



AUDITOR - GENERAL  
SOUTH AFRICA

## BUDGETARY REVIEW AND RECOMMENDATIONS REPORT (BRRR):

Portfolio Committee on  
Human Settlements

11 October 2023

*Briefing document on the  
audit outcomes for the  
Human Settlements  
portfolio:  
2022-23*

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## 1. Introduction

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

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution 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.

### 1.2 Role of the AGSA

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 entities, taking into consideration the committee's objective to produce a budgetary review and recommendations report (BRRR).

### 1.3 Role of the portfolio committee

Section 5(2) of the Money Bills Procedures and Related Matters Amendment Act 9 of 2009 allows for each committee to compile a BRRR, which must be tabled in the National Assembly. Section 5(3) provides for a BRRR to contain the following:

- An assessment of entities' service delivery performance, given available resources.
- An assessment of the effectiveness and efficiency of entities' use and forward allocation of available resources.
- Recommendations on the forward use of resources.

### 1.4 Mandate of the AGSA and the portfolio committee

#### Slide 2

AGSA mandate	Portfolio committee mandate
<p><b>Section 188 of the Constitution</b></p> <p>The AGSA must audit and report on the accounts, financial statements and financial management of government institutions.</p> <p><b>Section 20(2) of the Public Audit Act (PAA)</b></p> <ul style="list-style-type: none"> <li>• The AGSA must prepare an audit report containing an opinion/conclusion on the:</li> </ul>	<p><b>National Assembly Rule 227</b></p> <p>Portfolio committees may, among other things, perform the following functions:</p> <ul style="list-style-type: none"> <li>• Deal with Bills and other matters falling within their portfolio, as referred to them in terms of the Constitution, legislation or rules, or by resolution of the National Assembly.</li> </ul>

AGSA mandate	Portfolio committee mandate
<ul style="list-style-type: none"> <li>○ Fair presentation of the financial statements.</li> <li>○ Compliance with applicable legislation.</li> <li>○ Reported performance against predetermined objectives.</li> </ul> <ul style="list-style-type: none"> <li>● Discretionary audits (including special audits, investigations and performance audits)</li> </ul> <p><b>Section 5(1B) of the PAA</b></p> <p>The auditor-general has the power to:</p> <ul style="list-style-type: none"> <li>○ Issue a material irregularity.</li> <li>○ Include recommendations in the audit report.</li> <li>○ Take appropriate remedial action.</li> <li>○ Issue a certificate of debt, as prescribed, where an accounting officer/authority has failed to comply with remedial action.</li> </ul>	<ul style="list-style-type: none"> <li>● Maintain oversight of their portfolios of national executive authority, including implementation of legislation, any executive organ of state falling within its portfolio, any constitutional institution falling within its portfolio and any other body or institution in respect of which oversight was assigned to it</li> <li>● Consult and liaise with any executive organ of state or constitutional institution</li> <li>● Monitor, investigate, enquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such an organ of state, institution or other body or institution</li> <li>● Consult and liaise with any executive organ of state or constitutional institution</li> <li>● Perform any other functions, tasks or duties assigned to it in terms of the Constitution, legislation, these rules, the joint rules or resolutions of the National Assembly, including functions, tasks and duties concerning parliamentary oversight or supervision of such executive organs of state, constitutional institutions or other bodies or institutions</li> </ul>

## 1.5 Purpose of this document

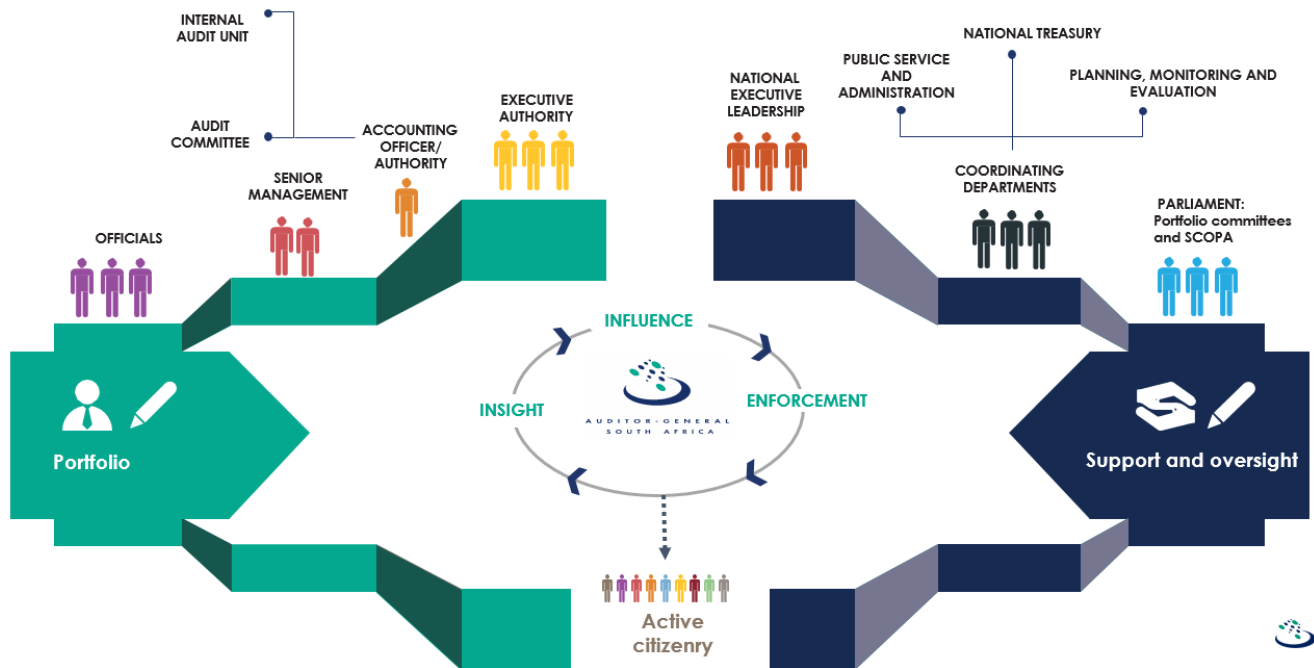
The purpose of this briefing document is for the AGSA to reflect on the audit outcomes to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the objective of the committee to produce a BRRR.

## 1.6 Shifting the public sector culture through the accountability ecosystem

### Slide 3

#### All have role to play in national government accountability eco-system






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- The accountability ecosystem is the network of stakeholders that have a mandate and/or responsibility, whether legislative or moral, to drive, deepen and/or insist on public sector accountability.
- A more active and engaged accountability ecosystem would add to the much-needed effort of shifting public sector culture and would alleviate the overreliance on the AGSA to assume responsibility for improving audit outcomes and enforcing consequences.
- Shifting the public sector culture towards one that is characterised by performance, accountability, transparency and integrity can only be accomplished if all role players in the broader accountability ecosystem fulfil their respective responsibilities and mandates.
- Given the nature of the AGSA's mandate, by the time we audit the financial statements of auditees and report on adverse findings, multiple failures have already occurred along the accountability value chain. After our audits, other steps are required to complete the accountability cycle.
- Improvement in sound financial management to enhance the lives of citizens does not only reside within the domain and responsibility of the accounting officer or authority and the auditors. It

*depends on the entire accountability ecosystem to enable a culture of accountability in a sustainable and meaningful way.*

## 1.7 Audit outcomes explained

Unqualified opinion with no findings (clean audit)	Financially unqualified opinion with findings	Qualified opinion	Adverse opinion	Disclaimed opinion
				
<p><b>Auditee:</b></p> <ul style="list-style-type: none"> <li>produced credible and reliable financial statements that are free of material misstatements</li> <li>reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)</li> <li>complied with key legislation in conducting their day-to-day operations to achieve their mandate</li> </ul>	<p><b>Auditee:</b> 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"> <li>align performance reports to the predetermined objectives they committed to in APPs</li> <li>set clear performance indicators and targets to measure their performance against their predetermined objectives</li> <li>report reliably on whether they achieved their performance targets</li> <li>determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance</li> </ul>	<p><b>Auditee:</b></p> <ul style="list-style-type: none"> <li>had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements</li> <li>had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.</li> </ul>	<p><b>Auditee:</b></p> <ul style="list-style-type: none"> <li>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</li> </ul>	<p><b>Auditee:</b></p> <ul style="list-style-type: none"> <li>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</li> </ul>

## 2. Improvement in audit outcomes over the administration term

### Slides 5

### 2.1 Overview

The audit outcomes for the nine auditees within the portfolio improved over the administration term due to Housing Development Agency (HDA) and Community Schemes Ombud Service (CSOS) improving from qualified opinion to unqualified with findings. HDA’s improvement in audit outcomes was noted in 2022-23 and CSOS’s improvement in audit outcomes was noted in 2021-22. Property Practitioners Regulatory Authority (PPRA) former EAAB, has been stagnant with a qualified opinion for the past three years. A new entity, the Property Sector Transformation Fund (PSTF) was established in the 2022-23 financial year. The PSTF received an unqualified opinion with findings in the current year.

## 2.2 Detail on outcomes

### Overview

The overall audit outcomes for the **National department of Human Settlements (NDHS)** remained unchanged from the previous years. The department received an unqualified opinion with findings. Material findings were noted on two of the compliance focus areas i.e. expenditure management and asset management. The department was however able to maintain their outcome on the performance information as no material findings were noted on the four scoped in programmes i.e. *Integrated Human Settlements Planning and Development Programme, Informal Settlements Upgrading Programme, Rental and Social Housing Programme and Affordable Housing Programme*, although some material adjustments were required to four of the indicators tested.

The **Housing Development Agency (HDA)** audit outcome improved from the previous two years qualified audit opinions to an unqualified opinion with material findings on expenditure management and no findings on predetermined objectives. The main contributor to the improvement was the appointment of the CEO and CFO in the current year which ensured stability at key executive management level and also contributed to the detection of irregular expenditure in the current year, resulting in consequence management.

The **National Home Builders Registration Council (NHBRC)** maintained their unqualified opinion on the financial statements over the past three years. Material non-compliance findings were only reported on consequence management in the current year, which is an improvement from the prior year (in the prior year material non-compliance was also reported on revenue management and annual financial statements). Furthermore, no material findings on predetermined objectives were reported.

The **Property Practitioners Regulatory Authority (PPRA)** remained stagnant over the last two years with a qualified audit opinion on the financial statements. Material findings were noted on the three programmes (Programme 2: *Licencing and compliance*, Programme 4: *Research, professionalisation and trainings* and Programme 5: *Transformation*) audited in the annual performance report. Although an improvement was noted in the consequence management compliance focus area, there was a regression in the number of compliance focus areas that had material findings in the current year (i.e. procurement and contract management, expenditure management, revenue management and strategic planning and performance management).

The audit opinion of the **Property Practitioners Fidelity Fund (PPFF)** remained the same as unqualified with material non-compliance findings for the past three years. Revenue management remains a concern as necessary steps have not been taken to collect the revenue from the debtors.

The **Property Sector Transformation Fund (PSTF)** came into existence in the current year of assessment. PSTF obtained an unqualified audit opinion with material compliance findings on the annual financial statements and asset management.

The audit outcome for **Community Schemes Ombud Service (CSOS)** stagnated on an unqualified opinion with findings on compliance with legislation. The entity continues to place reliance on the AGSA to detect and correct misstatements in its financial statements and annual performance report instead of implementing internal control systems and processes. Material corrections were processed to both the annual financial statements and the report on performance against predetermined objectives.

The audit opinion of the **National Housing Finance Corporation SOC Limited (NHFC)** remained the same as the previous three years as an unqualified audit opinion with findings on compliance with legislation and no material findings on predetermined objectives. NHFC only had material non-compliance findings on expenditure management in the current year which is an improvement from the material non-compliance findings noted in the prior year on the annual financial statements, procurement and contract management and consequence management.

**Social Housing Regulatory Authority's (SHRA)** audit outcome on the annual financial statements remained the same as unqualified, however a regression was noted on the predetermined objectives as material findings were noted on the annual performance report. Material non-compliance findings were also noted.

## 2.2.1 Findings on the audit of the annual performance report and achievement of targets

### Slides 7 – 8

Overall the portfolio has achieved an average of 58% of its targets. The non-achievement of key indicators affects the lived experiences of citizens (refer to table below for more details). HDA, NHBRC and CSOS reported significant achievements of their targets namely 73%, 89% and 80% respectively. The department evaluates quarterly performance reports of the entities and provides recommendations



and action plans on how to improve such; however, there is no evidence that the monitoring process has led to improvements in performance.

Auditee	Material findings	Number of targets achieved against the number of targets planned for 2022-23 (%)	Impact of targets not achieved
NDHS	None reported in audit report as material misstatements on four indicators were corrected to align reported achievements to supporting evidence submitted for audit.	50%	The reasons provided for the non-achievement of the targets are an indicator that the different role players within the sector may not be working effectively towards achieving the MTSF targets, and this may be caused by a lack of proper coordination processes e.g. Four housing programme agreements for mining communities not being developed, quarterly reports on title deeds not including information from all provinces by NHDS.
HDA	None reported in audit report as material misstatements on two indicators were corrected for consistency to ensure alignment between the APP and the APR.	73%	Delayed implementation of projects putting beneficiaries in an adverse/deprived circumstances such as issues of inadequate housing, increased informal settlements and unrests.
NHBRC	None reported in audit report as material misstatement on one indicator was corrected for consistency to ensure alignment between APP and APR.	89%	Delays in turnaround time of prosecutable matters set down for hearing before the Disciplinary committee which creates a backlog of disputes which impacts the efficiency of service delivery. Rectification by homebuilders taking longer.
PPRA	<b>Programme 2: Licensing and Compliance</b> Supporting evidence was not provided or not reliable for the following two indicators: <i>Indicator: Number of property practitioners registered on</i>	31%	Difficulties on system to distinguish between new applications or renewable applications (i.e. new and old practitioners on the system) thus creating challenges in reporting on CPD and number of new practitioners.

Auditee	Material findings	Number of targets achieved against the number of targets planned for 2022-23 (%)	Impact of targets not achieved
	<p><i>database of the PPRA per annum</i></p> <p><i>Indicator: Percentage of all compliant new registrations processed within 30 days</i></p> <p><b>Programme 4: Research, Professionalisation and training</b></p> <p><i>Indicator: Percentage increase of property practitioners who are registered for CPD and have met CPD requirements in full</i></p> <p>Adequate supporting evidence was not provided.</p>		
NHFC	No material findings reported.	19%	The NHFC achieved their disbursement targets relating to affordable housing bridging finance, but fell short when it comes to disbursing the budget targeted at assisting the 'missing middle' sector of society. As a result, citizens who are not eligible to finance from commercial banks but also do not qualify for low-cost houses remain without access to housing finance.
SHRA	<p><b>Project Development and Funding</b></p> <p><i>Indicator: Percentage of construction spend to enterprises that are majority owned by women</i></p> <p>The calculation of the % spend was not accurate. An achievement of 9% was reported against a target of</p>	58%	Failure to achieve this indicator shows that it is still failing to advance/ influence the transformation of the construction industry by empowering women owned enterprises in the housing sector while delivering affordable rental housing for low to middle-class income groups who mostly do not qualify for free Breaking New Ground (BNG) housing but also do not earn enough for bank financing to purchase a house.

Auditee	Material findings	Number of targets achieved against the number of targets planned for 2022-23 (%)	Impact of targets not achieved
	40%. It is likely that the achievement of the target was even better than reported.		
CSOS	None reported in audit report as material misstatements on three indicators under Programme 2: Regulation were corrected	80%	<p>The schemes that could not be registered due to a technical error on CSOS connect to process schemes ready for registration will result in compliant scheme registrations not registered impacting directly on the service delivery of the CSOS.</p> <p>Disputes not assessed within 30 days due to insufficient capacity (Case Management Officers) creates a backlog of cases which impact the efficiency of service delivery.</p> <p>Executive managing agents from previously disadvantaged backgrounds were not trained as required may result in governance challenges and delays in finalising disputes impacting the service delivery of the public entity.</p>

## 2.2.2 Quality of financial reporting

### Slide 14

The control environment impacts on the auditee's ability to produce good quality financial statements. Improvement is however still required to ensure that the required preventative / detective controls are in place and are sustainable as the audit process assisted 56% (five of the nine) of the auditees to obtain quality financial statements. The following five entities had material misstatements in their financial statements submitted for audit which were subsequently corrected:

Auditee	Financial management control deficiencies
HDA	Inadequate review of the annual financial statements and its supporting schedules to ensure that they are compliant with GRAP and the applicable National Treasury guidelines.
PPFF	Inadequate supporting evidence to confirm assessment of contingent liabilities and accurate accounting for receivables.
PSTF	Inadequate review of the financial statements
CSOS	Absence of a systematic record keeping system for example scheme register, billing data, information related to bids and tenders etc.  Absence of adequate reviews to ensure reports are supported by reliable information e.g. Revenue and receivable information.
SHRA	Limited capacity in the quality review process by management to ensure that financial statements comply with the requirements of the relevant GRAP standards.

The table below details the qualification areas for PPRA:

Auditee	Outcome	Details on qualification areas
PPRA	Qualified	<ul style="list-style-type: none"> <li>Receivable from exchange and non-exchange transactions.</li> <li>Payables from exchange transactions: Debtors with credit balances.</li> <li>Movement in allowance for credit losses</li> </ul> <p>We were unable to obtain sufficient audit evidence that management has properly accounted for the above. This was due to a lack of proper record keeping and reconciliation of controls accounts by the entity. The outcomes remained unchanged as management did not address the prior year findings, as a result debtors were outstanding for a long period of time.</p> <ul style="list-style-type: none"> <li>Revenue from non-exchange transactions: Fines and penalties</li> </ul> <p>The entity did not recognise all the revenue from penalties that should have been recognised in the current year.</p>

### 2.2.3 Financial health

#### Slide 15

There was no doubt as to the entities ability to continue as a going concern. Overall the financial viability of the entities is healthy and sound.

## Revenue

The debt collection period was more than 90 days at HDA, PPRA, CSOS and NHFC, with an average collection period of 231 days which is a concern as it has the potential of additional strain on the already limited government resources. Mechanisms should be developed to reduce the period it takes to collect debts.

More than 10% of the debts is also irrecoverable at NHBRC, PPRA and CSOS.

## Expenditure

- Fruitless and wasteful expenditure of R473 792 was incurred at five auditees:

Auditee	Amount
CSOS	R45 506
DHS	R31 000
NHFC	R229 000
HDA	R67 000
PPRA	R101 286

- The creditor payment period exceeded 30 days at the following five auditees: HDA, NHBRC, PPRA, CSOS, NHFC.

## 2.2.4 Compliance with key legislation

### Slide 16

The following material non-compliance findings were identified and reported:

Auditee	Findings	Root cause
DHS	<p><u>Expenditure management</u> Payments were made before services were received.</p> <p><u>Asset management</u> Proper control systems were not in place at the department to ensure the safeguarding of assets</p>	Compliance was not properly reviewed and monitored by the department.

Auditee	Findings	Root cause
HDA	<p><u>Annual financial statements and annual report</u></p> <p>Material misstatements of current assets, liabilities and disclosure items identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.</p> <p><u>Expenditure management</u></p> <p>Effective and appropriate steps were not taken to prevent irregular expenditure. The majority of the irregular expenditure was caused by failure to follow competitive bidding processes by management emanating from the contract for provision of chemical toilets and honey-suckers to informal settlements in Gauteng Province in 2021-22 financial year.</p>	<p>Inadequate review of the annual financial statements and its supporting schedules resulting in the entity not fully adhering to the requirements of GRAP and the applicable National Treasury guidelines.</p> <p>Failure to follow competitive bidding processes by management resulting in the contract for provision of chemical toilets and honey-suckers to informal settlements in Gauteng Province in 2021-22 financial year being declared Irregular.</p>
NHBRC	<p><u>Consequence management</u></p> <p>We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular and fruitless and wasteful expenditure.</p>	<p>This was due to proper and complete records not being maintained as evidence to support the investigations into the irregular and fruitless and wasteful expenditure- of prior years.</p>
PPRA	<p><u>Annual financial statements and annual report</u></p> <p>Material misstatements were identified by the auditors and were not subsequently corrected and the supporting records could not be provided subsequently.</p> <p><u>Revenue management</u></p> <p>Effective and appropriate steps were not taken to collect all revenue due.</p> <p><u>Expenditure management</u></p> <p>Effective and appropriate steps were not taken to prevent irregular expenditure. The majority was caused by competitive bid processes not followed for contracts exceeding the procurement threshold and expenses incurred after contract expiry date.</p>	<p>Lack of adequate reviews of the annual financial statements mainly due to the vacancy in the CFO position in the time of submission.</p> <p>PPRA not having a unit or team dedicated to the collection of revenue from practitioners owing the entity.</p> <p>Poor contract management by the entity and not following proper procurement processes. This can be attributed to the vacancies that existed being the manager SCM as well as CFO.</p>

Auditee	Findings	Root cause
	<p><u>Procurement and contract management</u></p> <p>Procurement by other means was not provided in the SCM policy of the entity or did not cover at least the minimum requirements.</p> <p>Some of the deviation processes followed in identifying prospective suppliers was not in line with the process prescribed in the entity's SCM policy.</p> <p>Some of the contracts were extended or modified without the approval of a properly delegated official.</p>	<p>Policy not being adequately reviewed. Further it was also as a result of SCM processes not being monitored as the result of the vacancies in the SCM unit and the vacancy of the CFO.</p>
PPFF	<p><u>Annual financial statements and annual report</u></p> <p>Material misstatements of current assets and disclosure items identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.</p> <p><u>Revenue management</u></p> <p>Effective and appropriate steps were not taken to collect all revenue due.</p> <p><u>Expenditure management</u></p> <p>Effective and appropriate steps were not taken to prevent irregular expenditure</p>	<p>Lack of adequate reviews of the annual financial statements mainly due to the vacancy in the CFO position in the time of submission.</p> <p>PPFF not having a unit or team dedicated to the collection of revenue from practitioners owing the entity.</p> <p>Procurement processes not being monitored and reviewed as a result of vacancies in the SCM unit and there being no CFO.</p>
PSTF	<p><u>Annual financial statements and annual report</u></p> <p>Material misstatements of expenditure and disclosure items identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.</p> <p><u>Asset management</u></p> <p>Funds were deposited with institutions that were not approved by National Treasury.</p>	<p>Lack of adequate reviews of the annual financial statements mainly due to the vacancy in the CFO position in the time of submission.</p> <p>X`</p> <p>PSTF did not obtain approval from National Treasury for the opening of the Transformation Fund account.</p>
CSOS	<p><u>Annual financial statements and annual report</u></p> <p>Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were corrected and the relevant supporting</p>	<p>Inadequate record keeping over records of revenue (including the register of schemes, registration documents, annual returns) and records of procurement and contract</p>

Auditee	Findings	Root cause
	<p>records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.</p> <p><u>Revenue management</u> Effective and appropriate steps were not taken to collect all revenue due.</p> <p><u>Expenditure management</u> Effective and appropriate steps were not taken to prevent irregular expenditure.</p> <p><u>Procurement and contract management</u> We were unable to obtain sufficient appropriate audit evidence that goods and services of a transaction value of above R1million were procured by means of inviting competitive bids. Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the PPPFA and PPR.</p>	<p>management (bids and quotations requested/received).</p> <p>Inadequate supervision of the daily, weekly, and monthly activities relating to the processing and reconciling of information.</p> <p>Lack of leadership oversight over procurement and contract management</p>
NHFC	<p><u>Expenditure management</u> Effective and appropriate steps were not taken to prevent irregular expenditure.</p>	<p>Slow implementation of recommendations that were made in previous audit cycles.</p>
SHRA	<p><u>Annual financial statements and annual report</u> Material misstatements of liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were corrected subsequently, resulting in the financial statements receiving an unqualified audit opinion.</p>	<p>Limited capacity in the quality review process by management to ensure that the financial statements comply with the relevant GRAP standards.</p>



## 2.2.5 Procurement and payments

### Slide 17

Movement from the first year of administration:

- HDA had material findings on SCM in 2019-20 which has improved (HDA was the only auditee in 19-20 with material findings on SCM).
- The regression relates to PPRA (previously EAAB) and CSOS which had material findings on SCM in 22-23.

Movement from the previous year:

- Improvement was noted on HDA which had material findings on SCM in prior year (thus improvement in CY). This was mainly due to the stability in the appointment of the CFO and CEO.
- Regression was noted for the following auditees:
  - DHS – no findings to findings in the management report
  - PPRA – no findings to material findings reported in the audit report
  - CSOS – findings to material findings reported in the audit report

This was due to deficiencies in internal controls; however all goods and services paid for were received.

## 2.2.6 PFMA Compliance and Reporting Framework

### Slide 18

**National Treasury Instruction No. 4 compliance reporting framework matter.**

1. National Treasury Instruction No. 4 of 2022/2023: PFMA Compliance and Reporting Framework (Instruction) which came into effect on 03 January 2023, was issued in terms of section 76(1)(b), (e) and (f), (2)(e) and (4)(a) and (c) of the PFMA.
2. The objective of the Instruction note is to prescribe the principles and compliance reporting requirements for departments, trading entities, constitutional institutions and public entities listed in Schedules 2 and 3 to the Public Finance Management Act, 1999 with regard to unauthorised, irregular and fruitless and wasteful expenditure (UIF&WE).

**Background on the key changes to irregular and fruitless and wasteful expenditure disclosure requirements as a result of the National Treasury Instruction no.4: PFMA compliance and reporting framework.**

3. The new framework brought significant changes in relation to the disclosure of irregular, and fruitless and wasteful expenditure (IFWE). These changes are as follows:



- a) The movements in the disclosure note of IFWE such as condoned, recoverable, removed, written off, under assessment, under determination and under investigation have been moved from Annual Financial Statements and now will be disclosed in the Annual Report.
- b) PFMA institutions will only disclose IFWE incurred in the current year, with a one-year comparative analysis in the Annual Financial Statements notes disclosure.
- c) The historical balances (i.e. opening balances) have been completely removed from the annual financial statements (AFS).

**Message to oversight on the AGSA's position on the audit of IFWE that should be disclosed in the annual report.**

4. The purpose of disclosing irregular, fruitless and wasteful expenditure in the financial statements is to enable the oversight and monitoring structures of South Africa (e.g., Parliament) to perform their role to ensure that funds are spent in line with s217 of the Constitution and to hold officials and the executive accountable.
5. The fact that the disclosure of IFWE (historical balances and movements) is no longer required on the annual financial statements and no audit assurance is provided thereon, the oversight structures would need to engage directly with the information disclosed in the annual report or request the information on historical balances directly from the relevant institution where not disclosed in the annual report to exercise their oversight responsibility.
6. From an audit perspective, transparency and accountability is further limited by the fact that currently no audit assurance will be provided on the additional disclosures that have been moved from the AFS.
7. As a response to this, the AGSA refined their audit approach to uphold transparency and accountability through our audits notwithstanding the implementation of the framework. We therefore through our audits continued to audit the IFWE registers of historical balances as well as any IFWE disclosure included in the annual report.
8. Have clear messaging in the audit reports whereby we identified material misstatements to what was disclosed in the annual reports and the audit evidence gathered through the audit of these registers.
9. While we were not in a position to modify audit opinions due to inadequate systems to detect, record and appropriately disclose historical IFWE in the AFS, the objective was to ensure that we could still be in a position to report to the users of the AFS in cases where these registers of historical balances of IFWE are not completely and accurately maintained. This had no impact on the audit opinion of the financial statements.

### 2.2.7 Irregular expenditure

#### Slide 19

During the year under review, auditees incurred irregular expenditure amounting to R500,9 million, which was disclosed in the financial statements. The analysis of irregular expenditure shows that irregular expenditure decreased slightly by 2,5% compared to the previous year, although irregular expenditure

has increased by 236% since 2019-20. Proactive review and monitoring controls still need to be strengthened to eliminate the non-compliance and resultant irregular expenditure.

The irregular expenditure incurred in the current year is broken down in the following table:

Auditee	Description	Amount	Impact
DHS	Deviation – three quotes were not obtained for four awards	R1 375 000	Breach of pillars of procurement: Competition
HDA	R362,3m relates to a multi-year contract that was entered into in the prior year. The remainder of R9m relates to the non-compliance of SCM prescripts.	R371 369 000	Breach of pillars of procurement: Fairness
PPRA	R7,3m relates to competitive bid processes not followed for contracts exceeding the procurement threshold. R5,6m relates to expenses incurred after contract expiry date. R1m relates to SCM processes not followed in the appointment or re-appointment of service providers	R14 639 210	Breach of pillars of procurement: Competition
PPFF	SCM processes not followed in the re-appointment of service provider	R173 481	Breach of pillars of procurement: Competition
CSOS	R7 968 874 - Office lease for head office (TSA): Contract entered into in the prior year, continuing irregular expenditure. R 17 592 833 - Competitive bidding process not followed. R 693 798 – Inaccurate evaluation process - Appointment of attorneys from a panel, which was declared irregular in prior years R2 537 516 – Non-compliance with Preferential Procurement reg. 5(7) PPPFA 2(1)(a) and Treasury reg 16A6.3(b) R27 353 - Non-compliance with the requirements relating to local content	R28 820 374	Breach of pillars of procurement: Transparency and competition

Auditee	Description	Amount	Impact
NHFC	Non-compliance with TR and SCM policies – majority was caused by extension of a lease of the office building	R6 361 000	Breach of pillars of procurement: Cost effective, fairness and transparency
SHRA	This was due to transactions approved by the interim council on CCG project approvals and ensuing disbursements.	R77 811 147	Breach of pillars of procurement: Competition

## 2.2.8 Consequence management

### Slide 19

The following material non-compliance issues relating to consequence management were identified and reported:

Entity	Description	Root cause
NHBRC	We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular and fruitless and wasteful expenditure.	This was due to proper and complete records not being maintained as evidence to support the investigations into the irregular and fruitless and wasteful expenditure of prior years.

Although the majority of irregular expenditure has not been dealt with, processes are in progress at most auditees to deal with the irregular expenditure i.e. investigations have been performed and irregular expenditure is awaiting condonation or investigations are in progress / completed and disciplinary procedures are in progress.

## 2.2.9 Portfolio committee message

### Slide 21

The following was recommended to the portfolio committee in the previous year and is assessed as still being in progress in the current year. Refer to table below for details:

2021-22 recommendations	Overall reflection of the implementation of recommendations
Monitor and regularly follow up with EA/AO on progress on <b>audit action plans</b> at the department and entities.	<b>Audit action plans</b> are in place at the department and entities, however there are repeat audit findings in the portfolio.
Monitor the <b>key vacancies</b> at the department and entities to ensure stability of leadership	Some of the key vacancies were filled at <b>DHS, HDA, NHFC &amp; SHRA</b> , however there are still key vacancies that still need to be filled at <b>CSOS, DHS, NHBRC &amp; PPRA</b> to ensure stability of leadership.
Follow up with department and entities that incurred IFWE to ensure there is <b>consequence management</b> .	Committee monitored implementation of <b>consequence management</b> with entities that incurred IFWE. However, there was an increase in irregular expenditure incurred in the portfolio.

### Slide 22

The table below reflects the overall root causes and what was recommended to the AO/AA. Furthermore, we have also obtained commitments from the Minister.

Key root causes	Key recommendations	Commitments by Executive authority
<ul style="list-style-type: none"> <li>Some of the deficiencies identified were due to vacancies in key positions.</li> <li>Inadequate enforcement by AAs/AOs of action plans on non-performance challenges to ensure that concerns are addressed through appropriate interventions and actions.</li> </ul>	<ul style="list-style-type: none"> <li>AOs should ensure that filling of key vacancies is fast-tracked while remaining within applicable legislation.</li> <li>Monitor the implementation of action plans to ensure issues raised are addressed to avoid repeat findings.</li> </ul>	<ul style="list-style-type: none"> <li>Setting up a dedicated team to deal with disasters and disaster funds should be centralised at national level.</li> <li>Engaging NT to review grant conditions and finding the balance between performance and compliance with DORA.</li> </ul>

Key root causes	Key recommendations	Commitments by Executive authority
	<ul style="list-style-type: none"> <li>Implement and enforce consequence management processes for public entities with poor performance in executing own mandate and meeting performance targets.</li> </ul>	<ul style="list-style-type: none"> <li>Improving business plans and close misalignment gap between MTSF and available funds.</li> <li>Filling three DDG positions which is currently at Cabinet and then filling other vacancies.</li> <li>Engage entities to obtain feedback, commitments from the entities and to hold them accountable.</li> </ul>

**Slide 23**

The following key messages to the portfolio committee is highlighted to drive the required change going forward.

Auditee	Description
<b>PPRA</b>	Lack of <b>effective system to manage the property practitioners</b> and their related accounts. As a result, debtors were not properly managed resulting in <b>debtors outstanding for long periods</b> of time.
<b>NHFC</b>	The AFS submitted were <b>free from material misstatements</b> . <b>Reduction in material non-compliances</b> compared to the previous year. <b>No material misstatements in AoPO</b> , however a significant part of the core targets (20/25) in programme 2, 4 and 5 were not achieved which is concerning. Focus on achieving its mandate to improve the experiences of lived citizens.
<b>HDA</b>	An <b>improvement in the overall control environment and audit outcomes</b> . Management is in the process of the <b>implementation of improved internal controls</b> . Management is <b>enforcing a culture of strict consequence management</b> . Improvement in the achievement of performance targets from <b>29%</b> in the prior year to the <b>73%</b> achievement in the current year.
<b>SHRA</b>	An improvement in the <b>overall control environment</b> can be achieved through effective implementation of internal controls that will prevent material misstatements in the future as the root cause of the findings raised is Internal control deficiencies



Auditee	Description
NHBRC	<p>Remaining <b>critical vacancies</b> should be filled.</p> <p>Adequate <b>consequence management processes</b> should be followed to resolve on previous irregular and fruitless and wasteful expenditure incurred.</p> <p>Inspections are performed, however quality of houses remain a concern.</p>

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## 2.2.10 Reflection on sector performance

### Slides 25

The provincial audit outcomes for the portfolio included two qualified audit opinions for Free State and Mpumalanga because of slow response by management to address issues raised in the prior year.

The remaining seven provincial audits received unqualified audit opinions with findings on performance information and compliance. An improvement was noted in Gauteng and North West whose audit opinion moved from qualification in the prior year.

### Slides 26 to 27

An analysis was performed to assess whether the MTSF indicators have been included in the APPs of the provincial departments as this is the fourth year of administration. The following observations were noted:

- From a total of 13 MTSF indicators an average of 88% are included in the APPs of the provincial departments. These standardised indicators are included as an annexure in the APP of the national department.
- An average of 12% are not included in the provincial APPs but are included in some of the entities in the Human Settlements portfolio. Reason provided for the non-inclusion of the indicators was

that the indicators are being implemented by some of the entities in the Human Settlements portfolio.

- Free State did not include the four indicators relating to PDAs because by the time sector standardised indicators were concluded - 94 PDA's were already declared.
- For the indicator relating to rental housing units delivered in PDAs, we noticed that all provinces had not started except for Eastern Cape.
- The departmental MTSF targets were revised including the one for rental units.
- For three of the key indicators, *Number of BNG houses delivered*, *Number of service sites delivered*, *Number of title deeds registered* – the total targets set by the sector are less than the average total targets after four years. Furthermore, the sector is achieving below what was planned.
  - Example: The planned target for the 'Number of title deeds registered (all 4 categories)' over the four years is 53%, of the MTSF estimated target (954 578). This is a demonstration that the human settlements sector continues to under-plan.
  - Example: Only 29% of the 'Number of title deeds registered' own target that has been achieved. Despite planning targets below the MTSF targets, the sector is still not able to achieve those lower targets.
  - Therefore, we continue to observe that the current processes in place are still not adequate in ensuring that there is an effective coordination of efforts toward the same milestones by the role players. This may bring doubt on whether the human settlements sector is adequately fulfilling its mandate of providing citizens with housing.
  - The processes should be redesigned in such a manner that all provinces include all MTSF indicators in the annual performance plans and the consolidated targeted numbers add up to the annual required MTSF target.

## 2.2.11 Service delivery

### **Slides 28 to 30 & 32**

#### **2.2.11.1. Failure to utilise NHNR increases mismanaging of the housing assistance programs resulting in the needs of the vulnerable citizens not being met**





DHS is a key enabler of service delivery through:	Observations
Housing Register for beneficiaries who need houses	<ul style="list-style-type: none"> <li>The mandate of the department is to provide houses to vulnerable citizens.</li> <li>Housing register was developed but not fully utilised as intended.</li> <li>Those in need of houses, register their names in the housing register.</li> </ul>
Allocation of houses	<ul style="list-style-type: none"> <li><b>94%</b> of application presented in the <b>Housing Subsidy System (HSS)</b> were not found in the <b>National Housing Needs Register (NHNR)</b> system.</li> <li>Out of 29 113 HSS approved applications with subsidy, only <b>1 723 records (6%)</b> matched NHNR.</li> </ul>
Maintenance and utilisation of the register	<ul style="list-style-type: none"> <li>DHS developed <b>policy and practice note (PN) to enforce</b> utilisation NHNR.</li> <li>Policy Prescripts for the allocation of Housing opportunities created through the National Housing Programmes dated 12 October 2017 and Practice Note 1 of 2017 are <b>still in draft format</b> and the documents are developed to guide the implementation of the NHNR in provinces.</li> </ul>
Monitoring the allocation of houses	<ul style="list-style-type: none"> <li><b>Non-approval of NHNR policy and practice note</b> for both documents to be enforced through</li> <li>Lack of monitoring by the national department to encourage compliance</li> <li><b>Lack of monitoring</b> to ensure guidelines shared with the provinces are adhered to.</li> </ul>

### 2.2.11.2 Failure to eradicate mud houses negatively affect the lived experiences of citizens

Five of the provinces have mud houses eradication targets (i.e. Eastern Cape, Kwazulu-Natal, Mpumalanga, Northern Cape and North West). Despite these targets that were set, the process of identifying the mud houses is an ongoing process.

#### Challenges

- The concept of the eradication of mud houses was introduced late in the year and some of the provincial business plans had already been amended and approved.
- Due to late introduction, municipalities are still in the process of identifying citizens living in mud houses.

- Some of the citizens did not register their names in the Housing Need Register.

**22-23: Culture shift in-action**

- **Collaboration with the AGSA** to elevate gender-responsive auditing through our methodology.
- Continuous engagements with the DG to influence the department by providing valuable insights that will **shift the current culture** by collaborating with other public sector key role players.
- Effective APP pro-active reviews targeted on quality of indicators.

**2.2.11.3**

**Housing Development Agency: Land valuations manipulated to inflate land prices / Suitability of land held for future development may be compromised by illegal land occupation. Ultimately provision of sustainable Human Settlements are negatively impacted**

HDA is a key enabler of service delivery through:	Observations
<p><b>Identifying, acquiring, servicing and releasing the land</b></p>	<ul style="list-style-type: none"> <li>• HDA achieved <b>60% of land acquisition</b> and rezoning targets with <b>expenditure rate of 88%</b> for the 2022/23.</li> <li>• Emerging risk of <b>illegal vacant land occupation</b> by construction mafias mainly in Gauteng province.</li> <li>• Conducted site visits – instances of illegal occupation was identified. HDA does not have adequate controls in place to address illegal occupation of vacant land.</li> <li>• Conducted procedures on land valuations to detect any inflated valuations for land acquisition and site visits, no instances of overvaluation noted. Processes are in place to ensure <b>land acquisition prices are market related</b>.</li> <li>• Improvement in controls to <b>prevent fiscal dumping</b> by provinces.</li> <li>• HDA blocked uncommitted grant transfers from KZN at end of 2022/23.</li> <li>• The entity must implement measures to mitigate the risk in relation to land owned, as well as land held on behalf of provinces.</li> </ul>

HDA is a key enabler of service delivery through:	Observations
Project management services on behalf of provinces and metros	<ul style="list-style-type: none"> <li>No contracts awarded to <b>PEPs, suppliers blacklisted</b> by NT or those with blocked projects.</li> </ul>

## 2.2.12 Flood relief

### Slide 31

#### Temporary Residential Units (TRUs)

The approved allocation for the Provincial Emergency Housing Grant for 2022-23 was R795 764 000. The following budget and spending was allocated to Eastern Cape and Kwazulu-Natal:

Province	Budget	Spending (till 31 March 2023)
EC	R326m	R318m
KZN	R84m	R67m

#### What we found

Province	What we found	Cause	Impact
EC	<ul style="list-style-type: none"> <li>Total of 1 008 (82%) TRUs were completed out of 1 225, spending R67 million.</li> <li>217 TRUs not erected.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of resources in the disaster management unit</li> <li>Delay in assessing and validating replaced households as beneficiaries for TRUs</li> </ul>	<ul style="list-style-type: none"> <li>Slow rate of response for the disaster relief initiative.</li> </ul>
KZN	<ul style="list-style-type: none"> <li>Total of 1 766 (98%) TRUs were erected out of 1 810 TRUs at a cost of R123 million.</li> <li>44 TRUs not erected.</li> <li>R219 million budgeted for Temporary Emergency Accommodation (TEAs), spending R195.2 million (89%).</li> <li>R23,8 million (11%) has not been spent and rollover has been requested to be used for the refurbishment and operational costs of Montclair Lodge that</li> </ul>	<ul style="list-style-type: none"> <li>Delay in submission of application forms to the national department due to gathering of information to accompany the applications.</li> </ul>	<ul style="list-style-type: none"> <li>Possible financial implication of anomalies identified on the validated list of beneficiaries.</li> </ul>

Province	What we found	Cause	Impact
	<p>was acquired for the TEAs that is owned and operated by the department.</p> <ul style="list-style-type: none"> <li>TRU project has been temporarily suspended as a disaster relief response.</li> </ul>	<ul style="list-style-type: none"> <li>Delay in approving the application forms due to documents that were not submitted with the application forms.</li> <li>Unavailability of suitable land for erection of TRUs</li> </ul>	

### Actions / Recommendations

The national department's ability to assess the damage caused by disasters needs to be enhanced.

### 2.2.13 MI process implemented and MIs identified

#### Slide 34

**Definition:** A material irregularity means any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the PAA that resulted in or is likely to result in 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.

The following Mis have been issued:

Province	MI Description	Financial loss	Status / Observations
Eastern Cape	Payment made for agency fees without value and for services not received for TRUs and award to supplier not scoring highest causing FL of R167m	R167million	The AO was notified.
Free State	Extension of time claims relating to Covid-19 and overpayment on projects causing a FL of R74 million	R74million	MI has been referred to the DPCI for further investigation
Gauteng	Payment made to an incorrect beneficiary causing a FL of R2 million	R2million	The MI is resolved

Province	MI Description	Financial loss	Status / Observations
Gauteng	F.W.E incurred on a Red Ants contract due to late payments causing a FL of R116 million	R116million	MI related to Red Ants contract is currently undergoing forensic investigation through the office of the premier <b>GP</b> .
Northern Cape	Payment for goods not delivered and on Lerato Park CRUs for substandard work causing a FL of R2.8 and R11.6 million	R14,4million	The AO was notified on the MI on 28 July 2022 and invited to make written submission; however the AO has not taken any action in response to being notified. Further actions have been recommended to the AO in the audit report which are to be implemented by 27 February 2024.
North West	Overpayment for PMU services were not received and overpayment due to non-compliant contract extension causing a FL of R13 million	R13million	The AO is to take further actions to address the MI as stated in the audit report by 28 February 2024 and a progress report is to be submitted to the AGSA on 30 October 2023 on the progress made to implement the recommendations.
North West	Value of work less than the amount paid causing a FL of R7 million	R7million	The AO is to take further actions to address the MI as stated in the audit report by 28 February 2024 and a progress report is to be submitted to the AGSA on 30 October 2023 on the progress made to implement the recommendations.

The Material irregularities identified could have been prevented by basic disciplines and processes. Through the material irregularity process we highlight these internal control weaknesses and track improvements to prevent recurrence

#### Impact from the material irregularity process:

A financial loss of R23million has been prevented by the Eastern Cape provincial department as payments of contracts that were irregularly awarded was identified before the payments were made.

#### Actions taken by the auditees:

- 15 responsible officials have been identified and disciplinary process has been completed or is in process

- Three (3) investigations have been instituted
- Two (2) supplier contracts have been stopped where money is being lost
- Seven (7) instances have been noted where internal controls and processes have improved to prevent reoccurrence.

#### **Observations from the MI process**

- One MI is at NPA awaiting court date for asset forfeiture (GP).
- MIs resolved - 4 for EC and 1 for GP. Consequence management processes were undertaken ,15 officials in EC and 4 in GP and 2 contracts stopped.
- Financial loss recovery still under determination for Mis still at remedial action (7 MIs – 5 FS and 2 GP).
- Two in EC MIs where AO disagree, are under consultation.
- Appropriate action underway by AO underway in 4 Mis (FS).
- Consultations and determinations underway on 11 Mis FS (6), NW (3) and NC (2).

#### **Recommendations for portfolio committee**

The PC should ensure that the AOs are held accountable for both their actions taken to address MIs and the timeliness of their efforts in resolving these matters.

### **2.2.14 Portfolio committee message (Overall)**

#### **Slide 36**

Overall, four years into the current administration, the human settlements sector has shown stagnant movement in overall audit outcomes, and there is still room for improvement in achieving key performance targets, consequence management and coordination.

There is a significant delay in service delivery as citizens are waiting a long time before they get houses. The prolonged delays in completion of the projects within the agreed timelines has an impact on the ability of the provincial departments to effectively deliver on the objectives including the provisioning of bulk services, serviced stands and construction of top structures. This will also affect the department negatively from the financial standpoint due the Contract Price Adjustment (CPA) that will kick in because of increase in prices of material and transportation thereof. For instance, in Eastern Cape, there are 35 384 households waiting for houses which might take plus/minus 28 years to complete those houses.

There are still projects that are incomplete due to insufficient and inadequate project management skills within implementing entities as well as disciplinary measures not taken in the form of penalty charges

against contractors for failure to perform their contractual obligations within the agreed timeframe detailed in the contract. This, in turn, creates doubt on the ability of the human settlements sector to fulfil its mandate of providing qualifying citizens with housing.

Targets relating to eradication of mud houses, prioritised development areas and breaking new ground are still constantly not met, resulting in a backlog of the supply of low-cost houses. The FLISP programme is still not been effectively implemented, leaving those people who are often referred to as the 'missing middle' stranded.