

**REPORT OF THE AUDITOR GENERAL ON THE SPECIAL AUDIT OF
THE N2 GATEWAY PROJECT AT THE NATIONAL DEPARTMENT OF
HOUSING**

FIRST DRAFT RESOLUTION

Background

The Auditor – General (AG) was requested by the National Department of Housing (NDoH) to conduct a special audit of the N2 Gateway Project (N2GP). The audit focused on the N2GP from its inception, as well as the achievements of goals regarding sustainable human settlements and the collaboration of the three spheres of government to successfully achieve the common objective. The report highlighted challenges encountered during the audit and management comments received from the accounting officer on the 3rd of March 2008 and 5th of June 2008.

Report of the Committee

The Standing Committee on Public Accounts (SCOPA) heard and considered evidence from the Director General, Head of Department and Accounting Officers of the following Departments & Entities:

- National Department of Human Settlement
- Provincial Department of Human Settlement
- Municipal Manager of the City of Cape Town Metropolitan

The Auditor General raised specific concerns on the following and reported as follows:

1. Enabling Legislation and Policies

- The specific roles and functions allocated to the different spheres of government in terms of the Housing Act (Act No. 107 of 1997) and the Social Housing Policy were not adhered to
- The roles and responsibilities set out in the MoU were not clearly defined and were inconsistent within the MoU resulting in

uncertainties as to who need to take responsibility for and ownership of which specific functions.

- The Steering Committee established in terms of the MoU has stopped functioning properly after 10 May 2006

The committee recommends that:

- a) The project conforms to the prescripts of national acts and policies on housing and that the National Department of Human Settlement should monitor compliance by all Stakeholders.
- b) The current MoU should to be reviewed to clarify the roles and responsibilities of all stakeholders.
- c) National Department of Human Settlement should ensure that the Steering Committee Functions properly and that all role players are represented and duly attend and participate in the committee meeting.

2. Planning

The AG raised the following concerns:

- The business plan for the construction of the N2GP had not been finalised and approved before the actual construction of the N2GP and no final approved business plan was submitted to the audit team.
- The selection of beneficiaries was not finalised prior to the commencement of construction, resulting in the non-compliance with the prescribed requirement of listing the beneficiaries in the final business plan and loading these details on the National Housing Subsidy database prior to the project implementation.
- The National Housing Code, The Breaking New Ground Plan and the graft business plan were not consistent with regard to qualifying criteria for proposed beneficiaries, especially in respect of the monthly household income requirement. It was also noted that the criteria communicated to the different communities were not consistent.

The committee recommends that:

- a) The final business plan be aligned to applicable policies such as the National Housing Code and the Breaking New Ground Plan.
- b) The selection of beneficiaries should be in line with applicable policies and that National Department of Human Settlement should monitor compliance to applicable policies

3. Appointment of previous project manager

The AG raised the following concerns:

That the previous project managers were appointed in spite of the following:

- The company failed to prepare its costing in compliance with the terms and conditions of the request for proposal (RFP), thereby rendering its bid non-responsive
- The supply chain management committee awarded the contract to the company based on the Goods, Services and Property Advisory Board's recommendation, notwithstanding the fact that the company ranked number 6 in the evaluation committee's assessment.
- The NDoH was not represented in the evaluation committee even though the PFP stipulated it would comprise officials from all spheres of government.
- No formal contract was entered into with the company.
- The company lacked in-house and specialist expertise to perform various project management functions, with the result that the company obtained a third-party specialist and the company raised a 10% mark-up, on these services.
- The project management fees paid to the company exceeded the industry norm by 4% and were not performance based, as the company was paid 254% of the original tender amount(R12 080 653) although the N2GP had not yet been completed.

The committee recommends that:

- a) The accounting officers ensure that there is proper monitoring and compliance to applicable legislation and policies to avoid mismanagement and abuse of processes.
- b) The Accounting Officers of the relevant departments must take disciplinary or criminal action against designated employees who did not comply with relevant policies and initiate processes to recover funds misused where applicable
- c) The City through its processes ensure that the Forensic Audit report completed three years back regarding this project be made public as it is in the public interest to know what had happened to the project
- d) Individuals involved in the adjudication of tenders be investigated including those who have left the City and those who were "cleared" by virtue of the legal opinion received after the tabling of the Forensic Audit Report

4. Quality of units at Joe Slovo phase1

Various physical shortcomings were identified by the Social Housing Foundation as well as the AG which included, amongst others:

- The certificate of completion for the building contract issued by the principal agent was erroneously issued.
- Compliance with registration and inspection procedures ranging from the National Building Regulations to the National Home Builders Registration Council (NHBRC), construction regulations, inspection by local authorities and professionals and occupation certificate could not be verified.
- Site inspections revealed numerous cracks in the walls and floors, peeling paint, doors that were not fitted properly, loose fittings and uncovered drain pipes and blocked drains.

The committee recommends that:

- a) The accounting officers ensure that all physical defects be rectified in line with building regulations.
- b) Disciplinary actions or sanctions be instituted against officials or entities that did not comply with building regulations and inspection procedures

5. Conclusion

Based on the two sessions the committee had regarding the N2 Gateway project, the committee can fairly conclude that the project was not properly planned from its inception. That the administrators in all three spheres of government either acted out of incompetence and through that might have misled cabinet onto approving and releasing funding for this project.

The committee further noted that procurement processes were not followed at all stages of appointing key agencies that were meant to deliver on this project and that officials from all three spheres of government failed to provide leadership and their technical knowledge when there were challenges to the project. The committee further noted with disappointment that it is grossly negligent that no one has been made to account for all these lacunars whilst National Government is still maintaining that the project is a success.

Report to be considered