



**Implementation of AGSA
Recommendations
Presentation
2021/22 FY**

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PURPOSE



To brief the Portfolio Committee on the implementation of AGSA recommendations by the Housing Development Agency for the 2021/22 Financial Year

EXECUTIVE OVERVIEW AND HIGHLIGHTS



1. During 2021/22 financial year the Agency received a qualified audit opinion with 36 audit findings.
2. Enhancements made to date include:
 - a) Organisational structure that responds to the primary mandate has been approved. The Chief Audit Executive has been appointed at a senior management level.
 - b) The implementation of a records and document management system (including process mapping);
 - c) Automation of the asset register (including land inventory)
 - d) Enhancements of internal controls within SCM and Finance to ensure efficiency e.g. Procurement activation forms, DoRA compliance checks before funds are received, monthly reconciliations, training of staff, etc.
 - e) Appointment of service provider to assist with the review of annual financial statement including the interpretation of GRAP
 - f) Addressed the backlog on the investigations and determination tests relating to the irregular and fruitless & wasteful expenditure cases. 82% of irregular expenditure and 100% of F&W expenditure investigations have been completed.
 - g) Appointment of the Condonation Committee do the assessment of the irregular expenditure and recommendations to the CEO – Cases amounting to R575 million referred to HR for consequence management.
 - h) The Internal Audit Unit conducts monthly follow-up audits on external audit action plans to assess whether the previously raised external audit findings have been satisfactorily addressed by management.
 - i) The Operation Clean Audit Committee has been established to monitor the implementation of audit findings at an operational level.

2021/22 AUDIT OUTCOME

AUDIT OPINION:

Qualified Opinion

BASIS OF OPINION:

Project Obligations
Project Receivables, Land
inventory, Property Plant
and Equipment

Irregular, Fruitless &
Wasteful Expenditure

PRE DETERMINED OBJECTIVE:

Unmodified Opinion

2022/23 INTENDED AUDIT OUTCOME

EXPECTED AUDIT OPINION:

Unqualified Opinion

BASIS OF OPINION: IN PROGRESS

Project Obligations
Project Receivables,
Land inventory, Property
Plant and Equipment

Irregular, Fruitless &
Wasteful Expenditure -
addressed

PRE DETERMINED OBJECTIVE:

Unmodified Opinion

PRIOR YEAR AUDIT FINDINGS (2020/21)



NO.	2020/2021 EXTERNAL AUDIT FINDINGS	REPEAT FINDINGS		2020/2021	STATUS OF IMPLEMENTATION	PROGRESS
		2018/2019	2019/2020			
FINANCE						
1	Cash and Cash equivalents for Provinces incorrectly disclosed	x	✓	✓	Resolved	Each Province/Municipality has separate fund accounts with monthly reconciliations and statements issued for verification.
2	Creditors with credit balances incorrectly classified as payables	x	x	✓	In progress	The investigation report was finalised in January 2023. Funds are being recovered from the service providers. In addition, matters have been referred for consequence management.

IT, HR AND RISK MANAGEMENT

NO.	2021/2022 EXTERNAL AUDIT FINDINGS	REPEAT FINDINGS		2021/2022	STATUS OF IMPLEMENTATION	STATUS/PROGRESS
		2019/2020	2020/2021			

IT

1	Lack of capacity within ICT Division	x	x	✓	Resolved	The moratorium was lifted. The IT Technician is appointed and started on the 3rd of January 2023.
2	Inadequate designed IT Security Policy	x	x	✓	In progress	The ICT Policy has been amended, presented at ITSC for review. Awaiting ARC and Board approval.
3	Server room not appropriately maintained	x	x	✓	In progress	The Landlord (Eskom) maintains all environmental equipment in the server room. The fire suppression will be undertaken in the new premises.

NO.	2021/2022 EXTERNAL AUDIT FINDINGS	REPEAT FINDINGS		2021/2022	STATUS OF IMPLEMENTATION	PROGRESS
		2019/2020	2020/2021			

Human Resource

4	Non- compliance with the acting policy	x	x	✓	Resolved	Acting appointment controls monitored and managed according to policy. The Administrator approved a settlement agreement with the former CFO to vacate office early and the acting CFO was appointed in line with the acting policy.
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NO.	2021/2022 EXTERNAL AUDIT FINDINGS	REPEAT FINDINGS		2021/2022	STATUS OF IMPLEMENTATION	PROGRESS
		2019/2020	2020/2021			

Risk Management

5	Failure to conduct Business Impact Analysis	x	x	✓	Resolved	The Business Continuity Management Policy Framework has been developed and approved by the ARC. In addition, the Business Impact Analysis has been conducted in order to inform the business continuity plans for implementation in the 2023/24 financial year.
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LAND ASSEMBLY



NO.	2021/2022 EXTERNAL AUDIT FINDINGS	REPEAT FINDINGS		2021/2022	STATUS OF IMPLEMENTATION	PROGRESS
		2019/2020	2020/2021			
Land Assembly						
6	Land inventory valuations were not performed at year end	x	x	✓	In progress	A land register is in place and the municipal valuations are applied.
7	Land inventory not measured at current replacement cost	x	x	✓	In progress	National Treasury has assessed the accounting treatment and a GRAP specialist is being appointed to assist in the matter.
8	Understatement of Receivables	x	x	✓	In progress	Debtors statements are now prepared monthly with improved accuracy from the Accpac system. This will be completed by end of financial year
9	Rights and ownership of long-term land inventory could not be confirmed	x	x	✓	Resolved	The finding resolved as per management report with the external auditors.

PROJECT FINANCE



NO.	2021/2022 EXTERNAL AUDIT FINDINGS	REPEAT FINDINGS		2021/2022	STATUS OF IMPLEMENTATION	PROGRESS
		2019/2020	2020/2021			
Project Finance						
10	Overstatement of project obligation	x	✓	✓	In progress	All invoices raised based on funding agreements but the funds are not received have all been reversed. Provincial Departments are engaged to ensure that monthly reconciliations are signed off to eliminate differences at end of financial
11	Supporting information not provided for Project receivables as at 31 March 2022	x	✓	✓	In progress	Interest income earned on projects is recorded on monthly basis as per the bank statements. The banks were engaged and agreed on a cut-off time for the interest earned.
12	Differences between interest as per AFS and interest per bank confirmations.	x	x	✓	Resolved	All invoices raised based on funding agreements but the funds not received have all been reversed. Provincial Departments are engaged to ensure that monthly reconciliations are signed off to eliminate differences at end of financial year.
13	Differences between project obligations balance and bank confirmation balance	x	✓	✓	Resolved	Interest income earned on projects is recorded on monthly basis as per the bank statements. The banks were engaged and agreed on a cut-off time for the interest earned.
14	Understatement of Receivables	✓	✓	✓	In progress	The finding resolved as per management report with the external auditors
15	Differences between interest accrued to project obligations on schedule and interest earned per bank confirmation	x	✓	✓	Resolved	
16	Project expenses paid from incorrect bank accounts.	x	x	✓	Resolved	

SUPPLY CHAIN MANAGEMENT

NO.	2021/2022 EXTERNAL AUDIT FINDINGS	REPEAT FINDINGS		2021/2022	STATUS OF IMPLEMENTATION	PROGRESS
		2019/2020	2020/2021			
SCM						
17	SCM: Awards to persons in the service of the state	x	✓	✓	In progress	The appointment of an agency to verify information provided by service providers on SBD 4 forms, is being finalised.
18	The criteria used to disqualify bidders was not indicated as per the bid specification / terms of reference for bid HDA/JHB/2021/012: Construction of water, sewer, roads and stormwater networks and Package Plant in Zandspruit Ext 84 Phase 4	x	✓	✓	In progress	Internal audit is reviewing and assessing the internal controls that have been enhanced in the SCM unit (Checklists, procurement activation forms, tender register)
19	The criteria used to disqualify bidders was not indicated as per the bid specification / terms of reference for bid HDA/JHB/2021/010: Construction of water sewer, roads and stormwater networks in Zandspruit Ext 84 Phase 1	x	✓	✓	In progress	
20	The bidder who obtained the highest number of the total points was not awarded the contract	✓	✓	✓	Resolved	
21	Incorrect calculation of functionality used for bid number HDA/LIM/2021/003	x	x	✓	In progress	Internal audit is reviewing and assessing the internal controls that have been enhanced in the SCM unit (Checklists, procurement activation forms, tender register)
22	Irregular expenditure understated	✓	✓	✓	Resolved	A complete register is now being maintained, updated with all cases detected during the audit. Control measures of detecting irregular expenditure are implemented at SCM through the checklist and verified at BAC and at payment level. The condonation committee has been appointed and has dealt with various cases which have been referred for consequence management.
23	Incorrect calculation of functionality used for bid number HDA/LIM/2021/004	x	x	✓	In progress	Internal audit is reviewing and assessing the internal controls that have been enhanced in the SCM unit (Checklists, procurement activation forms, tender register)

FINANCE

NO.	2021/2022 EXTERNAL AUDIT FINDINGS	REPEAT FINDINGS		2021/2022	STATUS OF IMPLEMENTATION	PROGRESS
		2019/2020	2020/2021			
Finance						
25	Existence and completeness of assets could not be confirmed	x	x	✓	In progress	The asset register is updated regularly and Board approval obtained for the establishment of the asset disposal committee. In addition, the asset management processes are being automated.
26	Expenses on Technical services: Attorneys appointed as panel of lawyers paid for audit work services that were not stipulated in initial contract and bid for procuring legal services	x	x	✓	In progress	All payments made to the service provider have been included in the irregular expenditure register and is being assessed for possible condonation and consequence management.
27	Operating lease expense misstated	x	✓	✓	Resolved	The finding resolved as per management report with the external auditors
28	Budget Statement - Budget on the APP does not agree with the budget on the financial statement	x	x	✓	Resolved	Resolved with the budget of 2023. Budget submitted to the Board was aligned with the budget in the APP.
29	Project expenses incurred with expired contracts	x	✓	✓	Resolved	A contract management register is in place which ensures timeous notification and review of contracts by project managers, to prevent any payments against expired contracts.
30	Understatement of Provision for Bad debts	x	x	✓	In progress	The provision is done on a quarterly basis, and Internal Audit undertake an assessment at year end.
31	The prior period adjustment in the financial statements has been done incorrectly by adjusting against equity.	x	x	✓	In progress	The adjustment is done in this financial year (2022/23) as agreed with the external auditors.
32	Statement of Cash Flow non-compliance to GRAP 2.	x	x	✓	Resolved	The calculations are completed and will be submitted to the external audit for review.
33	Retention fees liability not recognised in the AFS.	x	x	✓	In progress	A list of contracts with retention fees is being compiled and it will be disclosed in the AFS in line with GRAP 1 and GRAP 11.
34	Project expenses recorded in the incorrect financial year.	x	x	✓	Resolved	Communication was sent to all HDA employees on 02 March 2023 addressing the issue of accruals and retentions.
35	Disclosure of GRAPs approved but not yet effective not included in the AFS	x	x	✓	Resolved	The finding resolved as per management report with the external auditors

COMPLIANCE AND STRATEGIC PLANNING



NO.	2021/2022 EXTERNAL AUDIT FINDINGS	REPEAT FINDINGS		2021/2022	STATUS OF IMPLEMENTATION	PROGRESS
		2019/2020	2020/2021			
Project Readiness and Compliance						
24	CIDB – Gateway review not performed for major capital projects	x	x	✓	In progress	The finding is being addressed in the following manner: 1. Review of existing framework completed 2. Stringent criteria adopted for acceptance of projects 3. Process to implement an IDMS including Gateway review being finalised 4. Development of Policy and SOP underway

NO.	2021/2022 EXTERNAL AUDIT FINDINGS	REPEAT FINDINGS		2021/2022	STATUS OF IMPLEMENTATION	PROGRESS
		2019/2020	2020/2021			
Strategic Planning						
36	AoPO: Limitation of Scope	x	x	✓	Resolved	The finding resolved as per management report with the external auditors

Recommendation

For the Portfolio Committee to take note of the progress made on the implementation of AGSA recommendations by the Housing Development Agency for the 2021/22 Financial Year