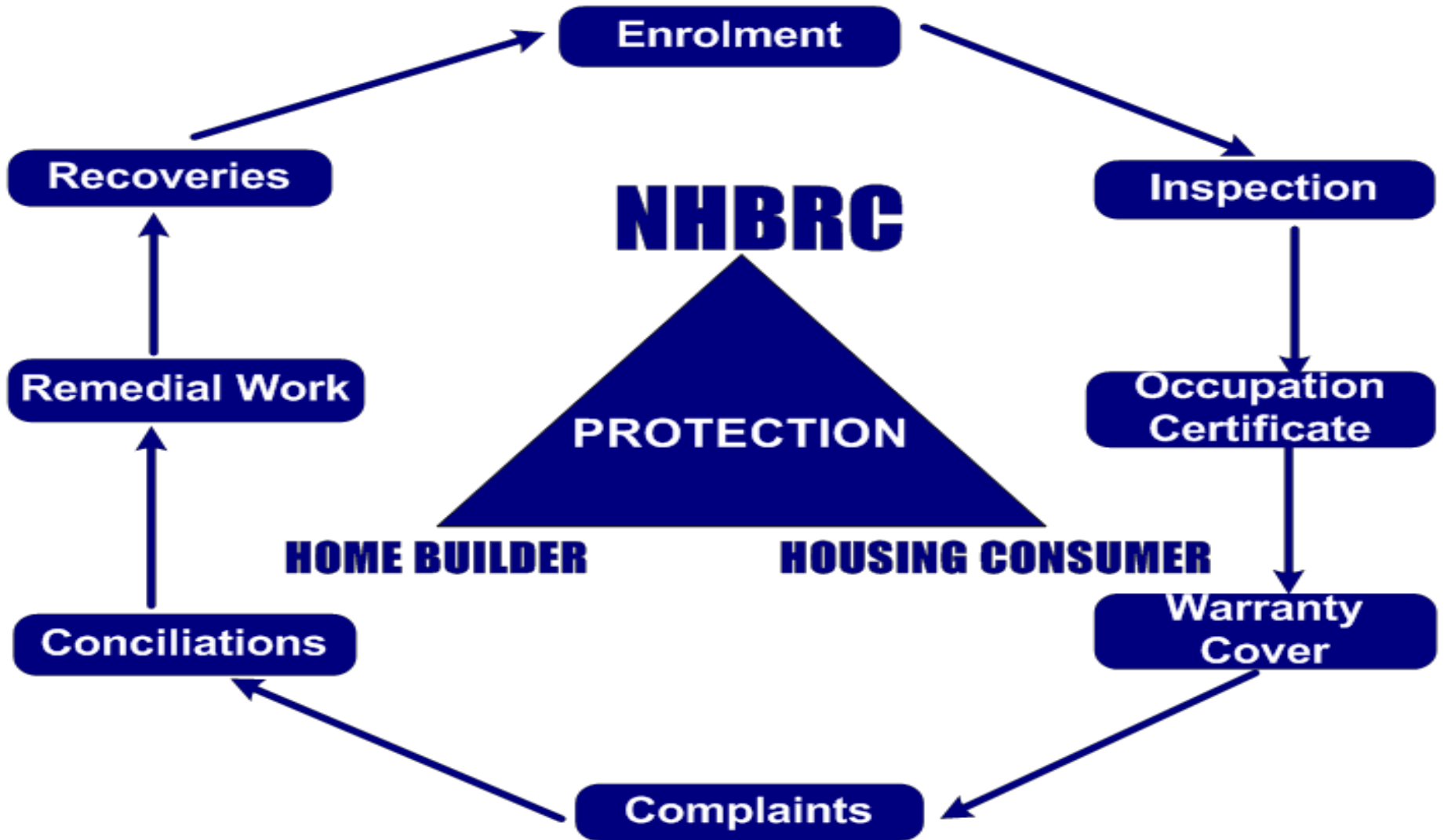
Products and Services Offered

- Enrolment of new homes;
- Late Enrolment of homes;
- Registration of homebuilders;
- Renewal of Registration of homebuilders;
- Inspections of homes (subsidy / non subsidy);
- Forensic engineering investigations and assessment of houses;
- Training;
- Home building dispute resolution;
- Litigation and legal advisory services; and
- Geo-technical and materials engineering.

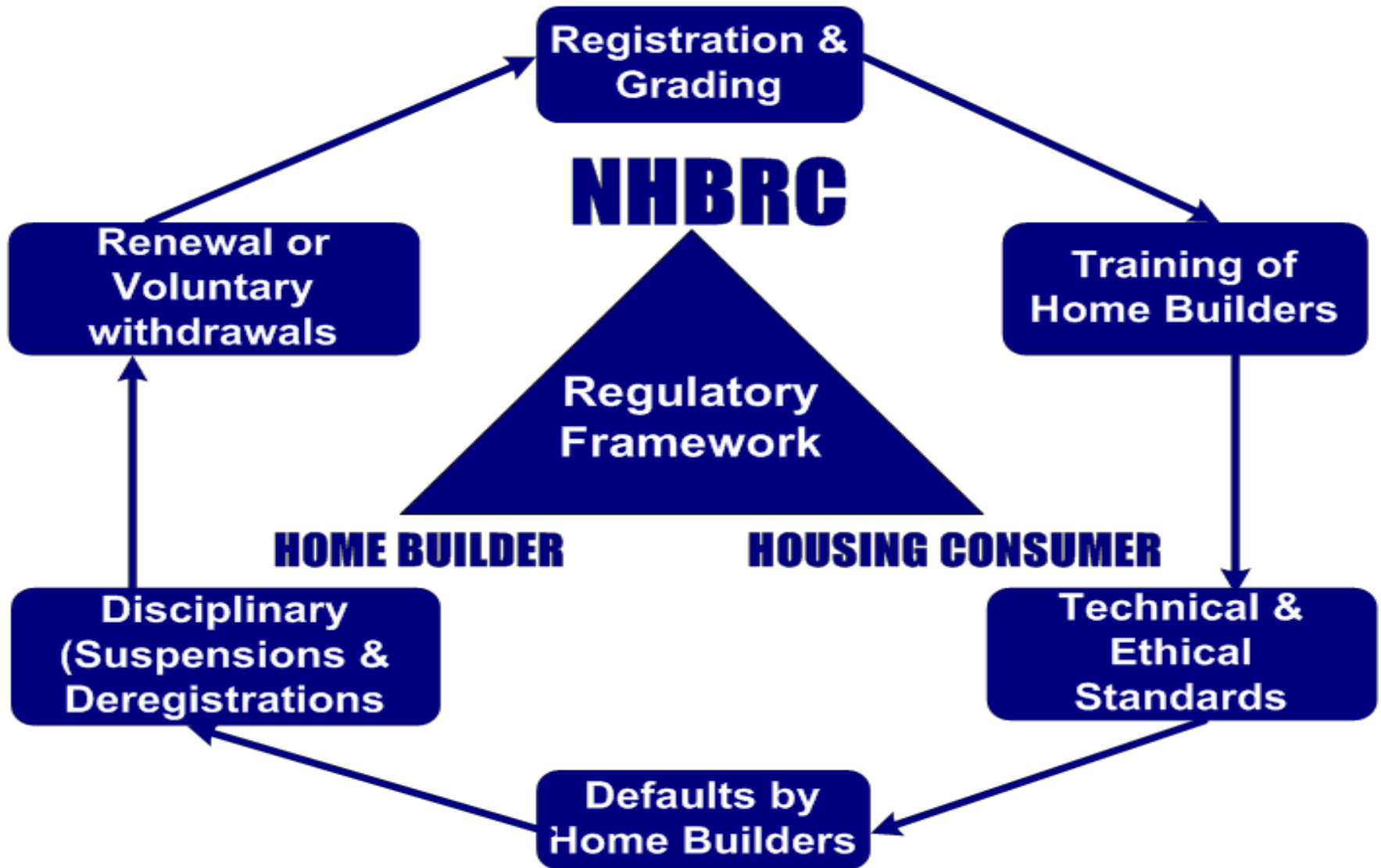
Interventions by NHBRC to support delivery

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

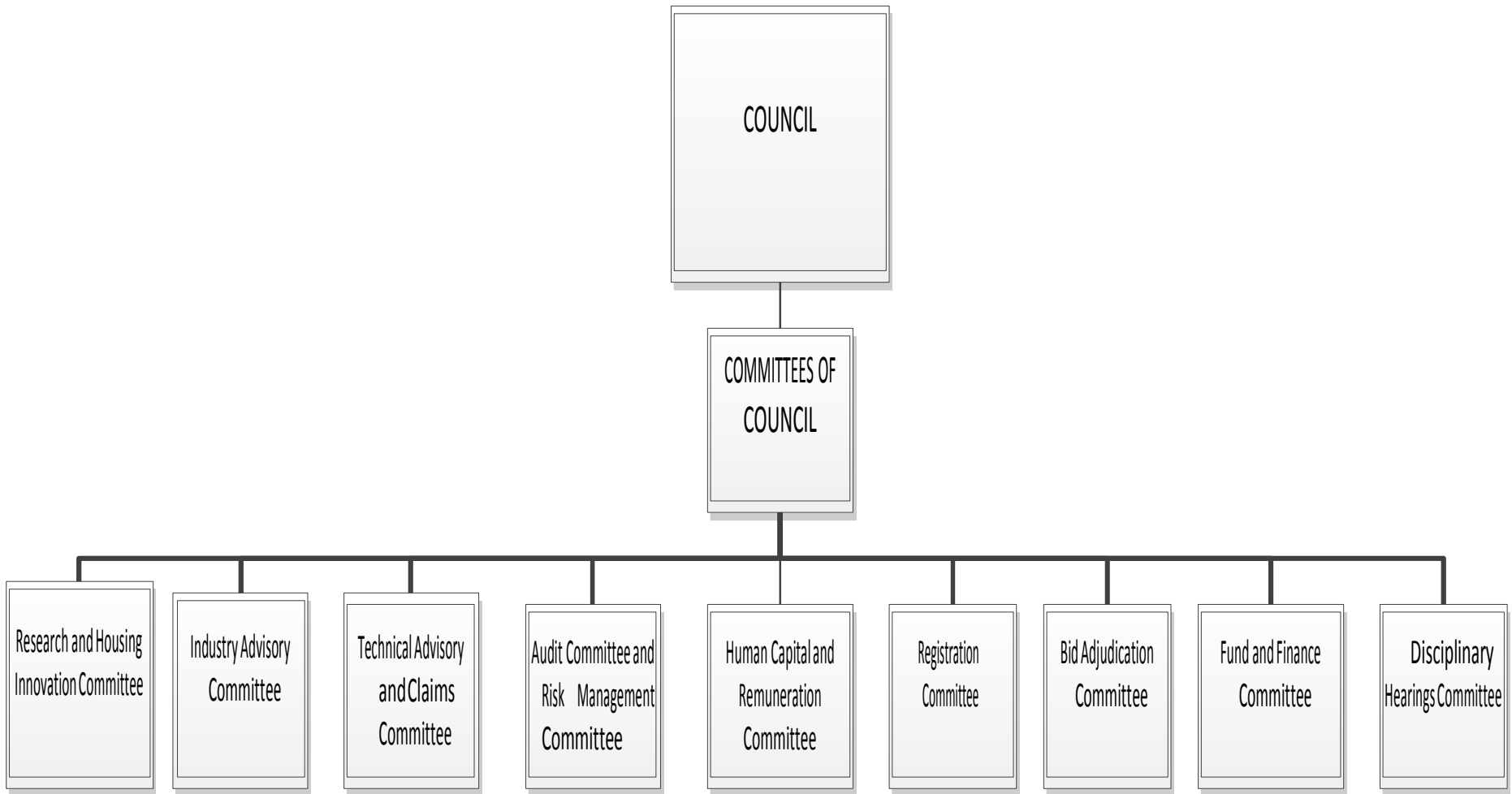
HOUSING CONSUMERS PROTECTION PROCESS



Regulation process



Governance Structure



Governance Structure of NHBRC

Committees of Council are as follows:

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

Key focus for NHBRC

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

- Implementation and full execution of the inspection model
- Alignment of NHBRC deliverables with the MTSF (Medium Term Strategic Framework) targets for 2014-2019
- Provide Technical Support at provinces and municipalities to fast track subsidy enrolment
- Enforcement and Compliance of the industry with provisions of the Housing Consumers Protection Measures Act,1998(Act No.95 of 1998).
- Implementation of Training Strategy
- Grow and Sustain the Warranty Fund
- Operationalization of the Centre for Research and Housing Innovation

Recap – Presentation to Portfolio Committee on 8 November on Irregular Expenditure

Trends in irregular expenditure

Year	Irregular expenditure
FYE 2011/12	R 201 304 234.00
FYE 2012/13	R 276 688 705.00
FYE 2013/14	R 34 964 627.98
FYE 2014/15	R 20 869 059.00
FYE 2015/16	R 13 077 260.00
FYE 2016/17	R 2 309 828.65

Challenges, root causes and organisational responses

Supply Chain Management

Key challenges

- Slow and ineffective SCM function resulting in slow delivery of goods and services to the business.
- Audit findings for non-compliance to Treasury Regulations resulting in irregular expenditure and increased risk of fraud and corruption.

Root causes

- Lack of or ineffective policies, processes and procedures as it pertains to SCM, irregular expenditure and BBBEE.
- Lack of demand planning and integration with business needs.
- Lack of appropriate control monitoring and compliance in the SCM function.
- Limited and where present cumbersome, analytical and reporting capabilities on the ERP system.
- Relatively new SCM team with recruitment on critical positions still in progress.
- Limited business user knowledge, discipline and accountability for compliance to SCM requirements.
- Inadequate contract management by contract owners.

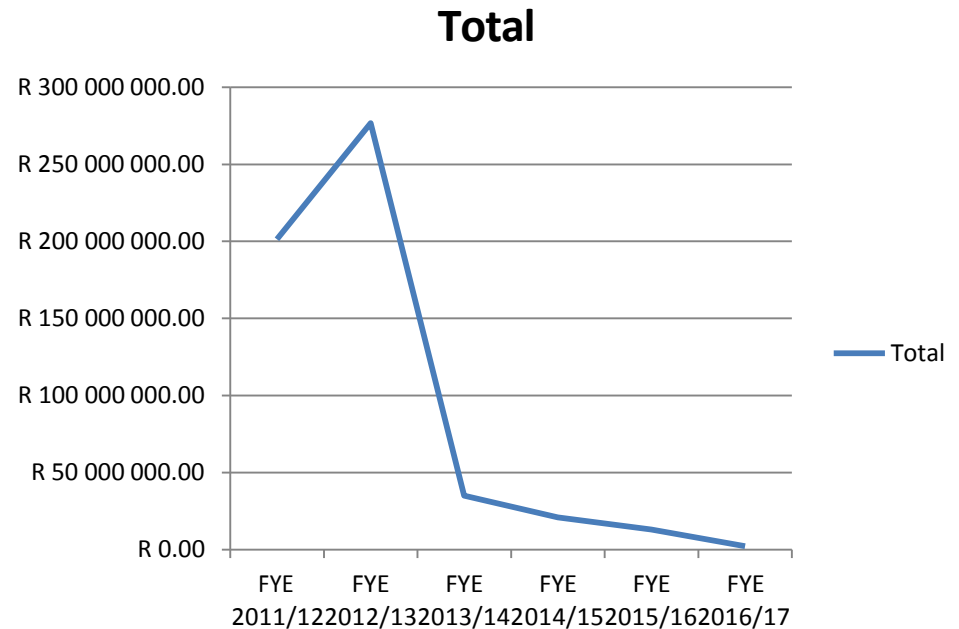
Organisational response to Supply chain management challenges

- Comprehensive independent maturity assessment carried out on the SCM function with a view to developing the function.
- SCM, Unauthorised Irregular and Fruitless Expenditure and BBBEE policy has been drafted and approved by Council.
- More efficient and automated SCM processes and related controls have been designed and enabled by SAP.
- Improved analytical and reporting, particularly on non-compliances, in place on SAP.
- Implementation of Demand Management, integrated with the budgeting and planning process, carried out to fully understand business requirements and to inform SCM resourcing requirements.
- Implementation of contracts for items less than R500 000, instead of 3 quotes, for frequently purchased items.
- Improved Control Framework and compliance thereto designed and implemented.
- Finalisation of the SCM organogram to address capacity issues.
- Training of end users on SCM policies, procedures and applicable accountabilities.

Trends in Irregular Expenditure per year

Year	Irregular expenditure
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Legacy contracts have been regularised following due SCM processes



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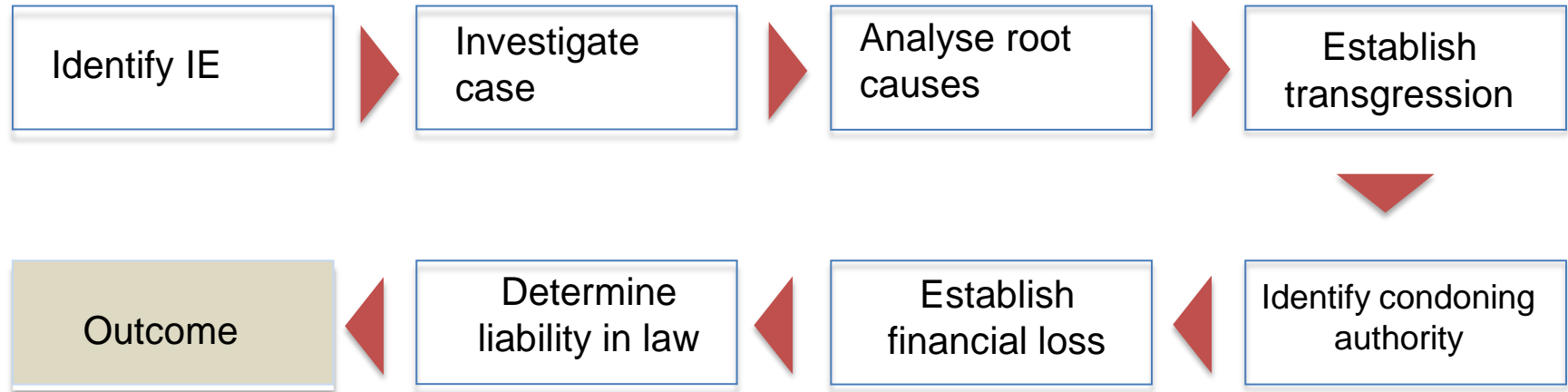
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Progress to date on condonement of irregular expenditure

- Council Task Team (TT) was appointed to oversee and recommend condonation where applicable.
- An independent auditing company contracted to conduct the investigations independently.
- Legal opinion obtained on the process, procedure and condoning authority, amongst others, as it pertains to irregular expenditure.
- In order to secure a clean audit for 2016/17, this financial year was prioritised and the audit company was mandated to start with the investigations for 2016/17 and work back.
- A meeting was convened with National Treasury in December 2016, to confirm our understanding of the process of condonement.
- In order to secure a clean audit for 2016/17, this financial year was prioritised. Resulting in two volumes of work being conducted by the audit company.
- Volume 1 of the work was concluded by the audit company on 15 December 2016 and presented to Council and its Committees in January 2017. Volume 2 will be completed before March 2017.
- R35,829,379 recommended to Council for Condonement
- R123,107,365 recommended to National Treasury for condonement
- R520,017,179 requires further investigation
- Transactions that require further investigations are recommended for forensic investigations.
- A special sitting of Council is scheduled for 21 February 2017 to consider the condonement of irregular expenditure.

Process



5 Outcomes

Recommend
condonation -
NT

Recommend
condonation -
Council

Further
investigation

Disciplinary
action

Update
financial
statements

- Notification letters to 25 employees have been issued.
- A total of 19 employees who committed irregular expenditure are confirmed to have resigned or no longer employed by NHBRC.

RECOMMENDATIONS

- It is recommended that the Portfolio Committee takes note of the progress made in respect of irregular expenditure.

Thank you

