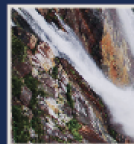
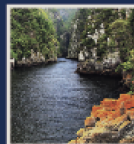




PFMA 2016-17



Budgetary review and recommendations report

Human Settlements

03 October 2017



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Reputation promise

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, 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 the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary review and recommendations report* (BRRR).



1

The AGSA's Public Audit Act Promise and Focus



Our annual audit examines three areas



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

Unqualified opinion with no findings (clean audit)



Auditee:

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

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

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

Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions 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.

Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

Disclaimed opinion



Auditee:

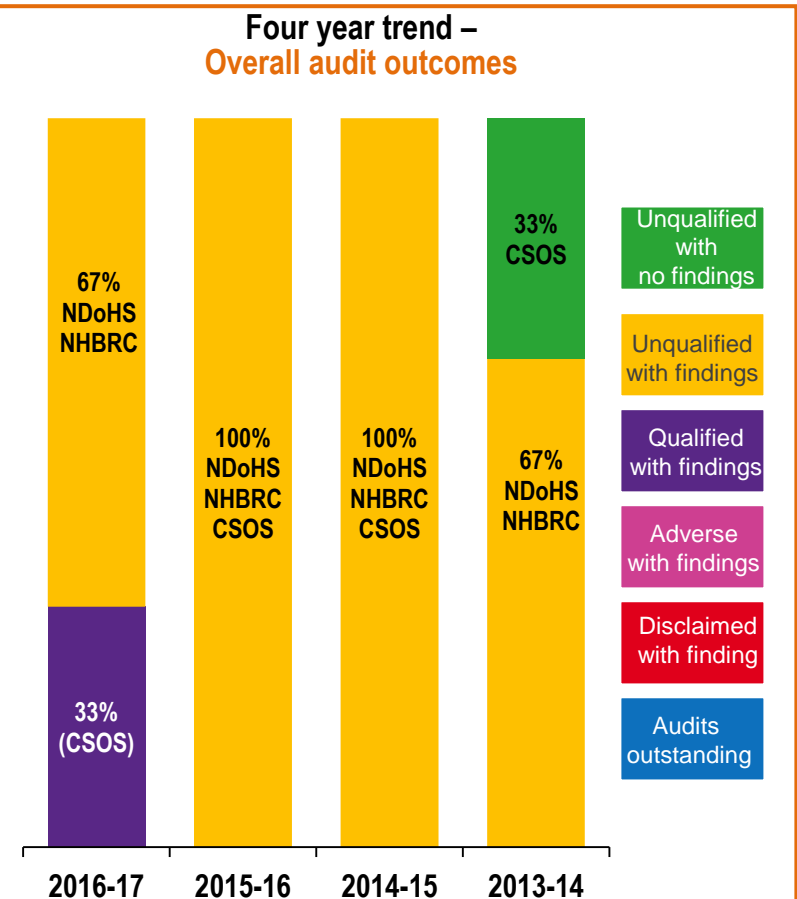
- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

2

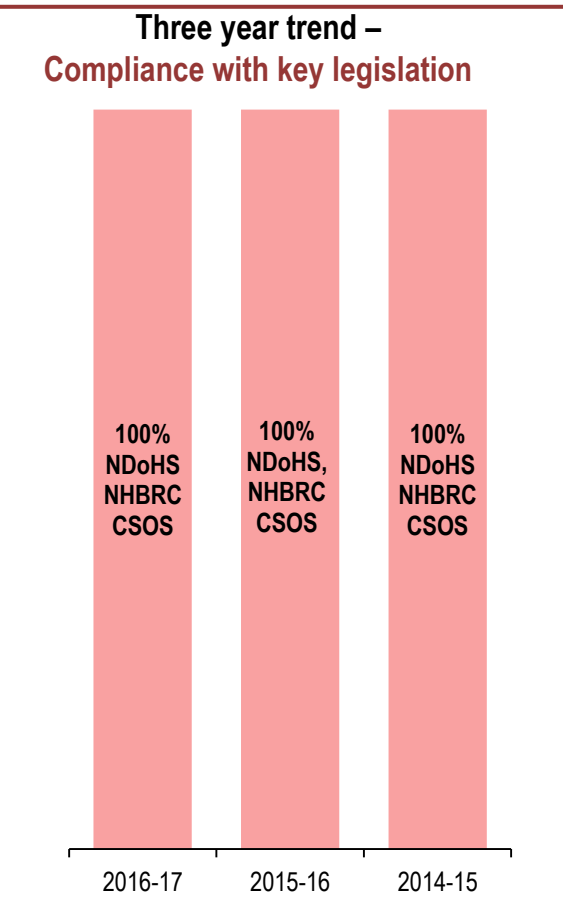
The 2016-17 audit outcomes and key messages



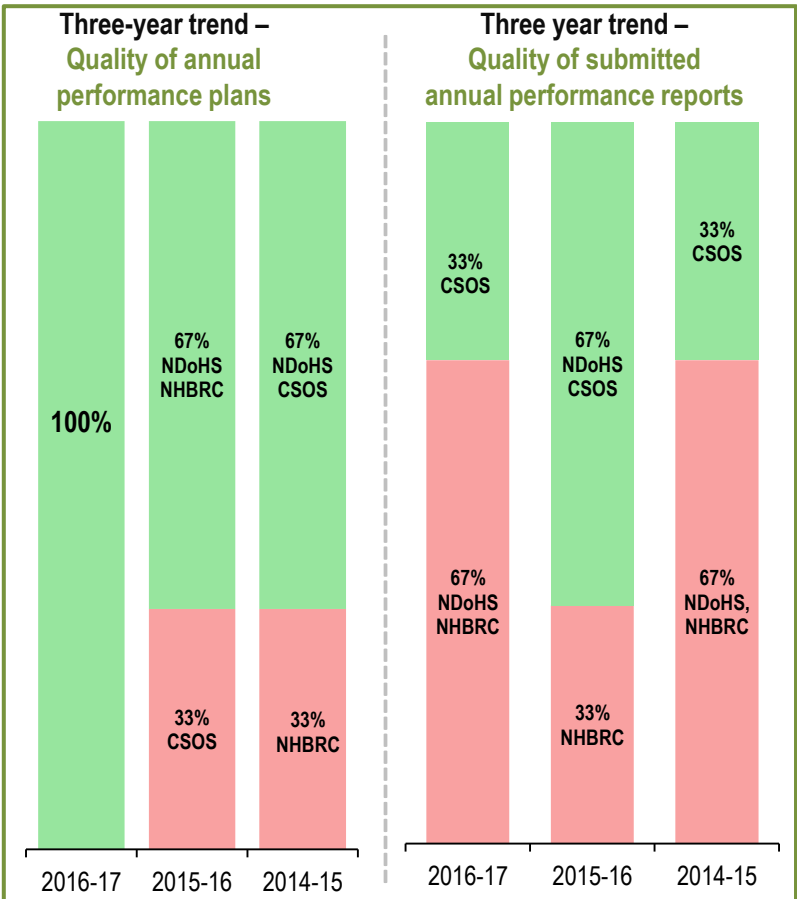
Regression in audit outcomes in the current year



- 1 To improve the **overall audit outcomes**, financial statements processes,
- The portfolio's overall outcomes regressed due to CSOS receiving a qualified opinion with findings. CSOS was qualified on revenue, receivables and contingent liabilities.
 - The 2016-17 financial year was the first year CSOS had to account for revenue generated from levies. Revenue was not accurately and completely accounted for as CSOS had not developed a system.
 - A further qualification was reported on contingent liabilities. The surplus for the 2016-17 financial year can only be retained with the approval of National Treasury and should have been accounted for as a contingent liability.



- 2 **compliance** with key legislation and....
- Compliance with legislation in the portfolio remains a concern as all entities still have material non-compliance with legislation findings.
 - Material adjustments had to be effected to the AFS submitted for audit at NDoHS and CSOS.
 - All three entities incurred Irregular and Fruitless and Wasteful expenditure, controls are not mature yet to prevent incurring I.FW expenditure.

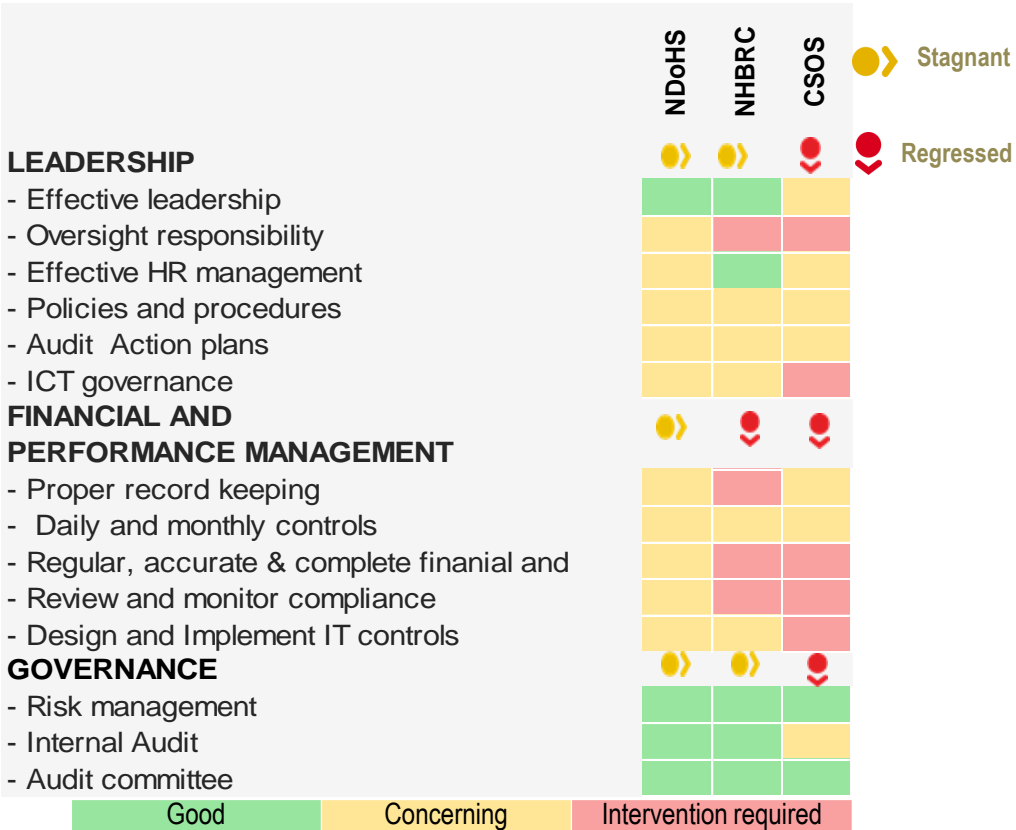


- 3 **performance planning and reporting** must be improved by....
- None of the entities had material usefulness findings.
 - Reliable reporting remains a concern at NHBRC and the department and focused attention is required to ensure that all reported achievements can be appropriately substantiated.
 - All three entities made material adjustments to the APR submitted for audit due to material misstatements identified during the audit of performance information. This is due to inadequate detailed reviews of the schedules supporting the performance report.



Regression in audit outcomes in the current year - continued

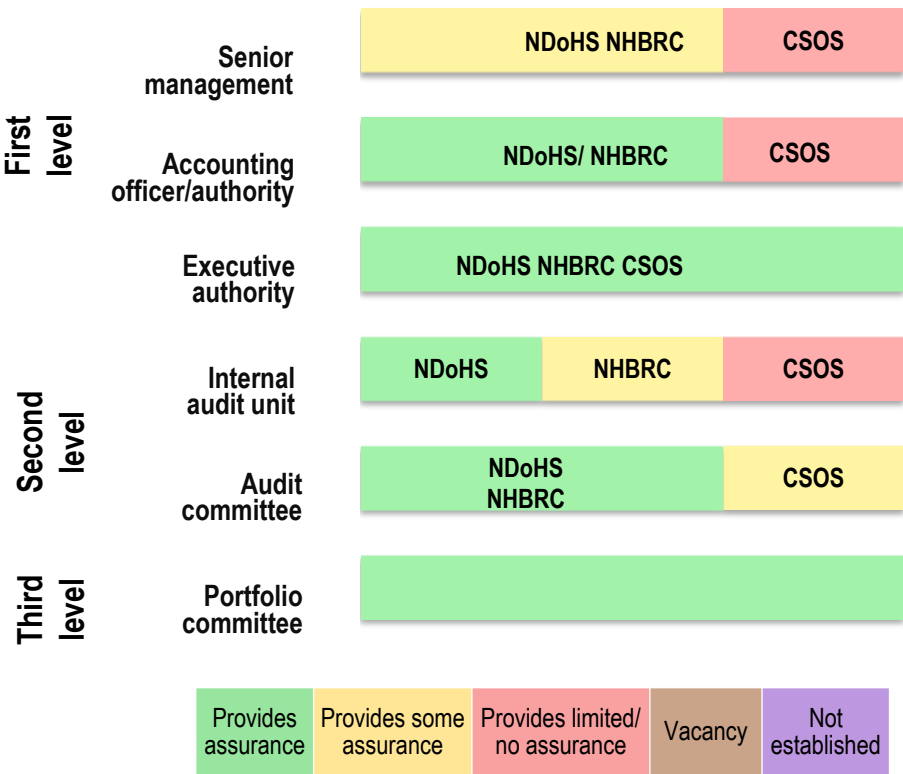
Status of Key controls



4 ... providing attention to the **key controls** by...

- Focused interventions and commitments are required in order to improve the current status of the overall audit outcomes. NDoHS and NHBRC also need to strengthen key controls pertaining to performance information to address the material findings on the reliability of performance information.
- The key controls relating to leadership, financial and performance management and governance at CSOS must be improved as a matter of urgency to move the entity from a qualification to an unqualified audit outcome.
- Leadership is to ensure that adequate oversight is performed and that action plans are appropriate to address the root causes identified. Such action plans are to be monitored and effectively assessed on an on going basis so as to ensure timely action can be taken if progress is not being made / action plans are inadequate.

Assurance providers per level



5 ... the key role players as part of their role in **combined assurance**

- Level of assurance by senior management at all entities and the accounting authority of CSOS needs to be enhanced. This can be achieved by developing and implementing post audit action plans to address audit findings.
- Internal audit and audit committees must place intense focus on driving improvement in key controls with the objective of moving the entities towards clean audit outcomes.
- The Portfolio committee performed the legislative oversight requirements and it robustly engages the department on its role and mandate.



3

Performance management linked to programmes/ objectives tested & key projects audited



Quality of APP and analysis of expenditure per programme vs performance achievements

Programmes	Usefulness	Reliability	Material adjustments	Budgeted amount (R '000)	Spent amount (R '000)	% Spending	No. of targets planned	No. of targets achieved or over-achieved	% Achievement
Programme 1-Administration	Not audited	Not audited	-	R 455 459	R 420 897	92.4%	12	5	42%
Programme 2-Human Settlements Policy, Strategy and Planning	No material finding	Material finding	X	R 92 275	R 86 600	93.8%	16	11	69%
Programme 3-Human Settlements Delivery Support	No material findings	No material findings	X	R217 685	R151 742	69.7%	23	10	43%
Programme 4-Housing Development Finance	No material findings	No material findings	X	R29 930 937	R29 927 992	100%	6	3	50%
Totals				30 696 356	30 587 231	99.6%	57	29	51%



Key projects selected as part of the statutory audit

Human Settlements Development Grant (HSDG)

ENE allocation: R18 284 000 000

One key programme was audited i.e. Human settlements development grant, was audited within the human settlement portfolio.

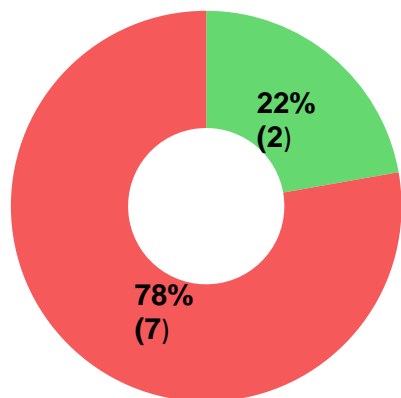
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provinces did not meet the delivery of their targets, all the nine provinces spent more than

90%

of grant allocated.

Achievement of planned targets – HDSG



Targets achieved



Targets not achieved/
not evaluated

Key findings

- There were no audit findings identified relating to the National department's transferring and monitoring the HSDG.
- SCM processes were not followed on projects which resulted in irregular expenditure in *Free State, Mpumalanga and Gauteng*.
- Non-compliance with DORA was reported in Gauteng as funds were not spent in accordance with the grant framework.
- Two provinces (Limpopo and Western Cape) had an overachievement on total delivery ,while seven provinces under delivered on their delivery programmes to date.

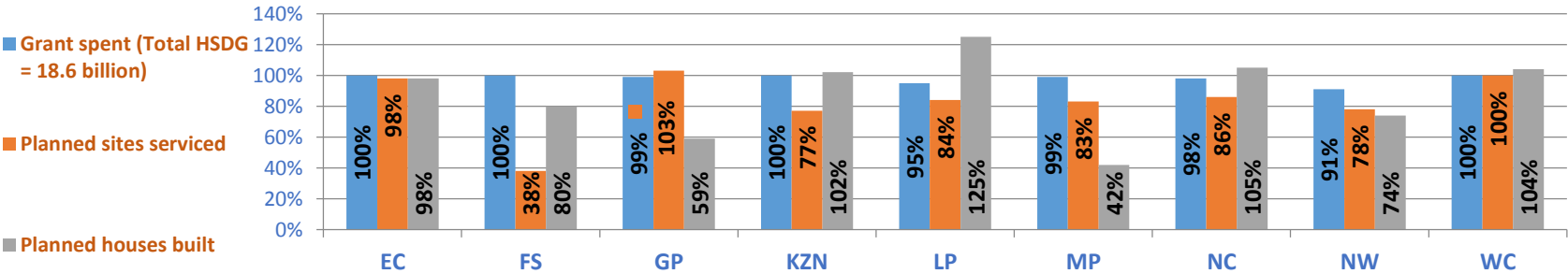


Executive summary on Key Projects audited

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



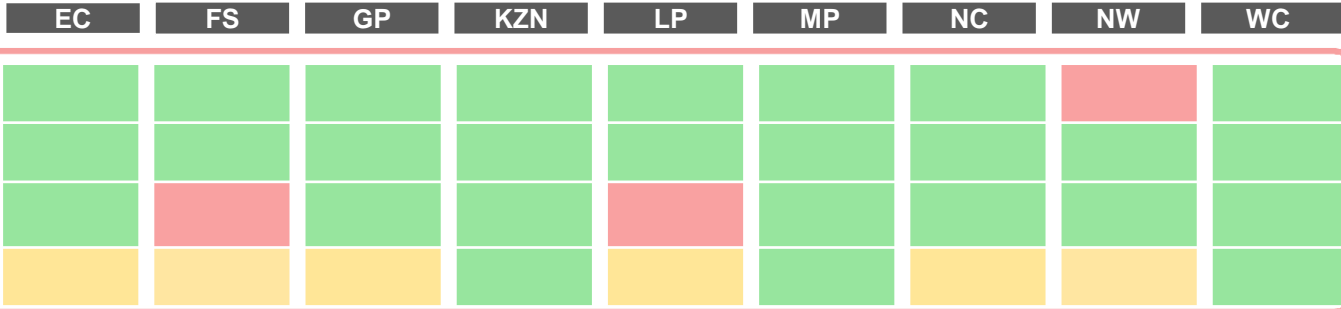
Key audit outcome per audit area

Financial Management AFS-Qualification areas

Irregular, fruitless and wasteful Transfers

Payables, Accruals & Borrowings

Material misstatements corrected



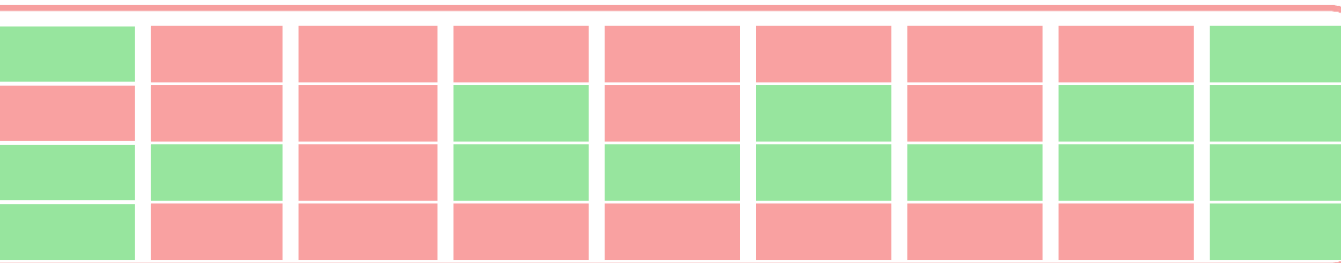
Compliance

UIFW

30 days

DoRA

Procurement

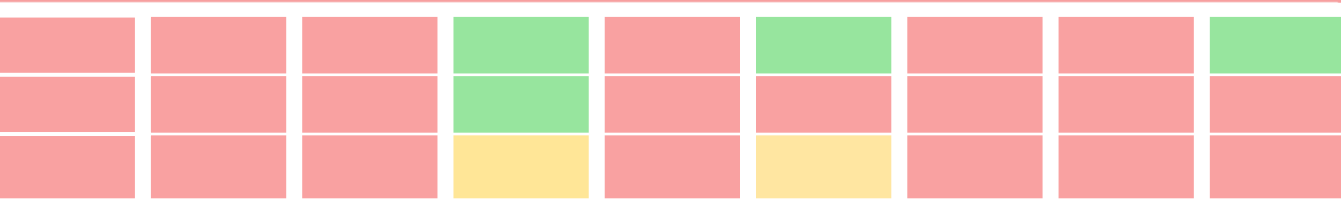


Pre-determined Objectives

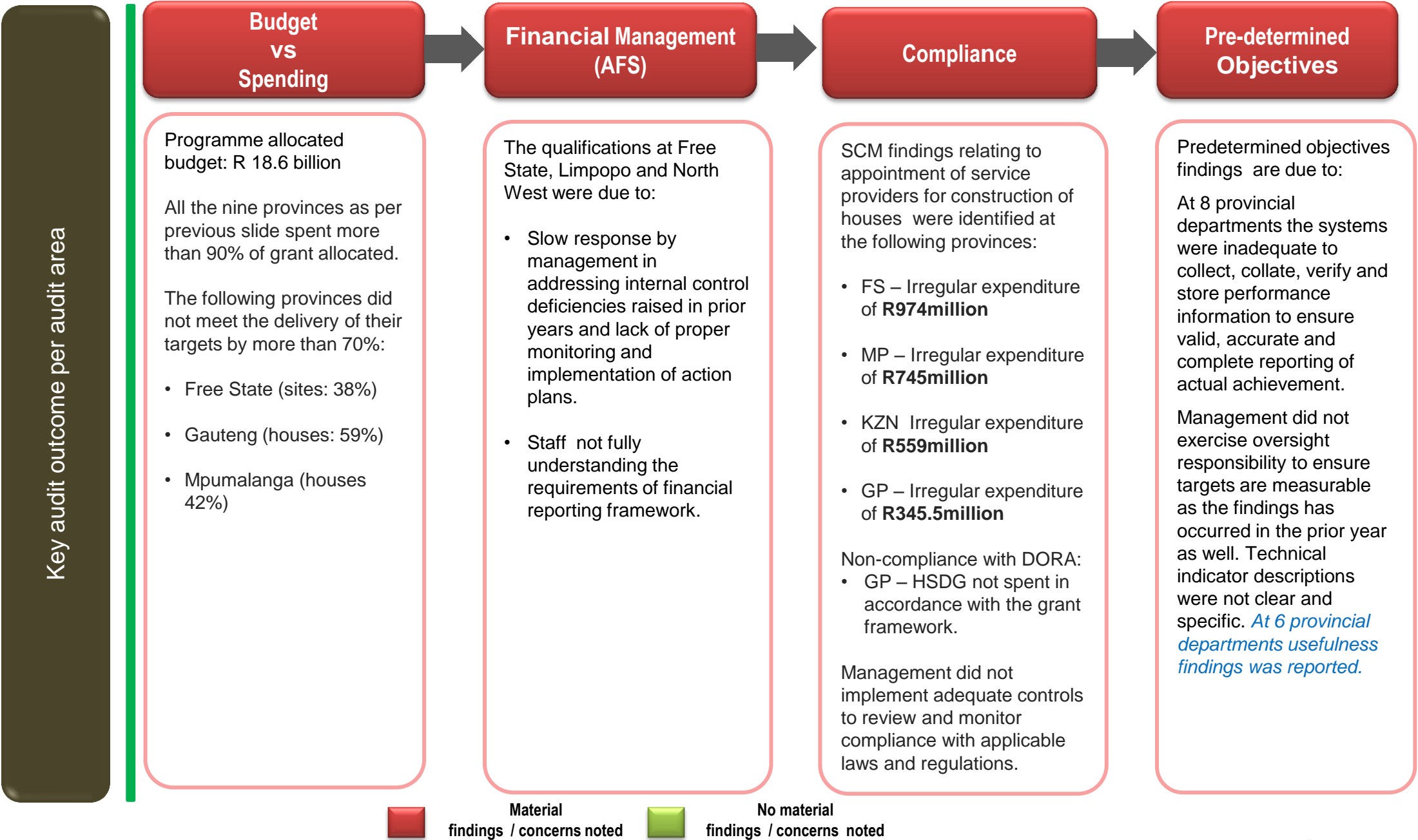
Usefulness

Reliability

Material misstatements corrected



1. Human Settlements Development Grant (HSDG)



Compliance with legislation and poor quality of financial statements

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

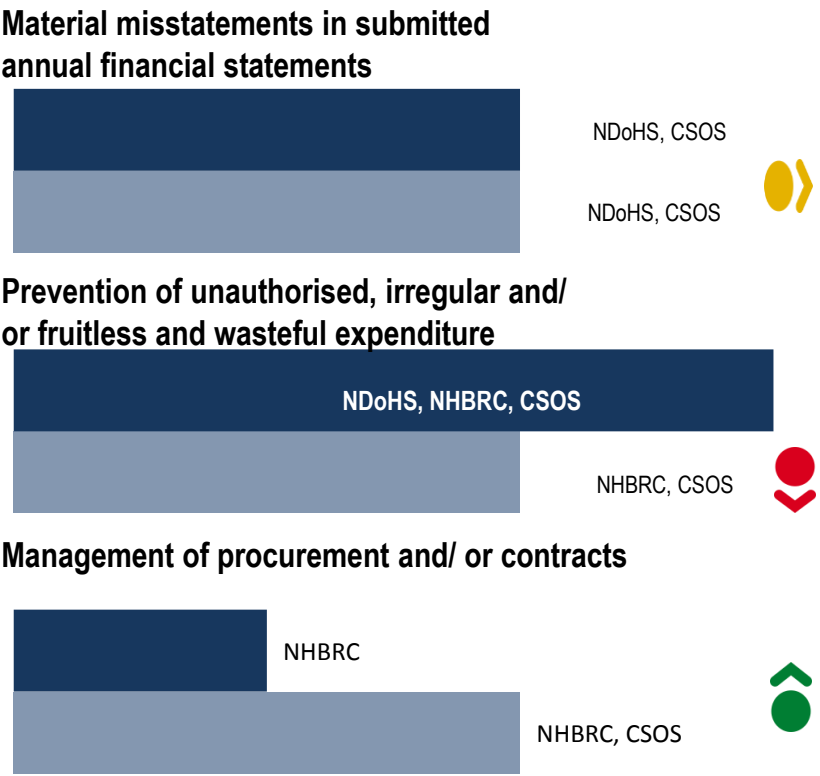
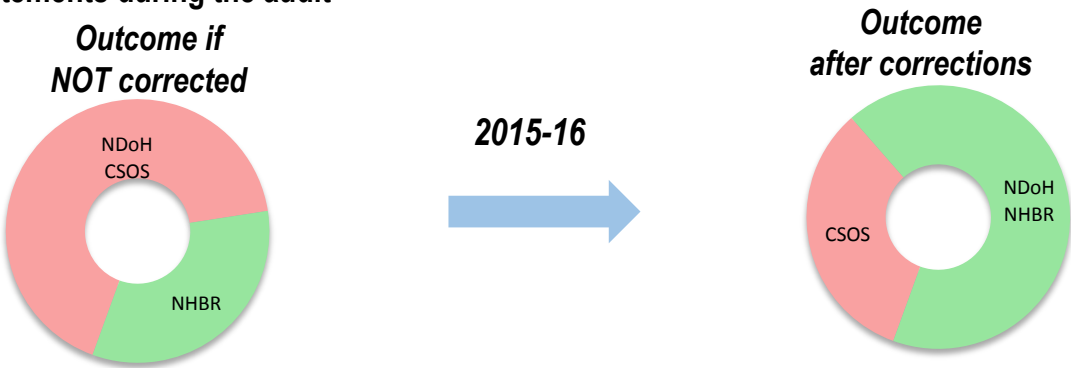


Figure 2: Qualification areas over two years

	Revenue		Contingent liabilities	
Auditee	2016-17	2015-16	2016-17	2015-16
NDoHS				
NHBRC				
CSOS	X		X	

Figure 3: Auditees who avoided qualifications due to the correction of material misstatements during the audit



2016-17

2015-16

Improved

Stagnant

Regressed

With no material misstatements

With material misstatements

Unauthorised, irregular as well as fruitless and wasteful expenditure disclosed in the financial statements OF NDoHS , NHBRC and CSOS

Definition	UIFW amounts incurred by entities in portfolio	Nature of UIFW expenditure R'million	Audit report impact
<p>Expenditure <u>not in accordance with the budget vote/overspending of budget or programme</u></p>	<p>Unauthorised expenditure (U)</p> <p><i>No unauthorised expenditure was identified in the portfolio</i></p>	<p>None identified</p>	<p>None identified..</p>
<p>Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. <u>No value for money!</u></p>	<p>Fruitless and wasteful expenditure (FW)</p> <p>R 1.7 million</p> <p>R 0.2 million</p> <p>R 5 million</p>	<p>At the department (R1.6 million) was due to vehicles rented when there were departmental vehicles available.</p> <p>At the NHBRC (R13k) was due to interest on late payments.</p> <p>At the CSOS (R32 000)was due to cancellation fees.</p>	<p><i>Non-compliance was reported in the audit report of NDoHS and CSOS.</i></p>
<p>Expenditure incurred in contravention of key legislation; goods delivered but <u>prescribed processes not followed</u></p>	<p>Irregular expenditure (I)</p> <p>R 22 million</p> <p>R 15 mil</p> <p>R 22 million</p>	<p>At the department it was due to non-compliance with procurement prescripts amounting to R5.5 million.</p> <p>At the CSOS it was due to exceeding budget limits by R9 million.</p> <p>At the NHBRC this was due non-compliance with procurement prescripts.</p>	<p><i>Non-compliance reported in the audit report of NHBRC and CSOS.</i></p>
	<p>2016-17 2015-16 2014-15</p>		



5

Top four 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 ...

2

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

3

... and implementation of the following **proposed commitments** by the PC.

Root causes

■ 2016-17 ■ 2015-16

Slow response by management (Accounting officer and senior management)

NDoHS NHBRC CSOS 100% (3)

NDoHS NHBRC CSOS 100% (3)



Instability or vacancies in key positions

CSOS 33% (1)



Lack of consequences for poor performance and transgressions

NDoHS NHBRC CSOS 100%

NDoHS NHBRC CSOS 100%



Officials did not act in the best interest of the auditee in managing the financial and performance affairs of the entity

CSOS 33% (1)



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

1. PC must request management to provide feedback on the implementation and progress and of the action plans to address poor audit outcomes during quarterly reporting.
2. PC must request management to provide quarterly feedback on status of key controls,.
3. PC must be request quarterly feedback on the progress of filling vacancies at CSOS.
4. List of action taken against transgressors must be provided quarterly to PC for follow up for all irregular and fruitless and wasteful expenditure incurred.



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:	3 year Trend	Audit Outcomes 2016-17			Audit Outcomes 2015-16			Audit Outcomes 2014-15		
		AFS	AoPO	Compliance	AFS	AoPO	Compliance	AFS	AoPO	Compliance
RHLF	●➤	■	✓	✓	■	✓	✓	■	✓	✓
NURCHA	●➤	■	✓	✗	■	✗	✗	■	✗	✗
HDA	●➤	■	✓	✓	■	✓	✓	■	✓	✓
SHRA	⬆●	■	✓	✓	■	✗	✗	■	✓	✗
EAAB	●⬇	■	✗	✗	■	✓	✓	■	✗	✓
NHFC	●➤	■	✓	✓	■	✓	✓	■	✓	✓
Thubelisha	●➤	■	✓	✓	■	✓	✓	■	✓	✓

2016-17
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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20

ACCOUNTABILITY = PLAN + DO + CHECK + ACT

PFMA
2016-17

6

AGSA audit methodology improvements



AGSA audit methodology improvements

Engaging accounting officers in **conversations** that are **insightful, relevant and have an impact**

Status of records review = Pro-active follow up procedures + Financial and non – financial information (internal and external reports/documents & discussions with senior managers)



Key control engagements / status of records review – objectives

Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation and consequential regression in audit outcome

Provide our assessment of the status of key focus areas that we reviewed

Assess progress made in implementing action plans/ follow through with commitments made in previous engagements

Identify matters that add value in putting measures and action plans in place well in advance to mitigate risks

Feedback linked to Focus Areas



AGSA audit methodology improvements (cont.)



We have enhanced our **audit methodology** to ensure you continue to receive a **valuable** and **relevant product**

It was the result of a robust and methodical process:



In-depth research



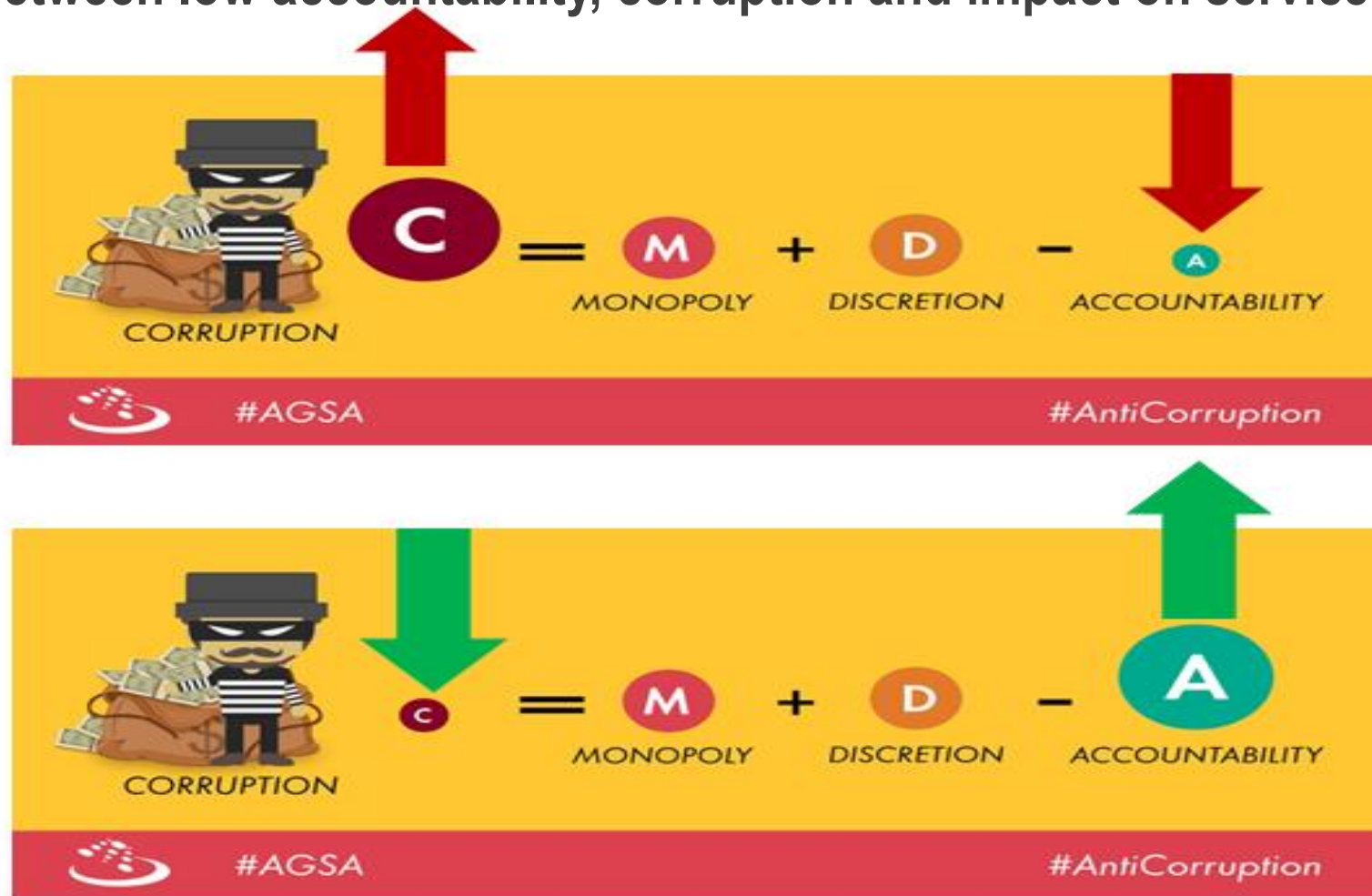
Numerous local and international discussions



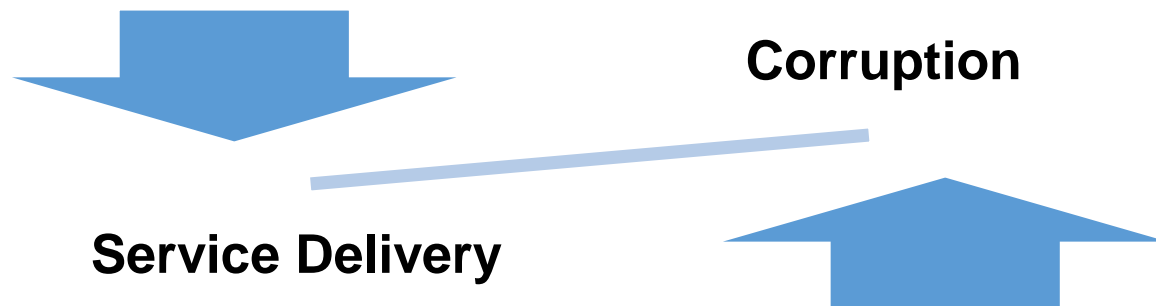
Thousands of hours of testing

The audits will be more **focused** and **integrated** with a robust risk approach, allowing you to continue driving **accountability** and **good governance**.

Correlation between low accountability, corruption and impact on service delivery



Source: Robert Klitgaard (academic anti-corruption research)



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

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