

# SCOPA BRIEFING NOTE



PFMA audit outcomes of the 2020-21 financial year for

**Western Cape  
Department of Human Settlements**

*02 February 2022*

***Issued under embargo until  
SCOPA is briefed on the audit outcome***



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*

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## 1. Introduction

### 1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

### 1.2 Purpose of document

The purpose of this document is to provide an executive summary of the audit outcomes of the financial audit, audit of performance information and compliance with key legislation of the Western Cape Department of Human Settlements (WCDHS) for the 2020-21 financial year.

### 1.3 Overview

The mandate of the National Department of Human Settlements (NDoHS) is set out in the Housing Act. Section 2 of the Housing Act, compels all three spheres of government to give priority to the needs of the poor in respect of housing. To achieve the Department's vision, it will focus on increased housing opportunities and improved settlement functionality, efficiencies and resilience. Four (4) strategic priorities have been developed to deliver on this mandate:

- Radical acceleration of housing opportunities
- Radical implementation of innovative solutions
- Radical integration approach to human settlements
- Radical empowerment and job creation

### 1.4 Organisational structure

Designation	Incumbent
MEC	Mr Tertuis Simmers
Head of Department	Ms Phila Mayisela (Acting)
Chief Financial Officer	Mr Francois De Wet
Chief Director Human Settlement Planning	Ms Kahmiela August
Director Financial Management	Mr Melvin Stoffels
Director Communication and Stakeholder Relations	Mr Nathan Adriaanse
Director Grant and Municipal Performance Management	Mr Rob Smith
Director Planning	Mr Preshane Chandaka

## 1.5 Funding

As disclosed on page 155 of the department's annual report, the Western Cape Department of Human Settlements spent R2 380, 61 million of a budget of R2 426, 78 million, resulting in an overall under-expenditure of R46,18 million or 1,89% (2019-20: 0.013% underspent).

Detailed explanations for the underspending on the expenditure budget are set out on page 170 to 171 the department's annual report.

## 2. Audit opinion history

Details	2020-21	2019-20	2018-19
Audit opinion			
Findings on compliance with key legislation	Yes	No	No
• Material misstatements in financial statements submitted	Yes	No	No
• Procurement and contract management	Yes	No	No
• Revenue management	No	No	No
• Expenditure management	No	No	No
• Utilisation of conditional grants	No	No	No
• Strategic plan and performance management	No	No	No
• Consequence management	No	No	No
Findings on predetermined objectives	No	No	No
Internal control deficiencies	Yes	No	No

### Audit opinions

	CLEAN AUDIT OPINION (no findings on PDO or compliance with laws & regulations)
	UNQUALIFIED with findings on PDO and/or compliance
	QUALIFIED AUDIT OPINION (with or without findings)
	DISCLAIMER/ADVERSE AUDIT OPINION

PDO = Predetermined objectives (audit of performance information/service delivery/annual performance report)

## 2.1 Significant emphasis of matter

**Underspending of conditional grant:** As disclosed in note 4.3 to the appropriation statement, the department materially underspent the budget by R 40,08 million on conditional grants.

**Irregular expenditure:** As disclosed in note 24 to the financial statements, the department incurred irregular expenditure of R284,55 million, as it did not follow a proper tender process. This resulted from bids with biased specifications, procurement outside the scope of the contract and allowing other organs of state to make use of a contract without following the prescribed procurement requirements

**Restatement of corresponding figures:** As disclosed in note 32 to the financial statements, the corresponding figures for 31 March 2020 were restated as a result of an error in the financial statements of the department at, and for the year ended, 31 March 2021.

## 3. Key focus areas

### 3.1 Compliance focus areas

The following material compliance findings were reported in the audit report:

#### **Procurement and contract management**

- Tender requirements for some contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups, as required by the 2017 preferential procurement regulation 9(1)
- Some contracts were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding, as required by the 2017 preferential procurement regulation 5(1) and (3)
- Some contracts were awarded to bidders based on evaluation/adjudication criteria that were not stipulated or differed from those stipulated in the original invitation for bidding, as required by treasury regulation 16A6.3(a) and (b)
- Some contracts were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order, as required by treasury regulation 16A9.1(d)

#### **Annual Financial Statements**

- The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 40(1)(a) and 40(1)(b) of the PFMA.
- Material misstatements on current assets, current liabilities which were identified by the auditors in the submitted financial statement were corrected and/or the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified opinion

### 3.2 Predetermined objectives

I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as

defined in the general notice, for the following selected programme presented in the annual performance report of the department for the year ended 31 March 2020:

Programmes	Pages in the annual performance report
Programme 3: housing development	54 – 61

I did not raise any material findings on the usefulness and reliability of the reported performance information for these programmes.

### Other matters relating to predetermined objectives

I draw attention to the following matters:

**Achievement of planned targets:** Refer to the annual performance report on pages 54 to 61 for information on the achievement of planned targets for the year and management's explanations provided for the under and over achievement of targets.

**Adjustments of material misstatements:** I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of programme 3: housing development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information

### 3.3 Internal control deficiencies

I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

The matters reported below are limited to the significant internal control deficiencies that resulted in findings on the Department of Human Settlements compliance with legislation included in this report:

- The department did not exercise adequate oversight of compliance with laws and regulations governing supply chain management. In particular, the department did not have sufficient monitoring controls to ensure compliance with policies and regulations relating to the specifications and evaluations of awards
- *Management did not have adequate review controls in place to ensure that financial statements are prepared in accordance with the modified cash basis of accounting principles*

#### 4. SCOPA resolutions

No resolutions were noted for the year under review

#### 5. Emerging risks

##### 5.1 Risk that requires continuous monitoring

###### National instruction notes

Instruction notes are issued by the National Treasury on a continuous basis in terms of section 76 of the PFMA. The arrangement in the Western Cape is that the Provincial Treasury review these instruction notes and re-issue them to the various departments and entities on a selective basis. The risk exists that material non-compliance could arise if certain national instruction notes are not complied with, where the necessary approval from the National Treasury to depart from them was not obtained as required by section 79 of the PFMA.

##### 5.2 New pronouncements: Modified cash standard

###### Componentisation of assets

Departments are encouraged to componentise assets in their asset registers as it will become a requirement in future. The effective date to componentise assets has not been determined yet.

###### Classification of housing-related expenditure

Departments of Human Settlements should implement the transitional provisions in the *Human Settlements Departments: Transition Guide on Classification of Expenditure* issued by the OAG to classify housing related-expenditure. The effective date to classify housing related-expenditure in accordance with the ERF without any deviation is 1 April 2022.

###### Inventory

Departments are encouraged to develop their inventory management systems as the inventory disclosure note will become a requirement in future. The effective date to disclose inventory is still to be determined by the accountant-general.

Due to the uncertainty surrounding the effective date of implementation, we have not included any findings in the auditor's report relating to inventory. However, we include the following summary of findings from our review of the inventory management processes for your attention, to ensure that they are addressed in readiness for the eventual inclusion of inventory in the financial statement disclosures. It is further recommended that a process be put in place to determine the inventory held by the department at each year-end.

### 5.3 Local Content

Regulation 8(2) of the Preferential Procurement Regulations 2017 requires that *'An organ of state must, in the case of designated sector, advertise the invitation to tender with a specific condition that only locally produced goods or locally manufactured goods, meeting the stipulated minimum threshold for local production and content, will be considered.'*

The National Treasury issued an instruction, Instruction note no. 15 of 2016-17, where they have designated and provided minimum thresholds for steel products and components that are used for construction. This instruction is applicable when these products are purchased separately or used as part of a turnkey construction project and finds its basis in terms of paragraph 3.5 of the instruction.

It is acknowledged that we have not identified non-compliance with the mentioned instruction note, as it relates to turnkey projects, in previous audits, but that does not preclude the department from ensuring compliance to this instruction note. In the interest of fairness, we will limit the impact of the finding as an emerging risk to enable the department to amend the current processes and/or engage with the National Treasury. From 1 January 2022, for any construction projects or maintenance thereof, where steel products or components are used, full compliance with the mentioned instruction note is assumed. Any non-compliance detected after that date will be reported as a non-compliance finding in the management and/or audit report, and the resultant irregular expenditure would have to be disclosed in the financial statements

### 5.4 Procurement beyond the scope of a contract

It is the duty of the Accounting officer to take all reasonable steps to prevent the abuse of the SCM system.

## Audit findings on the annual performance report that may have an impact on the audit opinion in future

1. The planned and reported performance information of selected programme was audited against the following additional criteria as developed from the performance management and reporting framework:

#### **Presentation and disclosure – overall presentation**

- Overall presentation of the performance information in the annual performance report is comparable and understandable

#### **Relevance – completeness of relevant indicators**

- Completeness of relevant indicators in terms of the mandate of the auditee, including:
  - i. relevant core functions are prioritised in the period under review
  - ii. relevant performance indicators are included for the core functions prioritised in the period under review
  - iii. standardised indicators related to the core functions prioritised for the year under review are included in planning documents



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2. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion of the selected programme in this report. However, it may impact on the audit opinion in future.
3. No material findings were identified in respect of the additional criteria.

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