

# HOUSING DEVELOPMENT AGENCY

Briefing to Portfolio  
Committee on Human  
Settlements-  
PFMA 2019/20

2<sup>ND</sup> OF MARCH 2021



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## Public Audits Legislative Requirements

- In terms of Section 25(1) of the **Public Audit Act** (PAA), the Auditor-General may opt not to perform the audit of an auditee, in accordance with Section 4(3).
- **Section 12 of Public Audit Act States the following on Authorised auditors.—**
  - (1) The Auditor General may authorise one or more persons to perform or to assist in the performance of an audit referred to in section 11.
  - (2) Such a person must be:
    - (b) a private practitioner who—
      - (i) is registered as an accountant and auditor in terms of the Public Accountants' and Auditors' Act and is engaged in public practice as an accountant and auditor.

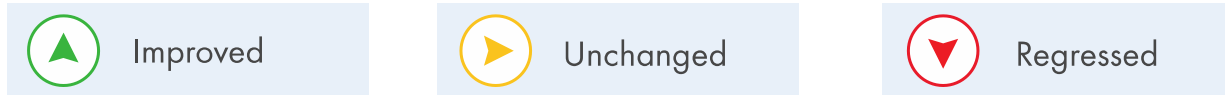
**Ngubane and Company (Jhb) Incorporated was the appointed auditor of the Housing Development Agency (HDA) during the year under review; and has been the auditor of the HDA for 3 years.**

## Important to note

Audit outcomes are indicated as follows:



Movement over the previous year is depicted as follows:

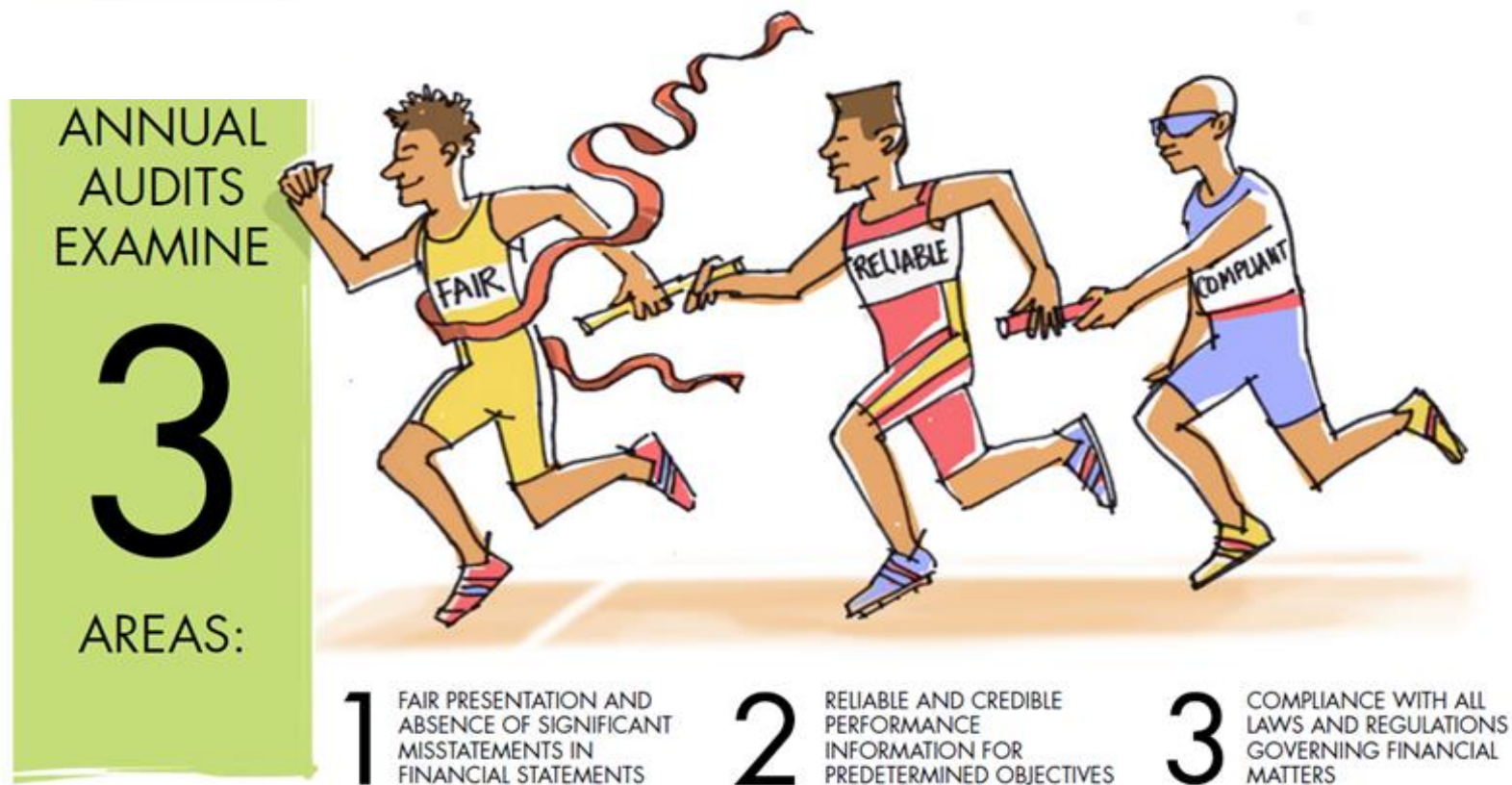


### Abbreviations used for the portfolio:

- HDA** – Housing Development Agency
- PAA** - Public Audit Act
- AoPO** – Audit of Predetermined Objectives
- SCM** – Supply Chain Management
- RI** – Reportable Irregularity

# THE 2019-20 AUDIT OUTCOMES FOR THE HOUSING DEVELOPMENT AGENCY

# Our annual audit examines three areas



# The Auditor 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

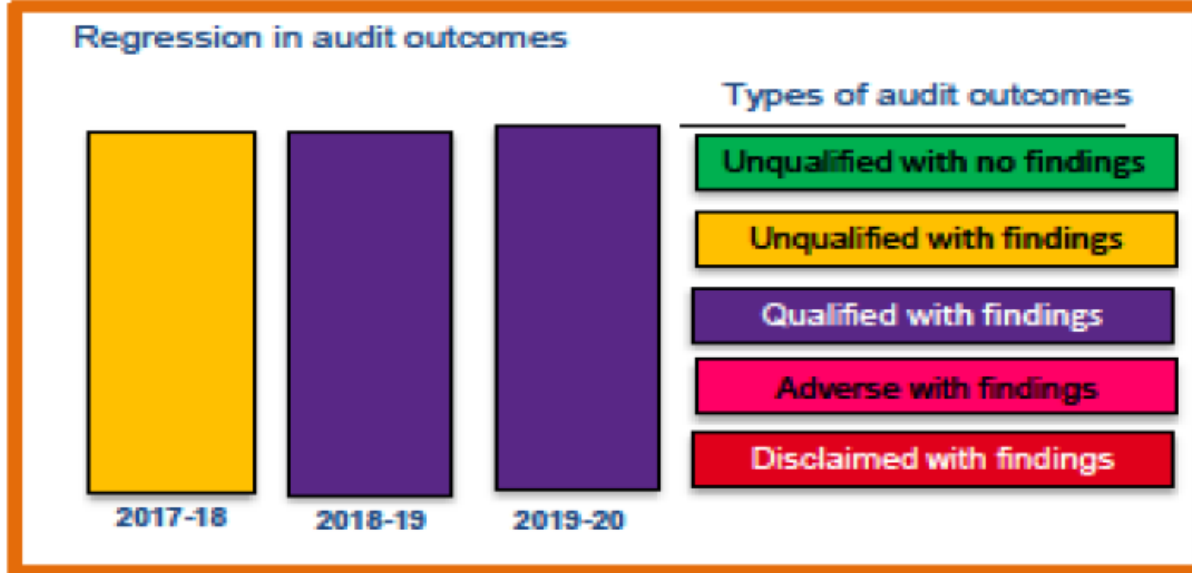
## Disclaimed opinion



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

# Audit Outcomes over the last three years



## Overall:

- The entity received qualified audit opinions in the last 2 years.
- HDA has regressed post 2018/19 audit.
- The entity received a qualified audit outcome with modifications on project receivables and project obligation, irregular expenditure and project payables. The entity also had findings on performance information due inability to maintain properly listings as well as compliance with some legislation.

# Credible financial reporting



## Financial statements

Submission of financial statements by legislated date

2019-20

Yes

Financial statements submitted without errors

No

2018-19

Yes

No



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**HDA** submitted financial statements that required adjustments to be made, as a result of audit differences identified through the audit process.

### Key qualification areas

- ☐ Project receivables and obligations
- ☐ Irregular, Fruitless and Wasteful Expenditure
- ☐ Project Payables



# Credible financial reporting

## Key qualification areas

- **Project receivables and obligations –**

- ☐ Inadequate systems to maintain accurate records of project obligation and receivables;
- ☐ There were unconfirmed balances or variances to confirmations received from others spheres of government which could not be substantiated;
- ☐ Failure to offset project obligations and project receivables with pre-billings the resulting in a deviation from the accounting standards as assets and liabilities recorded in the financial statement incorrectly; - (*This is a financial reporting adjustments*)
- ☐ Cash holding not aligned or reconciled to specific provincial obligation balances;

- **Irregular, fruitless and wasteful expenditure –**

- ☐ Not all irregular, fruitless and wasteful expenditure was included in the AFS. The entity did not have adequate systems/process to identify and record all irregular, fruitless and wasteful expenditure;

- **Project Obligations –**

- ☐ This was due to clearing accounts not cleared, inter-company transfers and unknown receipts;
- ☐ Listings/supporting documents for the uncleared amount could not be provided.

# Credible performance reporting



## Performance report

We selected one programme for testing during the audit as per AGSA directive.

The programme below was selected:

### **Programme 3 – Regional co-ordination and Human Settlements Implementation Support Services**

- The entity did not properly maintain internal registers/listings that provided detailed breakdown to allow for validation of achievements on three of the four indicators for the selected programme. The indicators are as per below:
  - ☐ Number of human settlements units delivered/supported;
  - ☐ Number of Human settlement serviced sites delivered/supported
  - ☐ Number of title deeds facilitated for registration

### **Prior Year – 2018/19**

Three programmes were selected and material findings were identified on all the selected programmes.

- Limitation of scope findings
- Lack of clear definitions for some indicators
- Evidence and method of calculation not clearly defined

# Disregard for compliance with legislation

## Non-compliance areas

- ☐ Quality of submitted annual financial statements
- ☐ Expenditure management (Including Irregular, fruitless and wasteful expenditure)
- ☐ Procurement and Contract Management
- ☐ Consequence management not implemented
- ☐ Strategic plan and performance management  
No evidence indicating APR and Strategic plan was approved by the Executive Authority (Minister)

# Findings on Supply chain management

- ☐ Procurement without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though the reasons are not justified;
- ☐ Some of the contracts were extended or modified without the approval of a properly delegated official. Similar non-compliance was also reported in the prior year.
- ☐ Some of the contracts were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order
- ☐ Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation.

# Findings on Supply chain management cont



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- ☐ Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).
- ☐ Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5).
- ☐ Sufficient appropriate audit evidence could not be obtained that major infrastructure projects were reviewed by a gateway review team in accordance with the Framework for Infrastructure Delivery and Procurement Management.

## Findings on Supply chain management cont..

- ❑ Sufficient appropriate audit evidence could not be obtained that major infrastructure projects were reviewed by a gateway review team in accordance with the Framework for Infrastructure Delivery and Procurement Management.

# Reportable Irregularity

In terms of **section 45 of the Auditing Profession Act (APA), 2005 (Act 26 of 2005) (APA)**, there is a legal requirement on auditors to report without delay, details of any irregularity that falls within the definition of a reportable irregularity (“RI”) which may come to our attention. We are required to report to the IRBA ,if we are satisfied or have reason to believe, **that a reportable irregularity has taken place or is taking place in respect of the audit.**

The APA defines a RI as “any unlawful act or omission committed by any person responsible for the management of an entity, which:

- **Has caused or is likely to cause material financial loss to the entity or to any partner, member, shareholder, creditor or investor of the entity in respect of his, her or its dealings with that entity, or**
- **Is fraudulent or amounts to theft; or**
- **Represents a material breach of any fiduciary duty owed by such person to the entity or any partner, member, shareholder, creditor or investor of the entity under any law applying to the entity or the conduct or management thereof.”**

## Reportable Irregularity

We identified the following reportable irregularity during the audit and in terms of our responsibilities per the Auditing Profession Act. we have reported to the Independent Regulatory Board for Auditors.

### **Reduction in scope of work**

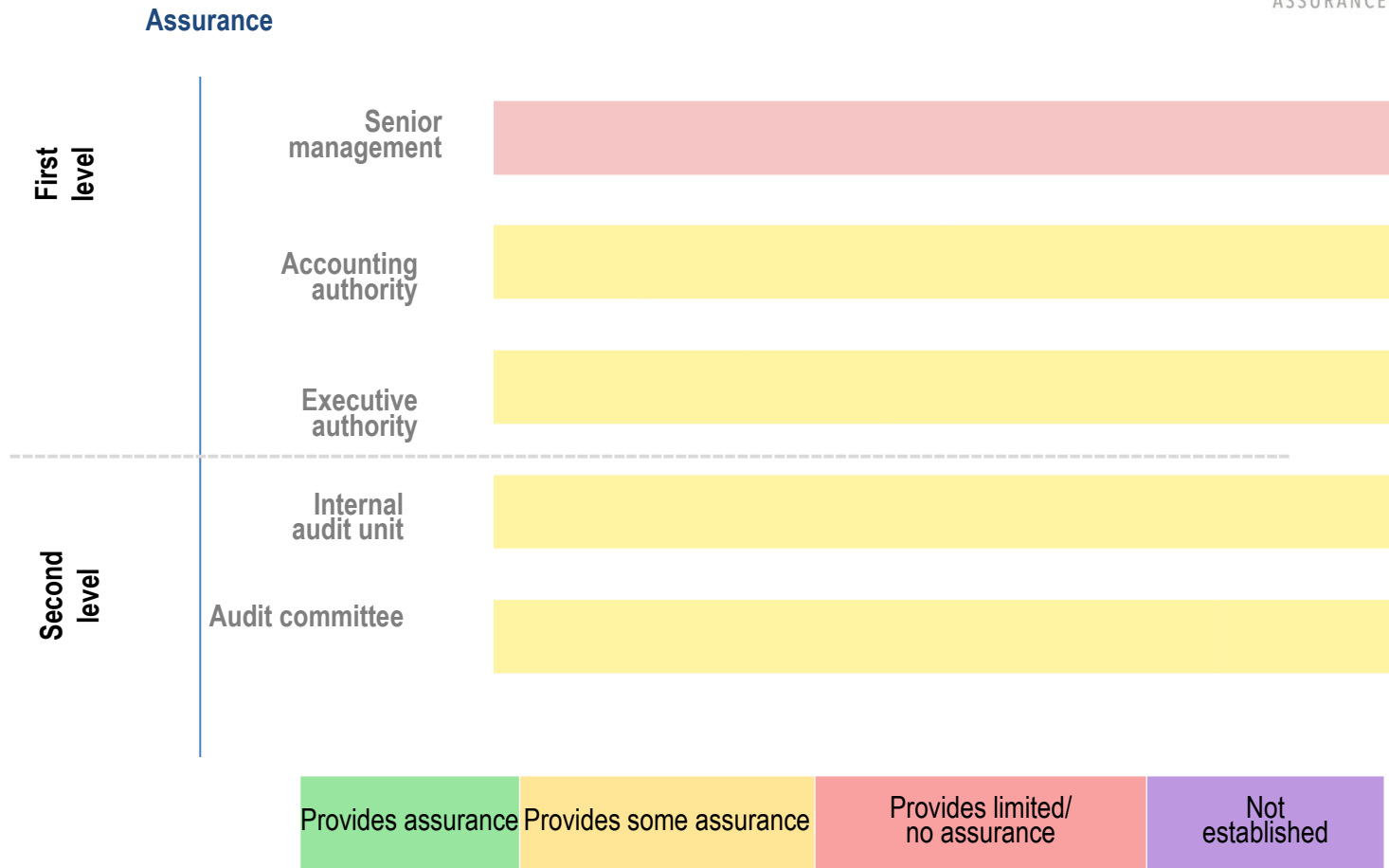
A supplier's contract amount was reduced without approval of the Bid Adjudication Committee due to duplicate/over payments that had been effected on a previous project. The supplier subsequently received payments covering the reduced contract amount, but there was no delivery of the full number of houses that should have been constructed.



# Status of internal controls



# Assurance provided



# Financial management

# 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 the entity



## Nature of irregular expenditure

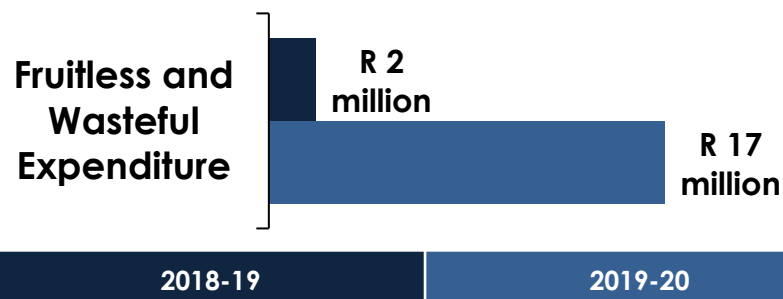
- The majority was caused by contravention of SCM legislation through **deviations** and irregularities in the **procurement process including use of contracts after expiry dates and non adherence to local content requirements.***

# Fruitless and wasteful expenditure increased 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 HDA



## Nature of the fruitless and wasteful expenditure

- The majority of the disclosed fruitless and wasteful expenditure for the current year was caused by payments made for which no work can be certified to have been done or no agreement was entered into for the work performed.*

# Root Causes

Slow or No response  
to improving  
key controls and  
addressing risk areas

Management (accounting authorities and senior management) did not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.

Slow response to  
consequence management

There was no investigation for Irregular, fruitless and wasteful expenditure done for the prior year in order to take appropriate action. This assists in setting the **tone** at the top regarding **implications for non-compliance** with laws and regulations.

Inadequate year end closing  
processes

The absence of a clearly defined **year-end closing process** resulted in delays in reconciling project obligations and receivables which also resulted in several material adjustments being passed after the first set of AFS was submitted to the auditors.

Instability or vacancies  
in key positions

The **instability** and **prolonged vacancies or acting in key positions** can cause a **competency gap** and affect the rate of improvement in audit outcomes.

# Covid-19 Procurement

# Observations on Covid 19 Procurement

- ☐ There were noted instances where the entity did not comply with the National Treasury requirements, Preferential procurement policy framework and the entity Supply chain Management policies;
- ☐ Findings are to be assessed in the 2021/22 financial period audit.



# Conclusion

# Recommendations

## To Department and the Public entity

- ☐ Vacancies in key positions should timeously be filled with relevant qualified and skilled personnel. Acting appointments should be kept to a minimum as much as possible. Stability at Senior management level is necessary.
- ☐ Consequence management needs to be applied to ensure that staff comply with relevant laws and regulations;
- ☐ Management should track action plans and ensure timely implementation, to prevent recurrence of findings.
- ☐ There should be the required urgency by management in addressing risks identified and improving internal controls.
- ☐ Finalise the appointment of the Board and ensure that it is constituted in line with the HDA Act.

## To the Portfolio Committee

- ☐ The Portfolio Committee (PC) - should request management to provide feedback on the implementation and progress of the action plans to ensure further improvement in the audit outcomes of the entity.
- ☐ The PC should monitor implementation of consequence management.

# Overall message

- ❑ Effective **corrective actions** to address internal control deficiencies identified must be implemented with the requisite urgency.
- ❑ Leadership should enhance **oversight and adopt a zero-tolerance approach when it comes to non-compliance with legislation**, with a focus on repeat non-compliances.
- ❑ The effectiveness of the work performed by the various assurance providers such as audit committee and the internal audit **has not yet yielded the desired results**, due to management's failure to adequately implement their recommendations.

# THANK YOU



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