



AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Human Settlements

10 November 2021

Our mission and vision



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, **exist to strengthen our country's democracy** by enabling **oversight, accountability and governance** in the public sector through auditing, thereby **building public confidence**.








OUR VISION

To be recognised by all our stakeholders as a **relevant supreme audit institution** that **enhances public sector accountability**

AGSA audit outcomes

NB: Percentages in this presentation are calculated based on **completed audits of 5 auditees**, unless indicated otherwise.

Unqualified opinion with no findings (clean audit)	Financially unqualified opinion with findings	Qualified opinion	Adverse opinion	Disclaimed opinion
 <p>Auditee:</p> <ul style="list-style-type: none"> 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 	 <p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> 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 	 <p>Auditee:</p> <ul style="list-style-type: none"> 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. 	 <p>Auditee:</p> <ul style="list-style-type: none"> 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 	 <p>Auditee:</p> <ul style="list-style-type: none"> 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

The AG's annual audits examine:

1. Fair presentation and absence of significant misstatements in **financial statements**
2. Reliable and credible **performance information** for predetermined objectives
3. **Compliance with laws and regulations** governing financial matters

Movement over the previous year is depicted as follows:



Improved



Unchanged



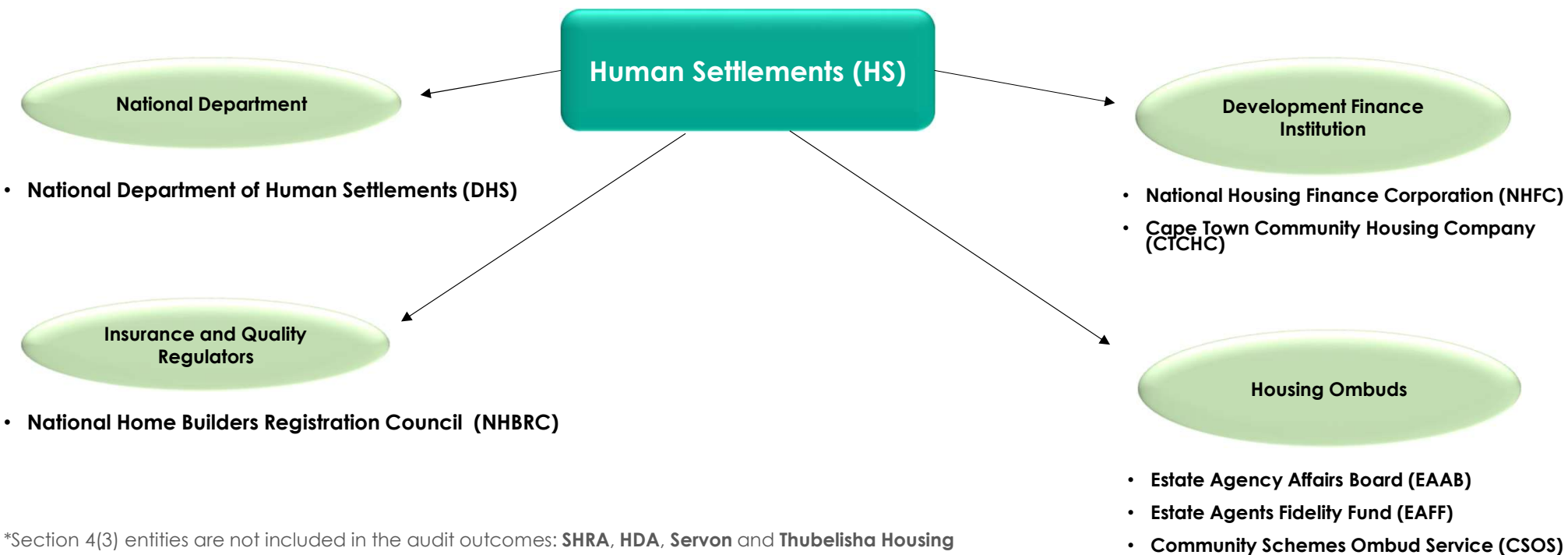
Regressed



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Portfolio outcome

Human settlements portfolio auditees



*Section 4(3) entities are not included in the audit outcomes: **SHRA, HDA, Servon** and **Thubelisha Housing**

****EAFF, CTCHC** and ten other **NHFC** subsidiaries are classified as a small auditee based on the size and nature of the business.

*** **Servcon, Thubelisha Housing, RHLF** and **NURCHA** are audits that did not submit financial statements, annual performance reports for audit in the 2020/21 period

Human settlements portfolio snapshot 2020-21



Clean audits: 0
(2019 - 20: 0)



Financially unqualified
financial statements: 4
(2019-20: 3)



No findings on performance
reports: 3
(2019-20: 4)

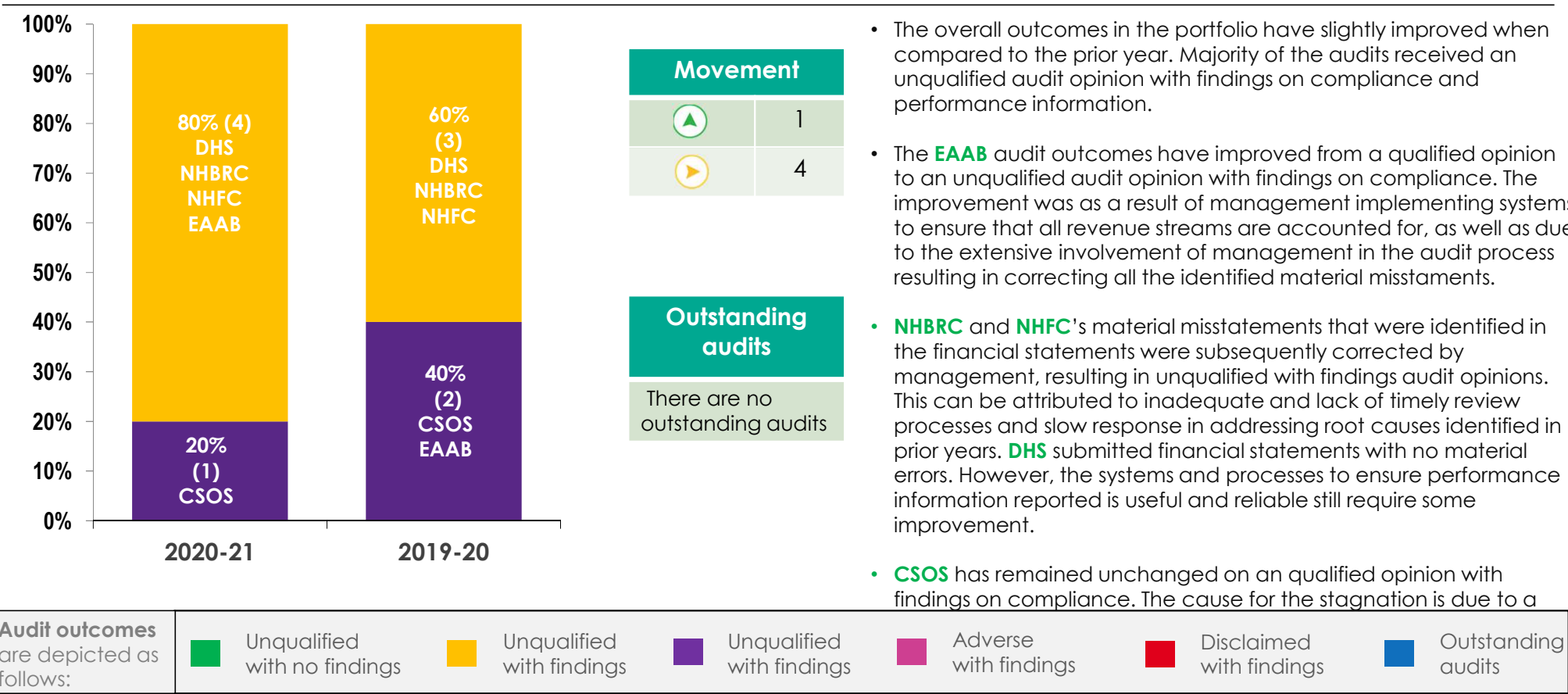


No findings on compliance
with legislation: 1
(2019-20: 1)



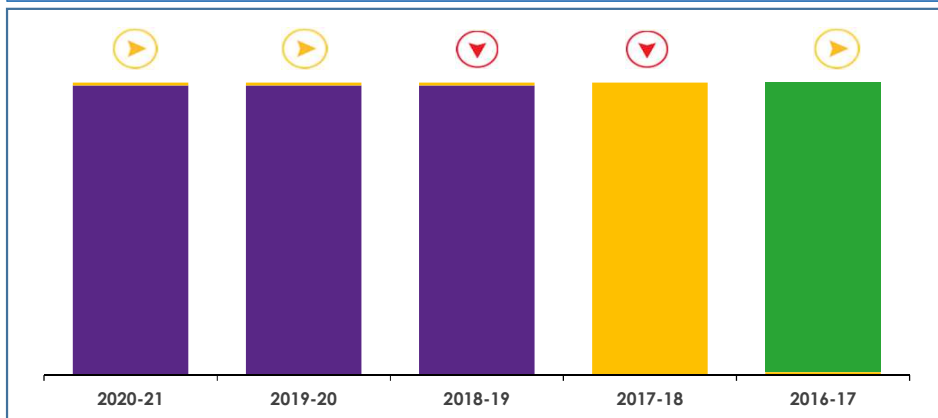
Irregular expenditure:
R13m
(2019-20: R14m)

Audit outcomes of the human settlements portfolio over 2 years



Housing Development Agency

5 year overall audit outcomes



The audit outcome is attributable to management's inability to implement proper record keeping controls in a timely manner

Irregular and Fruitless and wasteful expenditure

Expenditure	Movement	2020-21		2019-20	
		Amount incurred R	Closing balance R	Amount incurred R	Closing balance R
Irregular	*R15 million	*R15 million	*R130 million	R50 million	*R115 million
Fruitless & wasteful	*R8 thousand	*R8 thousand	R17,395 million	R14,5 million	R17,3 million

Financial statements

Financial statements qualification areas	20-21	19-20	18-19	17-18	16-17
Irregular expenditure	Yes	Yes	Yes	No	No
Project Obligations and Project Receivables	Yes	Yes	No	No	No
Project Payables	Yes	Yes	No	No	No

Performance information

PREDETERMINED OBJECTIVES	20-21	19-20	18-19	17-18	16-17
Programme 3 – Development management and operations	Green upward arrow	Red downward arrow	Red downward arrow	Yellow arrow	Yellow arrow

Compliance

SUBJECT MATTER	20-21	19-20	18-19	17-18	16-17
Annual financial statements	Yes	Yes	Yes	Yes	No
Expenditure management	Yes	Yes	Yes	No	No
Strategic planning and performance management	No	Yes	No	No	No
Procurement and contract management	Yes	Yes	Yes	No	No
Consequence Management	No	Yes	No	No	No
Income tax	No	Yes	Yes	No	No

Contracts awarded where **bids were advertised** for less than 21 days and **tax affairs** of suppliers not verified on appointment date

Registers were not effectively maintained. **Policies and prescripts** in SCM were not applied and complied with in the HDA.

Furthermore there were officials arrested in relation to the Limpopo TRUs who are out on bail as the case is still ongoing. However, no action has been taken on the officials in this regard

No reportable irregularity has been identified in the current financial year.





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Quality of financial and performance reporting

First focus area: credible financial reporting

Financial statements



Submission of financial statements by legislated date

Financial statements submitted without errors (DHS)

Quality of final submission after audit (NHBRC, NHFC, EAAB)

Financial statements qualified after audit (CSOS)

Movement



2020-21

2019-20

100% (5)

100% (5)

20% (1)

20% (1)

60% (3)

40% (2)

20% (1)

40% (2)

Root cause analysis

- Material misstatements on disclosure notes, revenue from exchange transactions, revenue from non-exchange transactions, receivables from non-exchange transactions, non-current assets, current assets and liabilities were due to inadequate quality reviews of financial statements by the accounting authorities and management.
- The findings raised are recurring and this is despite discussions held with the auditees on the implementation of preventive control measures and designing and monitoring effective action plans to ensure that root causes that were raised through the audit process are timeously addressed.
- Vacancies in key positions at NHBRC and CSOS
- The non-appointment of internal auditors at EAAB contributed to the poor quality of financial statements, because there was a missing layer of assurance providers who would ideally provide valuable inputs and

Recommendations

- Main root cause is slow response from management to address findings that were raised in the prior year. Vacancies is also an issue at some of the entities. The below recommendations should be addressed in order to improve the outcomes:
- Internal audit should scope in and prioritise the review of financial statements timely to ensure that root causes are addressed before financial statements are submitted for external audit. They should also assess and place more focus on internal control weaknesses that result in material misstatements
- Accounting authorities must thoroughly review the developed actions plans to ensure they address the root cause and monitor implementation thereof
- Effective monitoring and oversight by the audit committee is critical to ensure that repeat findings are prevented in the next financial year
- Urgency to be placed on the filling of critical key positions and internal audit function at the EAAB

Second focus area: credible performance reporting

Performance report



Performance report submitted without errors (**NHFC, CSOS**)

Performance report adjusted for material misstatements to improve reliability (**EAAB**)

Reliable reporting of achievements (**DHS, NHBRC**)

Usefulness of performance indicators and targets (**DHS**)

Movement



2020-21

2019-20

40% (2)

20% (1)

20% (1)

60% (3)

40% (2)

20% (1)

20% (1)

20% (1)

Root cause analysis

- There were recurring challenges identified with performance reports of the **DHS**. Some planned indicators were not specific in clearly identifying the nature of the required level of performance. Therefore, the source information and supporting evidence for measuring the planned indicator was not clearly defined.
- We were also unable to obtain sufficient appropriate audit evidence that the reported achievement in the performance report for one indicator was reliable. This was due to inadequate reviews and oversight responsibility by management on the performance report submitted for audit.
- Findings reported on the reliability of reported performance information at **NHBRC** were due to inadequate oversight responsibility by management over the internal controls and the reviews of performance reports submitted for audit

Recommendations

- DHS needs to design performance indicators that are well defined and adhere to the SMART criteria
- Standard operating procedure/policies/ TIDs should be designed that contain processes to record information and store supporting evidence for measuring whether the planned indicator was clearly defined
- Management should develop an action plan to address findings raised, and internal audit should monitor the action plan developed by management. DHS findings are similar to those raised in the prior year and this could have been prevented if an effective action plan was implemented.
- Effective monitoring and oversight by the audit committee is critical
- Lack of customised indicators within the sector.



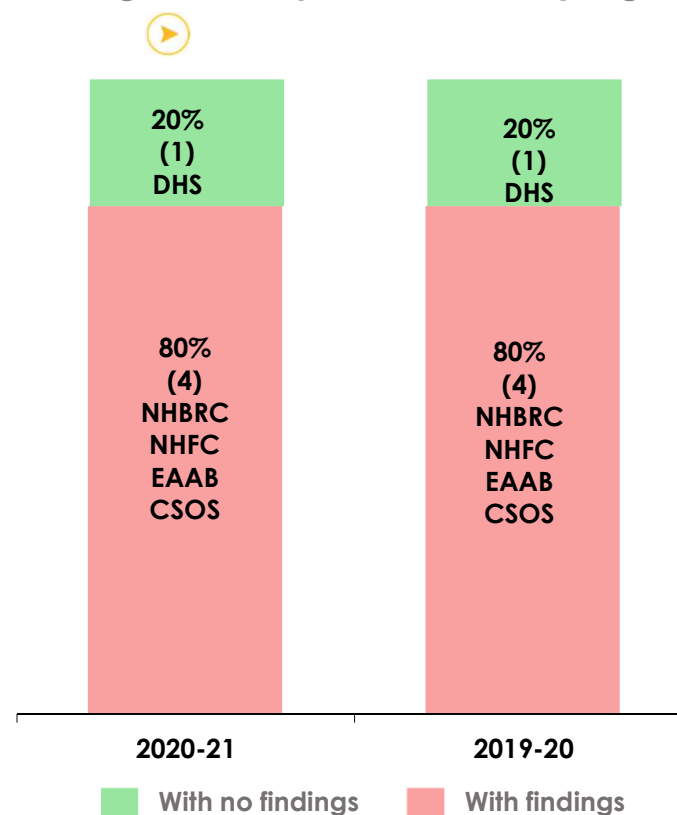
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Compliance with legislation

Third focus area: compliance with legislation

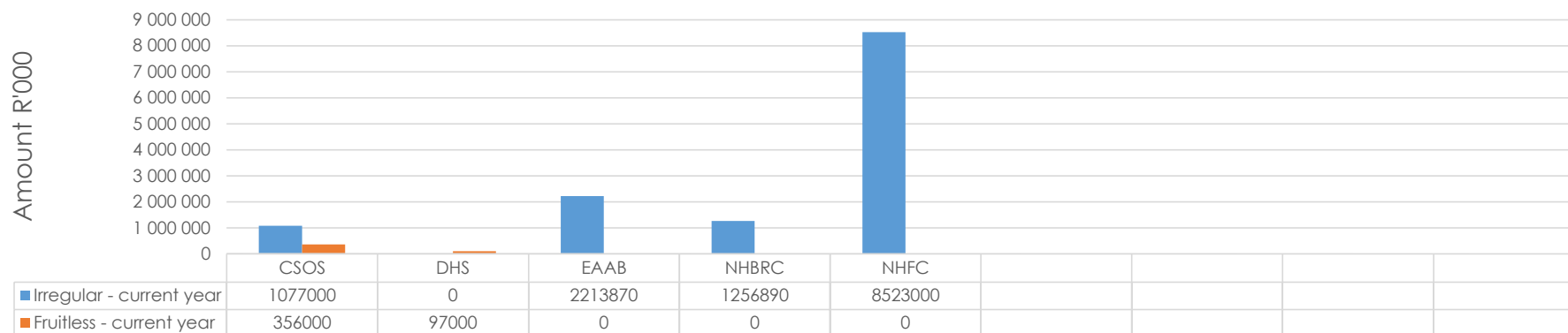
- There has been no change in the audit outcomes on compliance with legislation. The nature of identified compliance findings were as follows:
- **Annual financial statements, performance and annual report** – Financial statements submitted for audit were not prepared in accordance with GRAP requirements. Material misstatements identified by auditors in various components of the financial statements were subsequently corrected by management. (CSOS, EAAB, NHBRC, NHFC)
- **Expenditure management** – No effective and appropriate steps taken to prevent irregular and/or fruitless and wasteful expenditure at 4 auditees. (CSOS, EAAB, NHBRC, NHFC)
- **Consequence management** – Some investigations were not yet performed and adequate disciplinary actions not taken against staff who have caused irregular, fruitless and wasteful expenditure previously reported (NHFC, NHBRC, CSOS)
- **Procurement and contract management** – Non-compliance with various SCM prescripts, ie: deviations from procurement management processes, such as not obtaining the required number of quotations and not inviting competitive bids where required and various other SCM related findings. (NHFC)

Findings on compliance with key legislation



Irregular, unauthorised, fruitless and wasteful expenditure

Irregular, fruitless and wasteful expenditure 2020-21



Nature of irregular, fruitless and wasteful expenditure

Irregular expenditure

- Total irregular expenditure identified – R13 million.
- R8,5 million (65% of total) was incurred by National Housing Finance Corporation (NHFC)
- Irregular expenditure relates to:
 - Incorrect evaluation of bids and quotations
 - BAC's not properly constituted as per requirements of the policies

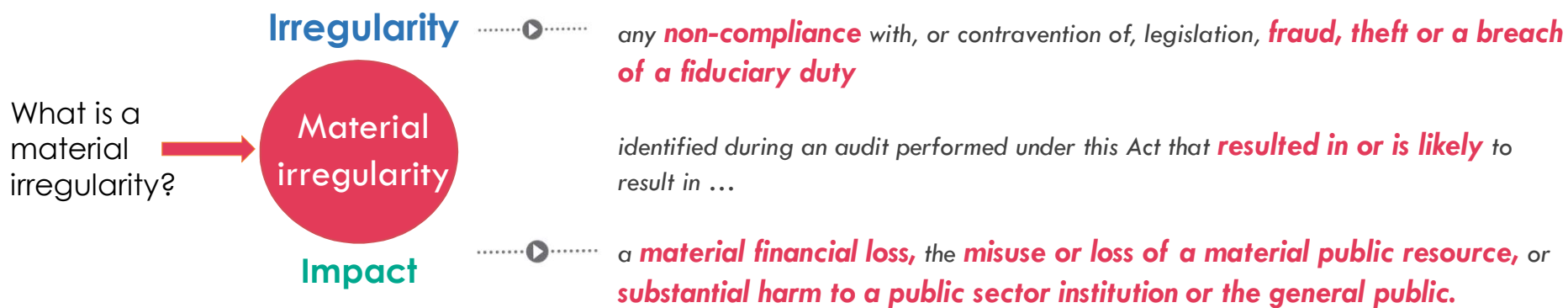
Fruitless and wasteful expenditure

- Total fruitless and wasteful expenditure identified – R453 000.
- R356 000 (78% of total) was incurred by Community Schemes Ombuds Service (CSOS), mainly relating to interest paid to SARS and R97 000 (22%) was incurred by DHS for interest paid.

*There has been no unauthorised expenditure in the portfolio for the past 2 years.



At the center of the PAA amendments – material irregularity



Type of material irregularity

Selection criteria

Any non-compliance in line with the definition stated above.

The MI process is implemented at selected auditees audited by the AGSA that represent **a significant portion of the expenditure budget and the irregular expenditure** of national, provincial and local government, including state-owned entities. The selection is also focused on auditees that are key contributors to **government priorities**. **The provincial departments and the National Home Builders Registration Council were selected for MI implementation in the 2019/20 and 2020/21 cycle for the human settlement portfolio due to the identified risk of a high irregular expenditure balance in their financial statement therefore indicating some irregularities that could possibly result in financial loss.**

Material irregularities issued

Material irregularities issued to date on the sector

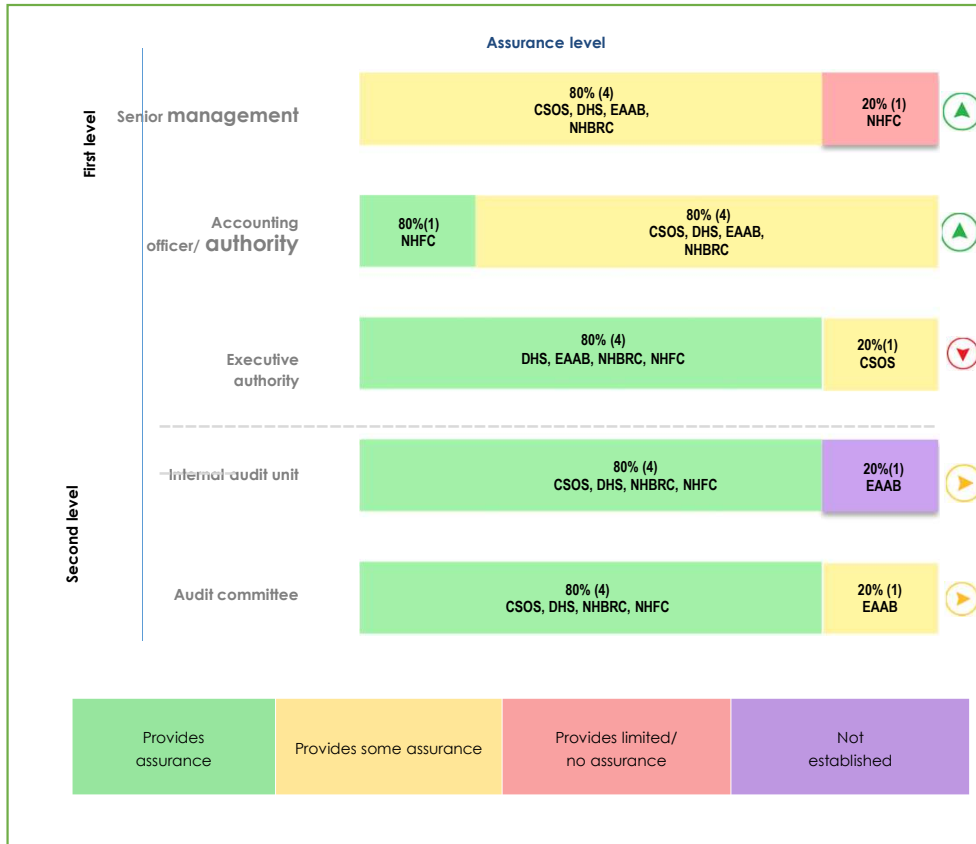
Description of the MI	Financial loss (R)	Entity	Period
Payment for covid-19 standing time not in terms of the contract	4 000 000	Human settlements – Free State	2020 - 21
Interest on late payment of court	Accounting officer to quantify	Human settlements - Gauteng	2020 - 21
Temporary residential unit rental costs excessive	Accounting officer to quantify	Human settlements - Gauteng	2020 - 21
Overpayment on project management services x 2	3 000 000 6 800 000	Human settlements – North West	2020 - 21
Contract not awarded to the highest scoring bidder x 3	3 400 000 3 000 000 1 600 000	Human settlements – Eastern Cape	2019 - 20
Payment made to an incorrect beneficiary	2 500 000	Human settlements - Gauteng	2019 - 20
Overpayment on housing project x 2	20 000 000 6 600 000	Human settlements – Free State	2018 - 19
Total	50 900 000		



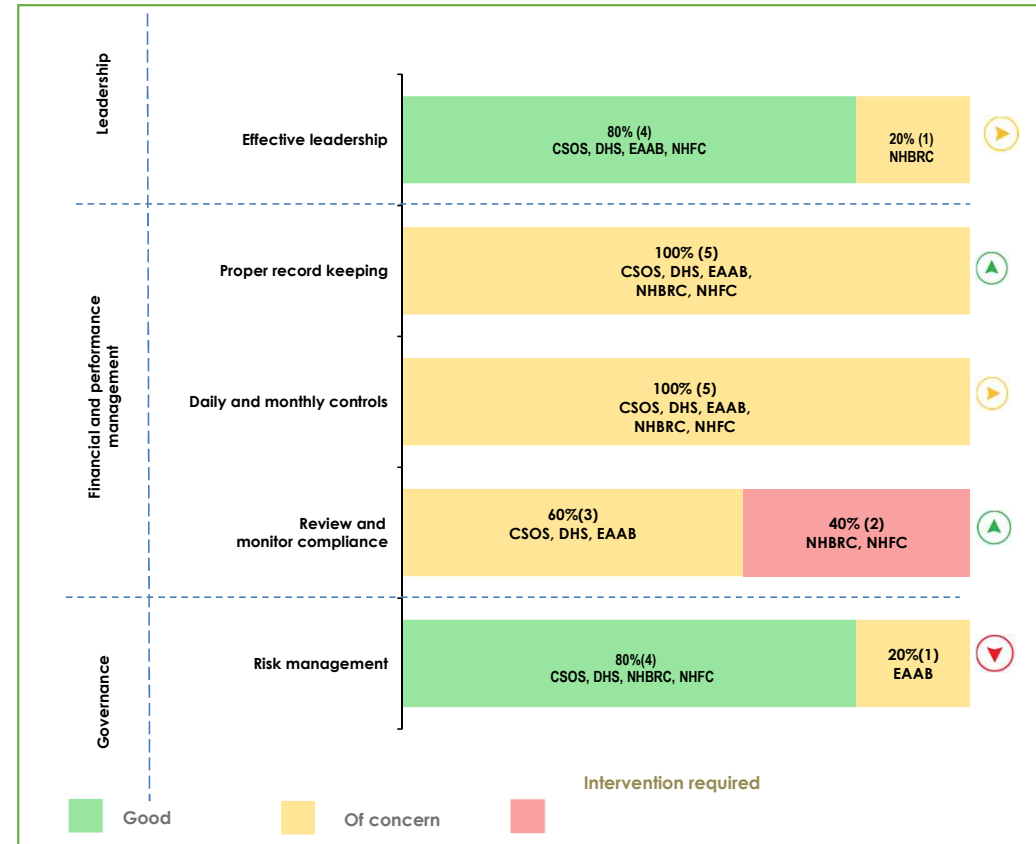
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Governance and internal controls

Assurance provided



Status of internal control





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Progress on the special report

Progress on the special report

Overall reflection on special reports

Initiative: Provision of temporary residential units for resettlement of overcrowded settlements as a response to the Covid-19 pandemic

- Since our first special report update on progress made up to 30 June 2020, the initiative **was discontinued** on 30 September 2020 **as part of covid-19 response** – implementation of 95 re-blocking projects to **continue as part of sector's normal upgrading of informal infrastructure**. This was due to lack of progress of the initiative and the reduction in new Covid-19 infections.
- At the time of discontinuation, the TRU projects were only started in a few provinces and therefore, implementation of our SR1 recommendations were made in those provinces which are: Limpopo, Eastern Cape and Free State as well as the HDA and National Department of Human Settlements.

Status of subsequent audit

- **Limpopo:** Challenges experienced on quality issues in the Talana project, resulting in investigations by the NHBRC on quality matters and SIU on allegations of fraud and corruption in the awarding of the tenders. Due to these issues, the units in the Burgersfort project were put on hold. The SIU has shared their findings and remedial actions with the Minister and Management. No further actions have been taken against the implicated employees
- **Free State:** During the visit to the site, instances were identified where up to seven people occupied a temporary shelter with a total area of only 9 m. Steps to rectify the TRUs built in the Linda Mkhonto settlement were not taken. These units did not comply with the minimum norms and standards as they were significantly smaller than the required size.
- **Eastern Cape and Gauteng:** Follow ups on recommendations made in metros of these provinces will be finalised in November as part of our MFMA audits.

Findings raised in the first and second special reports:

- Reliability of expenditure information in the sector **could not be confirmed** due to information from the 3 spheres of government did not reconcile
- **Weaknesses in the project's monitoring processes** and ineffective coordination by the HSCC
- **Non-compliance with procurement regulations** which could result in irregular expenditure and financial losses
- **Poor quality** in built TRUs as they did not comply with housing norms and standards
- Units **not priced per the established subsidy quantum**

New finding

- Non-compliance with procurement regulations – HAD appointed a service provider for structural assessment and monitoring TRUs in Talana without following competitive bidding process

Impact achieved

- 1 612 temporary residential units were delivered across 3 provinces (EC, FS & Limpopo) and the **real-time audit was able to highlight to those charged with governance early warning signs that the initiative would not yield the desired results.**

Remaining risks and conclusion

- The sector continues to lack processes to effectively implement, monitor and coordinate sector plans to carry out the original upgrading of informal settlements programme. Leadership should improve accountability to avoid further delays on delivery of adequate housing



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Sector message

Human Settlements Sector



Overall audit outcomes remained unchanged

6

3

1

Majority of the audits have received an unqualified with findings on performance information and compliance. This is caused by inadequate monitoring of the implementation of action plans, as reflected by the repetitive nature of performance reporting and non-compliance issues raised. MP, NW & GP received a qualified audit outcome as a result of slow response by management to issues raised in prior years.

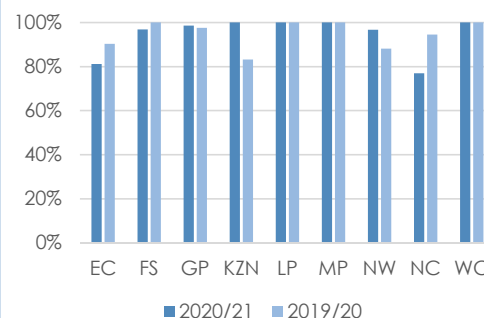


Indicators	5 year MTSF target	2 year totals (2019/20 and 2020/21)		
		Average target	Sector target	Sector achievement
Number of BNG houses delivered - HSDG	450 000	180 000	124 379	104 529
Number of serviced sites delivered - HSDG	300 000	120 000	81 754	76 063
Number of new title deeds registered	1 232 222	477 289	216 218	52 678

The sector continues to lack processes to ensure that there is effective planning and coordination. Additionally, intergovernmental relations structures continue to be ineffective as there are still no mechanisms in place to ensure that performance reporting is consistent and reliable throughout the sector. The reliability of the achievements reported by the sector could not be confirmed as six of the auditees reported on had material misstatements on performance information.

Total sector budget: R21 874 m

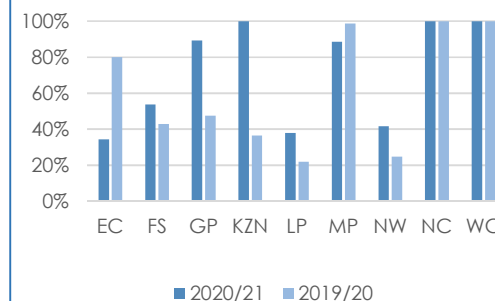
HSDG SPENDING PER PROVINCE



The sector has spent an average of 96% (2020: 94%) compared to 93% serviced sites and 86% houses completed.

- The sector spent an average of 73% (2020: 52%) of the final TDRG, while only 30% of the title deeds were registered.
- Reduction of R415 million for the title deeds restoration grant.
- attributable to the challenge of an increasing backlog that remains as developments continue without the legal processes of township establishment being undertaken.

TITLE DEEDS RESTORATION GRANT PROVINCE



Performance trends

Human Settlements Development Grant

Gauteng: over-achieved on targets for both service sites and houses at 103% and 122% respectively. Additional sites were identified during the implementation of the project at the Western Mega Project. Gauteng Partnership Fund contributed funds for the acceleration of delivery of more houses at Elijah Barayi/Varkenslaagte and Affrivillage Greenhills projects.

Mpumalanga completed more houses (103%) than their planned number of houses but only managed to service 38% on planned serviced sites. This raises concerns that the housing units delivered might have been built on sites without basic services such as sewer, water and/or electricity, as identified on the Emzinoni project where houses were handed over to beneficiaries when the area did not have bulk electricity supply.

In the **Eastern Cape**, 45 % of the 2 581 planned houses were completed, whilst in the **Free State** 78% of the 6 807 planned houses were completed. This is as a result of contractors being appointed late and there being a lack of oversight over the contractors once appointed.

In the **Northern Cape**, only 77% of the budget was spent, with 58% of the planned houses being completed. This was due to delays on various projects as well as spending on rectification works. A similar trend was noted for the **Western Cape**, which spent 100% of its budget and completed only 75% of its 8 506 planned houses.

The **North West** department spent 92% of its R1 357,1 million allocation and completed 2 968 houses (64% of the planned 4 668 houses). This was because the department outsourced and over-relied on the project management of its projects to a service provider, and did not effectively monitor the service provider's work.

Title Deeds Restoration Grant

In KwaZulu-Natal, the **targets were revised downwards by 71%** as the **funding decreased by 63,5%** compared to the previous year.

The **Northern Cape**, the allocated budget was revised without a downward adjustment to the planned target. As a result, the province spent 100% of the revised allocation whilst only 24% of the planned title deeds were registered.

In **Eastern Cape**, the department established a panel of attorneys to register title deed. However, no work was done by the panel and title deeds were not transferred, as most municipalities were not ready for the registration processes to commence.

Ineffective
intergovernmental
coordination



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Recommendations

Root causes

Key root causes in internal control environment

- **Inadequate controls** to prevent non-compliance with procurement legislation.
- Management did not implement **adequate review** and **monitoring controls** over preparation of financial statements and performance reporting.
- Management did not effectively develop and monitor implementation of **action plans**
- **Key positions not filled** in some of the entities and the non-establishment of an internal audit at EAAB.

Recommendations:

- Accounting officer/ authorities should strengthen **preventative controls** to identify non-compliance
- Accounting officers/authorities must continue to do their work through audit committees and internal audits to ensure management implements and **enhances review processes** for financial statements
- Accounting officers/ authorities must thoroughly review developed action plans to ensure they address root cause
- Prioritising the **filling of critical positions**.

Previous commitments and recommendations to the portfolio committee and current recommendations

Previous recommendations to department and its entities

1. There should be the required **urgency by management in responding to our messages** about addressing risks identified and improving internal controls.
2. Vacancies in key positions **should timeously filled** with relevant qualified and skilled personnel.
3. Management should **track action plans** and ensure timely implementation, to prevent recurrence of findings.
4. Finalise the appointment of **internal auditors at EAAB**, and enhance the use of internal audit function to monitor action plans and for better monitoring in order to improve audit outcomes.

Implementation status of previous recommendations by department and its entities

1. We have reported slow response in ALL the audits (refer to slide 7), which is an indication that those charged with governance do not view our recommendations with the seriousness that they should.
2. Vacancies in key positions in a number of auditees.
3. Although action plans have been developed, they are not adequate to address all internal control deficiencies previously identified. And in certain instances, they are not monitored adequately.
4. EAAB continued to operate without an internal audit function in the current period under review.

Current recommendations to the portfolio committee

1. Monitor and regularly follow up with the executive authority and accounting officer/ authority on:
2. progress on audit action plans put in place by the department and entities to ensure improvement in the audit outcomes of the portfolio.
3. monitor the vacancies to ensure stability of leadership
4. follow up with entities that incurred irregular, fruitless and wasteful expenditure to ensure there is consequence management
5. The culture of consequence management should be enforced in the portfolio.

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