

BUDGETARY REVIEW AND RECOMMENDATIONS REPORT | PFMA 2018-19

Briefing to Portfolio Committee on Human Settlements



AUDITOR-GENERAL
SOUTH AFRICA

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)*.



The 2018-19 audit outcomes



Our annual audit examines three areas

THE AG's
ANNUAL
AUDITS
EXAMINE

3

AREAS:



1 FAIR PRESENTATION AND
ABSENCE OF SIGNIFICANT
MISSTATEMENTS IN
FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE
PERFORMANCE
INFORMATION FOR
PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL
LAWS AND REGULATIONS
GOVERNING FINANCIAL
MATTERS

The AGSA expresses the following different audit opinions

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 performance reports to the predetermined objectives they committed to in 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

Important to note

The percentages in this presentation are calculated based on the **completed audits of four auditees**, unless indicated otherwise.

Audit outcomes are indicated as follows:



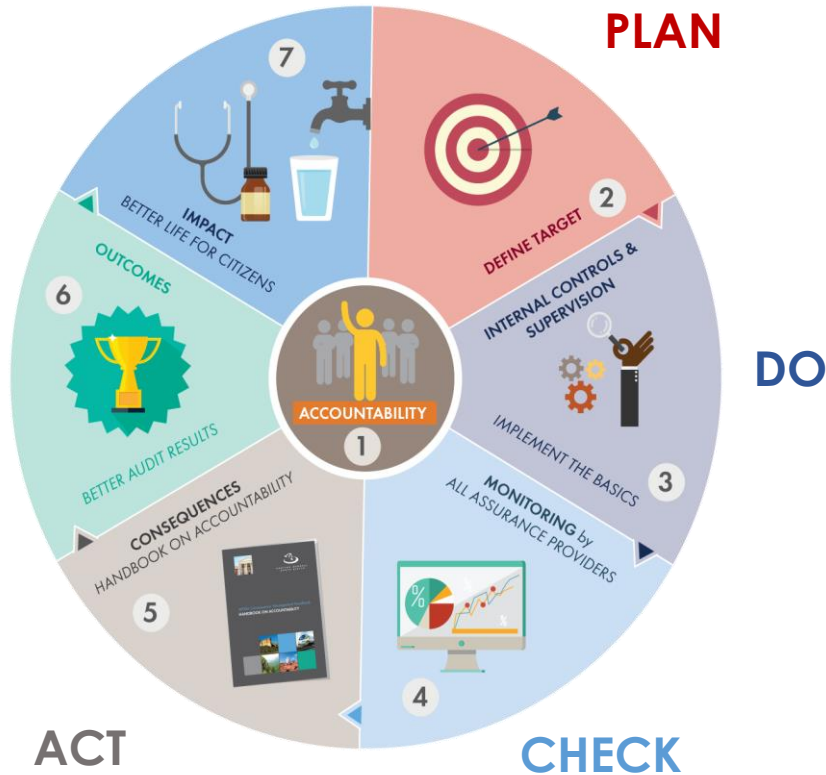
Movement over the previous year is depicted as follows:



Constitution requires from public administration:



- High standard of **professional ethics**
- Promotion of **efficient, economic and effective use of resources**
- **Accountability**
- Fostering of **transparency**



ACT

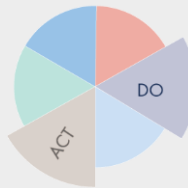
CHECK

Act now on accountability

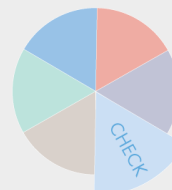
PFMA prescribes obligations of accounting officers and authorities to:



- **Plan and budget** for delivery
- Use resources in **effective, efficient and transparent** manner



- Establish and implement **internal controls to prevent and detect** irregularities, losses and financial misconduct **and effectively deal with any breaches**



- **Report and account** on regular basis

AGSA Status of records review - Engaging accounting officers in conversations that are insightful, relevant and have an impact



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

Reflections

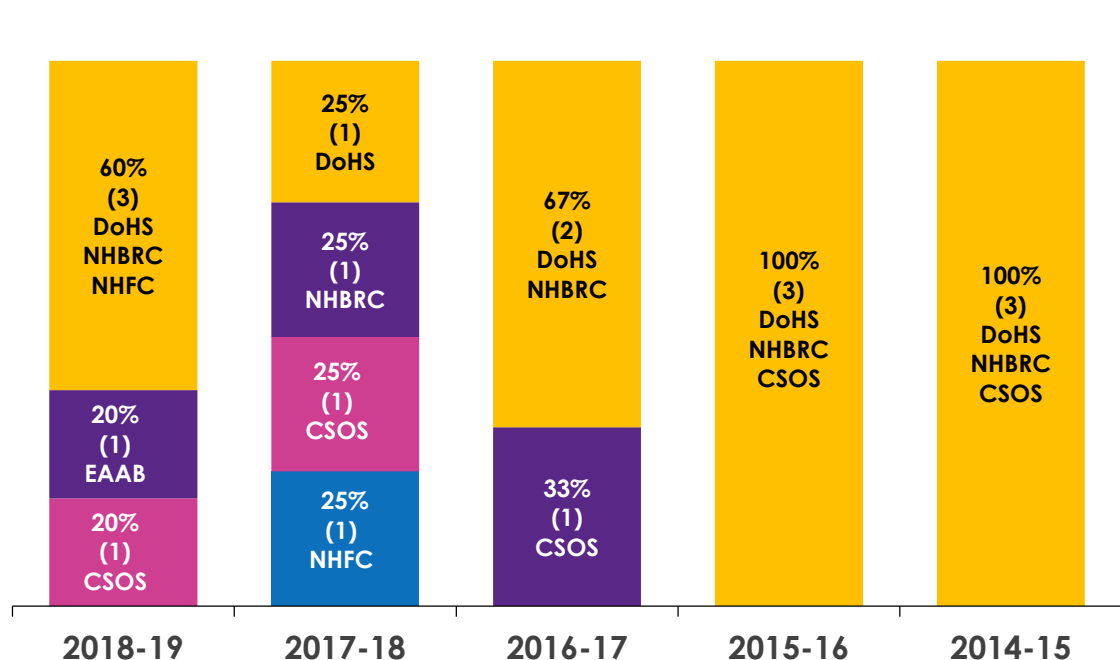
- Implemented at 80% of all eligible PFMA auditees as at 31 March 2019.
- Implementation at one of the auditees had the following positive results:
 - Early detection of audit issues – provided auditee with opportunity to proactively address them before year-end.
 - Reduced pushbacks during the audit as matters were detected and raised early in the year.
- Accounting officers/authorities are encouraged to participate and make use of this initiative to assist in improving their internal control environment by proactively addressing the risks raised during the audit process.
- Slow implementation of action plans which resulted in stagnation of audit opinion at DoHS , CSOS, & NHFC.
- NHBRC improved audit outcome from qualified to unqualified with findings as a result of the status of record review engagement.

Way forward

Will continue with proactive and continuous engagement to enable safeguarding against vulnerable areas of risk



Audit outcomes of portfolio over five years



Movement	
▲	1
▼	0
▶	4

Outstanding audits	
2017-18	NHFC

- The department of Human Settlements (DoHS) has received an unqualified opinion throughout the MTSF with findings on reported performance against predetermined objectives. The department also had material non-compliance findings between 2014/15 and 2016/17, with the AFS having material misstatements.
- The Community Schemes Ombud Service (CSOS)'s outcomes regressed during the 5 year period as the entity moved from unqualified with findings in 2014/15 to Adverse in 2018/19. The outcome stagnated during the last 2 years with an adverse opinion with findings on reported performance against predetermined objectives and compliance with laws and regulations.
- National Home Builders Registration Council (NHBRC) improved from a qualified opinion to an unqualified with findings on compliance.
- National Housing Finance Corporation (NHFC) was previously audited by Nkonki Inc and was taken back by AGSA in 2017-18 financial year. The audit outcome remained unqualified with findings on reported performance against predetermined objectives and compliance with laws and regulations.
- The Estate Agency affairs Board (EAAB) was previously audited by Ngubane & Co. and was taken back by AGSA in 2018-19 financial year. The audit outcome remained qualified with findings on reported performance against predetermined objectives and compliance with laws and regulations.



Key concerns on the audit outcomes of the portfolio over five years

CSOS

- ❑ It remains a challenge for the public entity to determine the total number of community schemes in south Africa as defined by the Community Schemes Ombud Service Act , as such the public entity cannot reliably collect all Levies due.
- ❑ The public entity needs to develop a complete database and implement a credible revenue management system that will allow it to collect all levies from all liable schemes.

EAAB

- ❑ The public entity did not have adequate systems to record payments for goods and services received in order to ensure that commitments balance is reliably measured.
- ❑ The reported performance against predetermined objectives of the public entity not useful and reliable , i.e. reported performance was not consistent or complete when compared with planned performance measures.

DoHS, NHBRC &NHFC

- ❑ The reported performance against predetermined objectives of the department and entities were not well defined and therefore not verifiable.
- ❑ The department did not exercise adequate oversight regarding the reliability of reported performance against predetermined objectives.





Credible financial reporting



Financial statements

Submission of financial statements by legislated date (all auditees)

AFS submitted without errors

Quality of final submission after audit

Movement



2018-19

100%

20%

60%

2017-18

75%

25%

50%

60% achieved unqualified opinions, **40%** achieved this because they corrected all misstatements identified during the audit.

Key qualification area

- Non exchange revenue and related trade and other receivables (CSOS)
- Commitments (EAAB)





Credible performance reporting



Performance report

Submission of APR by legislated date (all auditees)

Movement



2018-19

2017-18

APR submitted without errors



Quality of final submission after audit

	100%		75%
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0%

0%

20%

25%

20% (1) had no material findings only because they corrected all misstatements identified during the audit

Reliable reporting of achievements (CSOS)

20%

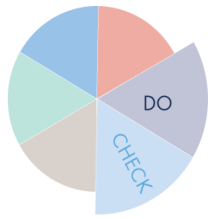
25%

Usefulness of performance indicators and targets (CSOS)

20%

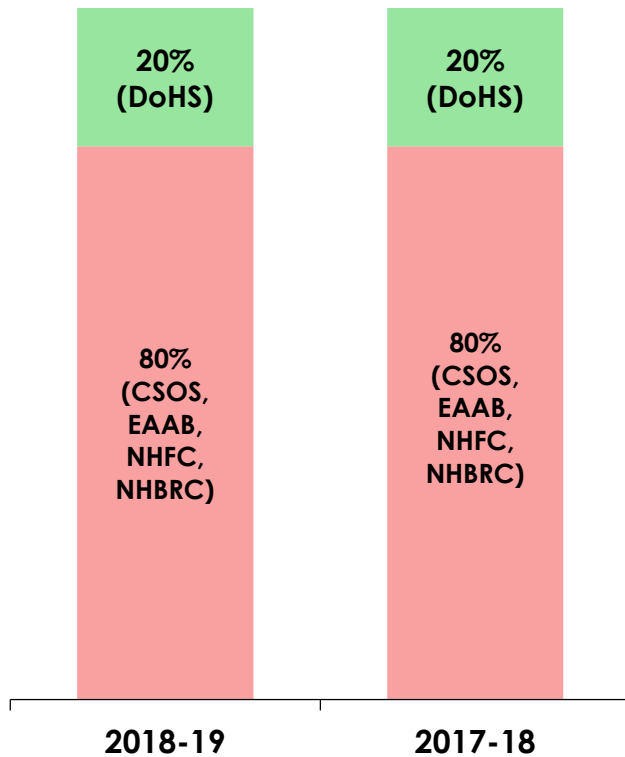
25%





Compliance with legislation

Findings on compliance with key legislation



With no findings



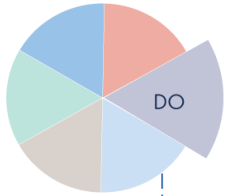
With findings

Top four non-compliance areas

- Management of procurement and contracts (NHBRC)
- Quality of financial statements (NHBRC, CSOS, EAAB & NHFC)
- Prevention of irregular and fruitless and wasteful expenditure (NHBRC, CSOS, EAAB).
- Effective and appropriate steps to collect all revenue due from Levies (CSOS)



Status of internal control



Leadership

Effective leadership

40% (DoHS & NHFC)

40% (NHBRC & EAAB)

20% (CSOS)



Financial and
performance
management

Proper record keeping

20% (NHFC)

60% (DoHS, CSOS &
NHBRC)

20% (EAAB)



Daily and monthly controls

20% (NHFC)

50% (DoHS & NHBRC)

40% (CSOS & EAAB)



Review and
monitor compliance

20% (DoHS)

80% (CSOS, EAAB,
NHFC & NHBRC)



Governance

Risk management

40% (DoHS & CSOS)

50% (NHFC, EAAB & NHBRC)

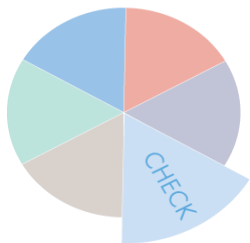


Good

Of concern

Intervention required

15



Assurance provided

Assurance

First
level

Senior
management

DoHS & NHBRC (40%)

CSOS, EAAB & NHFC (60%)



Accounting
officer/authority

NHFC&NHBRC (40%)

DoHS(20%)

CSOS & EAAB(40%)



Executive
authority

DoHS, CSOS, EAAB, NHFC &
NHBRC (100%)



Second
level

Internal
audit unit

DoHS, CSOS,&
NHBRC (60%)

NHFC & EAAB(40%)



Audit
committee

DoHS, CSOS, EAAB, NHFC & NHBRC
(100%)



Provides
assurance

Provides some
assurance

Provides limited/
no assurance

Not
established

Management and delivery of key programmes

Management and delivery on key programmes – spending, performance and reporting

Programme	Budget spent	Achievement of programme	Unauthorised, irregular and fruitless and wasteful expenditure	Material misstatements corrected	Comments
Housing Development Finance	99%	75%	None identified	No	<p>2 of 8 indicators not achieved as per department's APR for programme 4.</p> <p>Not all relevant indicators were included in the provincial and national department's APP. These include indicators set out in the ENE. This includes indicators relevant to the number of title deeds registered and backlogs eradicated, which are government's priority in the MTSF.</p>

UE – Unauthorised expenditure IE – Irregular expenditure FWE – Fruitless and wasteful expenditure



Good



Of concern



Intervention required

Grant managements

Details	Human Settlement Development Grant (HSDG)	Urban Settlement Development Grant (USDG)
Available to spend (percentage funds spends)	R18,3 billion (98%)	R11,4 billion (43,5%)
Underspending by more than 10%	No	Yes
Used for intended purposes	No	Yes

Any other grant utilisations findings:

HSDG - A total of R18.3 billion was transferred to provinces and spending related to that was R18.1 billion, representing 98% of the total available funds.

USDG – The available funds of the grant were R11.4 billion. As at 31 March 2019, R11.3 billion was transferred to municipalities, which in turn spent a total of R4.9 billion, which represents 43.5% of the total available funds.

Key findings and examples from audit of key projects



Poor quality in projects by the contractors were evident during the project site visits conducted. No consequence management implemented.



Significant **delays** in delivery against project schedules with an average delay period of 24 months.



Project management not adequate resulting in additional costs being incurred, contributing to the poor quality and significant delays.



Lack of participation of all relevant sector departments and stakeholders to support the achievement of government priorities.

Examples of poor quality issues identified in the current year

The picture was taken in Empumeleweni (Mpumalanga Province) and shows a house in its final stages where the brickwork finish shown illustrates the poor standard in various sections throughout the house. This is a general occurrence across the projects visited in all 9 provinces, together with other deficiencies such as:

- *The roof tiles around the edges are inadequately aligned with risk of rainwater ingress.*
- *No mortar between bricks*
- *Leaking toilet connection*



Financial health and financial management

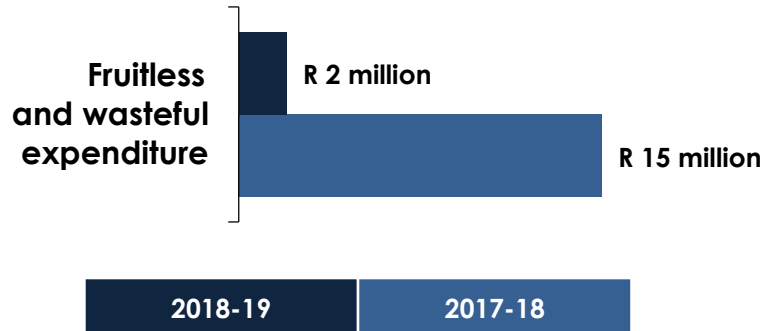


Fruitless and wasteful expenditure expenditure decrease over 2 years

Definition

Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

Fruitless and wasteful expenditure incurred by entities in portfolio

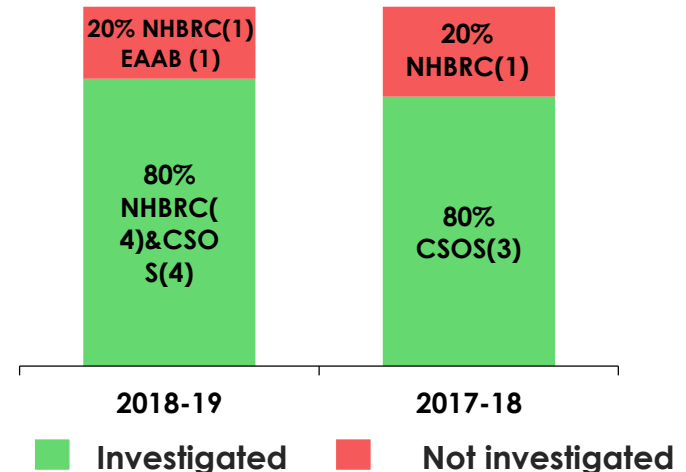


- R2,057 million represents non-compliance in 2018-19 (**NHBRC; EAAB & CSOS**)
- R14,777 million is expenditure due to payments to suppliers to remediate projects. (**NHBRC and EAAB**)

Nature of the fruitless and wasteful expenditure

- The majority of the disclosed fruitless and wasteful expenditure for the current year was caused by interest charged on late payment to creditors and cancellations fees on for tenders advertised.

Previous year fruitless and wasteful expenditure reported for investigation

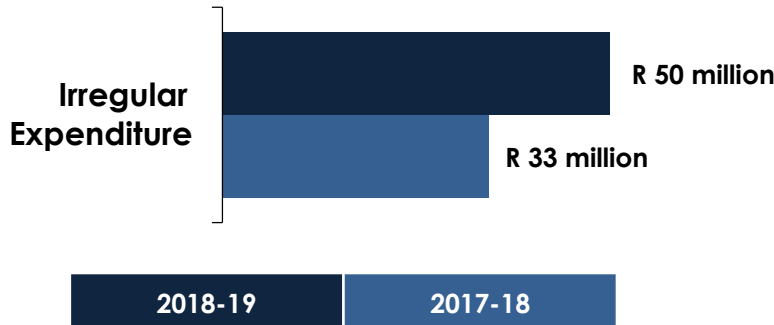


Irregular expenditure increased over 2 years

Definition

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

Irregular expenditure incurred by entities in portfolio

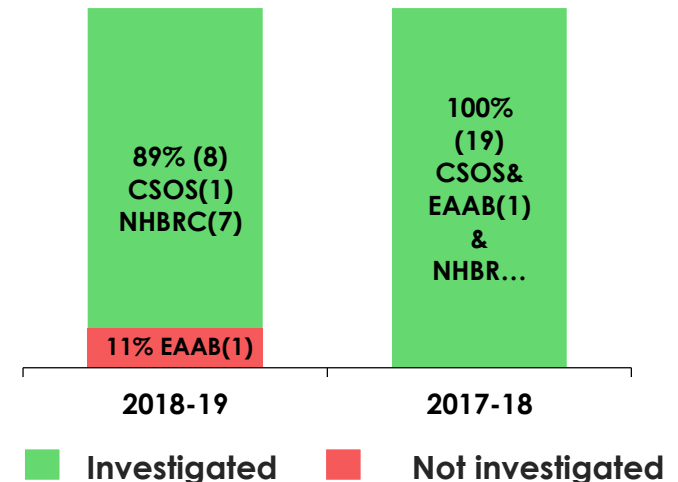


- R50, 399 million represents non-compliance in 2018-19 (**NHBRC; EAAB & CSOS**)
- R31,702 million is non-compliance in 2017-18 (**NHBRC; EAAB & CSOS**)

Nature of irregular expenditure

- NHBRC incurred a total of R6 400 588 irregular expenditure; R2 499 180 of this Irregular expenditure was due to procurement without competitive bidding or quotation process; and R3 901 408 was due to non-compliance with legislation on contracts.
- The EAAB incurred a total of R2 265 340 as a result of non-compliance with procurement legislation.
- CSOS incurred a total of R41 734 000 Irregular expenditure due to non-compliance with procurement process requirements.

Previous year irregular expenditure reported for investigation



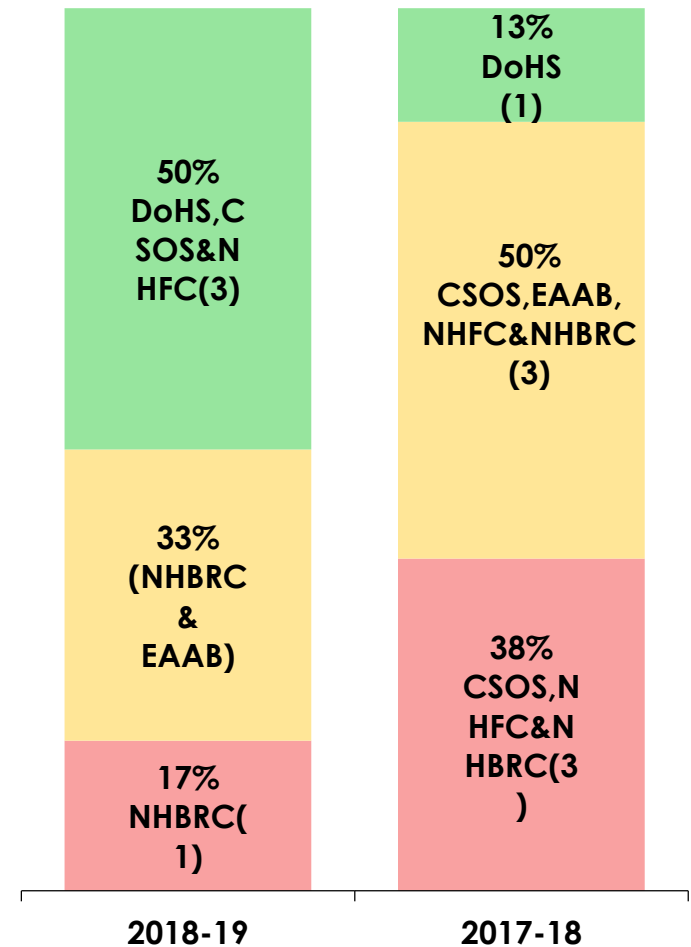
Supply chain management

▲ Improvement in SCM compliance (2018-19: 75% with no findings)

All SCM findings should be investigated

Most common findings on supply chain management

- Uncompetitive and unfair procurement processes at **40% of auditees(NHBRC & EAAB)**
- Quotations were awarded to bidders who did **not submit a declaration** , identified in 2 instances (NHBRC)



With no findings



With findings

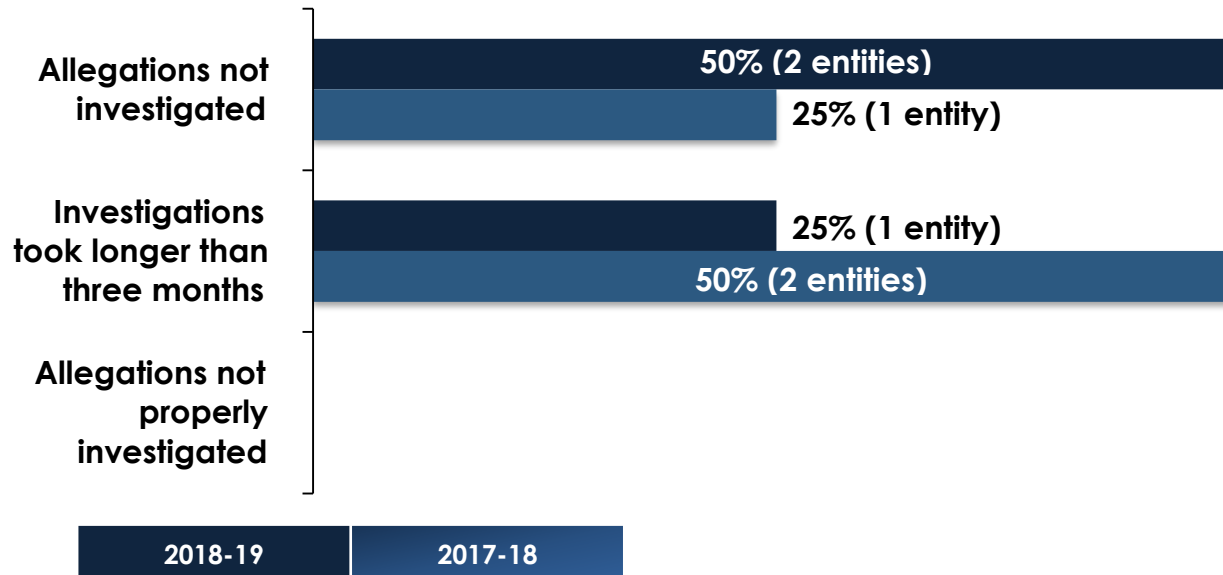


With material findings 24



Fraud and lack of consequences

Allegations of financial and/or fraud and SCM misconduct (3 auditees –NHBRC; EAAB &CSOS)



- NHBRC relates to alleged irregularities in the appointment of a service provider relating to the procurement
- CSOS investigations in prior year related to allegations of irregularities in the procurement processes relating to financial year 2015/16 and 2016/17 award of bid not in accordance with approved specification.
- EAAB relates to alleged irregularities in the appointment of a service provider for legal and IT services which was not done in accordance with the SCM policy.

Key expansion of our mandate



Refer material irregularities to relevant public bodies for further investigations



Take binding remedial action for failure to implement the AG's recommendations for material irregularities



Issue a certificate of debt for failure to implement the remedial action if financial loss was involved

What is a material irregularity?

Irregularity



any **non-compliance** with, or contravention of, legislation, **fraud, theft or a breach of a fiduciary duty**

Material
irregularity

identified during an audit performed under this Act that **resulted in or is likely** to result in ...

Impact



a **material financial loss,** the **misuse or loss of a material public resource** or **substantial harm to a public sector institution or the general public.**



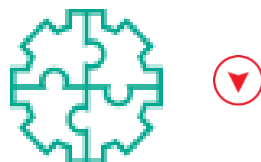
Portfolio snapshot (2018-19)



Clean audits: 0%
(2017-18: 0%)



**Financially
unqualified financial
statements: 60%**
(2017-18: 50%)



**No findings on performance
reports: 20%**
(2017-18: 25%)

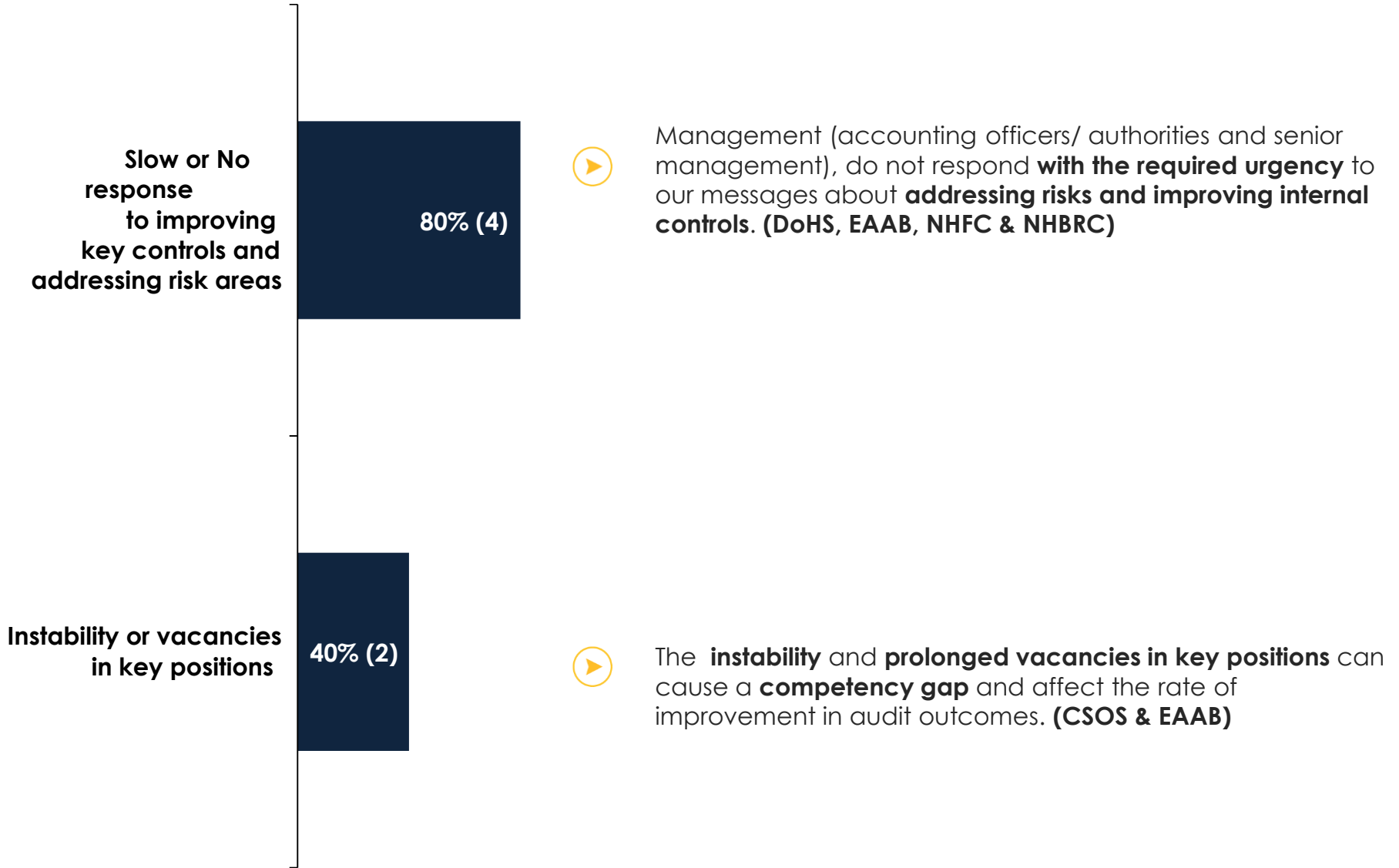


**No findings on compliance
with legislation: 20%**
(2017-18: 25%)



**Irregular expenditure:
R50m**
(2017-18: R31m)

Root causes



Recommendations

To the department:

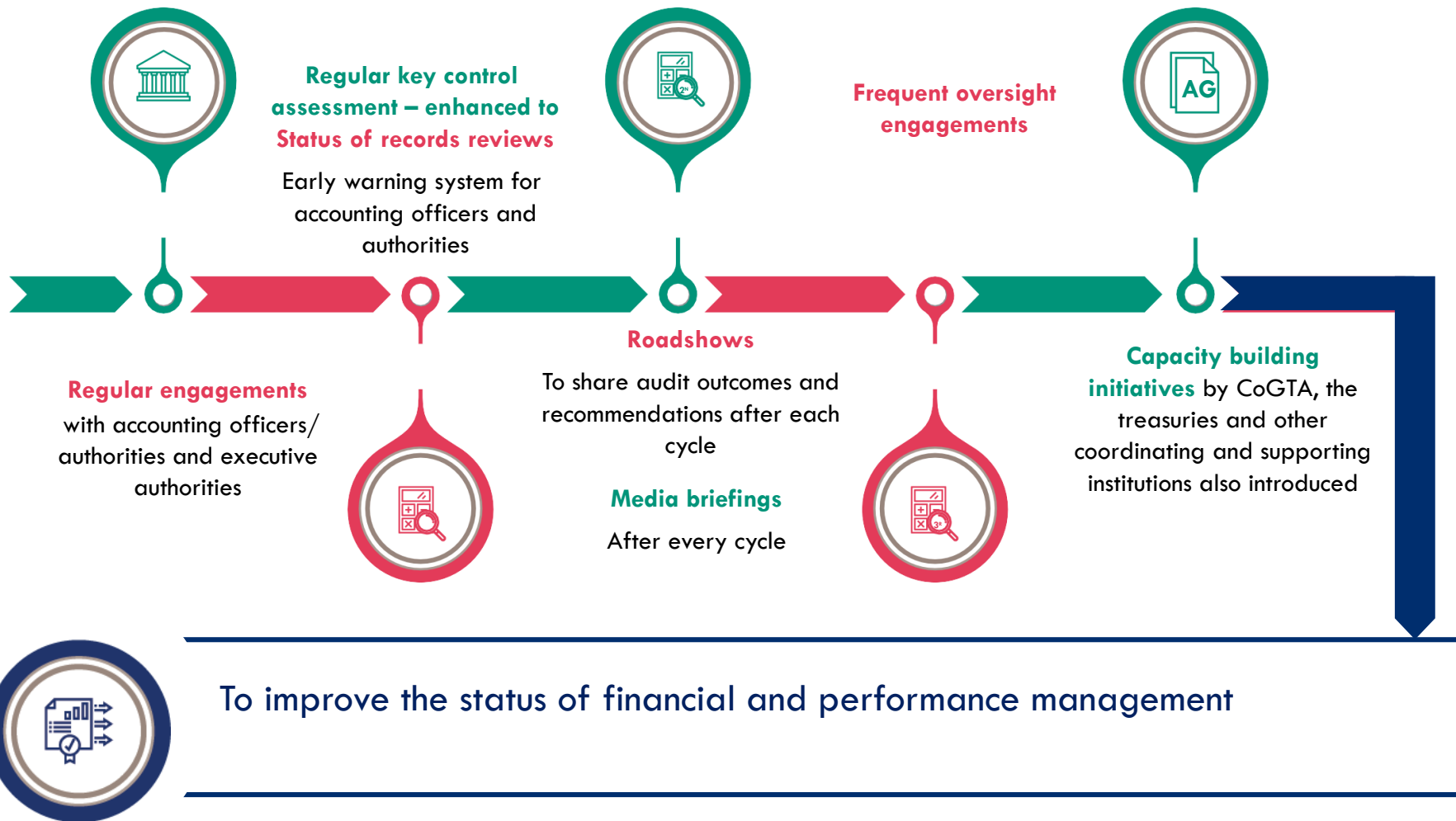
- ✓ ensure that the performance planning and reporting of the national department and its grant beneficiaries is customised in the respective annual performance plans and annual performance reports to ensure useful and reliable reporting of performance against predetermined objectives.
- ✓ ensure that all targets and indicators relevant to measure performance against government priorities such as the title deeds restoration are included in the planning documents of all relevant sector departments and public bodies;
- ✓ enhance the current project and quality management processes by holding the NHBRC, public bodies and any other key role players accountable for their respective areas of responsibility in the value creation process;
- ✓ ensure that the resources of the sector are used effectively, efficiently and economically and follow up on any instances where the money spent does not approximate the actual performance. This will ensure that action is taken against any non-compliance that caused/likely to cause material financial loss to the department.

To the portfolio committee:

- ✓ The committee should request management to provide feedback on the implementation and progress of the action plans to address poor audit outcomes during quarterly reporting;
- ✓ The committee should request management to provide quarterly feedback on status of key controls;
- ✓ The committee should request management to provide feedback on consequence management measures taken against transgressors as part of a follow up for all irregular and fruitless and wasteful expenditure incurred.



Additional efforts were introduced



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