

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF VOTE NO. 26: NATIONAL DEPARTMENT OF HUMAN SETTLEMENTS for the year ended 31 March 2010

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

I have audited the accompanying financial statements of the national Department of Human Settlements, which comprise the appropriation statement, the statement of financial position as at 31 March 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 150 to 197.

### Accounting officer's responsibility for the financial statements

The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the Public Finance Management Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor-General's responsibility

As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa, my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette No. 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the national Department of Human Settlements as at 31 March 2010, and its financial performance and its cash flows for the year

then ended in accordance with the modified cash basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the Public Finance Management Act of South Africa.

### Emphasis of matter

I draw attention to the matters below. My opinion is not modified in respect of these matters:

### Basis of accounting

The department's policy is to prepare financial statements on the modified cash basis of accounting determined by the National Treasury, described in accounting policy note 1.1.

### Irregular expenditure

As disclosed in note 24 to the financial statements, irregular expenditure to the amount of R 920 000 was incurred, as proper procurement processes had not been followed as well as non compliance with the Public Service Regulations, 2001 resulting from officials acting in vacant positions without the relevant approval.

### Significant uncertainties

With reference to note 19 in the financial statements, the department is a defendant in various lawsuits. The outcome of these matters cannot presently be determined, and an amount of R72,438,000 has been disclosed as a contingent liability in the financial statements.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the PAA of South Africa and *General Notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the PFMA, DoRA, and financial management (internal control).

### Findings

#### Predetermined objectives

#### Non-compliance with regulatory and reporting requirements

##### - Submission of strategic plan

The accounting officer of the national Department of Human Settlements did not provide Parliament or the relevant legislature with the strategic plan at least 10 days prior to the discussion of the department's budget vote, as required by Treasury Regulation 5.2.1 and 5.2.2.

#### Presentation of reported performance information

##### - Reasons for major variances between planned and actual reported targets were not explained

Adequate explanations for major variances between the planned and the actual reported targets for Programme 3: Housing Planning and Delivery Support were not reported as required in terms of the relevant reporting guidance. In total 21% of the reported targets with major variances had no explanations for those variances.

### Timeliness of the reported performance information

#### - Reported performance information not received in time

The reliability of 54% of the targets of Programme 3: Housing Planning and Delivery Support, as set out on pages 59 to 90 of the annual report, could not be verified, since the information was not received in time for audit purposes.

### Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the department reported on its performance with regard to its objectives, indicators and targets in its approved strategic plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

#### Changes to planned performance information not approved

The national Department of Human Settlements reported on objectives, indicators and targets in addition to and different from those as per the approved 2009/10 Operational Plan. Furthermore, these additional and different objectives, indicators and targets were not approved subsequent to the strategic planning process.

#### Changes to planned performance not disclosed in annual performance report

Changes to the indicators and targets from the approved 2009/10 Operational Plan for the year under review, were not disclosed and explained as required in terms of the relevant National Treasury preparation guide.

#### Incomplete reporting on all predetermined objectives, indicators and targets

For the selected Programme 3: Housing Planning and Delivery Support and Programme 4: Housing Development Finance, the actual achievements with regard to 30% and 35% respectively of all planned indicators and targets specified in the 2009/10 Operational Plan for the year under review, were not reported in the annual performance report submitted for audit purposes.

#### Planned and reported performance targets not specific, measurable and time bound

For the selected Programme 3: Housing Planning and Delivery Support,

- 52% of the planned and reported targets were not measurable in identifying the required performance;
- 34% of the planned and reported targets were not time bound in specifying the period or deadline for delivery.

#### Planned and reported indicators not verifiable

For the selected Programme 3: Housing Planning and Delivery Support, 38% of the planned and reported indicators were not verifiable, as it was not possible to validate the indicator

### Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the department reported on its performance with regard to its objectives, indicators and targets in its approved strategic plan, corporate plan, annual performance plan and integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?

- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable; and are targets specific, measurable and time bound?

The following audit finding relates to the above criteria:

### Reported targets not accurate, as inadequate supporting source information was provided

For the selected Programme 4: Housing Development Finance, the accuracy of 21% of the reported targets could not be established, as sufficient relevant source documentation could not be provided for audit purposes.

### Compliance with laws and regulations

#### - Public Finance Management Act No. 1 of 1999 and Treasury Regulations of 2005

- o Non-adherence

Contrary to the requirements of Treasury Regulation 8.2.3 and section 38(1)(f) of the PFMA, the accounting officer did not in all instances pay creditors within 30 days from receipt of invoice.

### INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the PFMA and DoRA, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the deficiencies identified during the audit.

#### - Leadership

The department of Human Settlements did not have sufficient monitoring controls to ensure adherence to the laws and regulations with regards to the approval of the Strategic Plan and framework on performance information with regards to the changes on predetermined objectives in the operational plan not being disclosed in the annual performance report

#### - Financial and performance management

The department of Human Settlements does not have reliable performance management systems for identifying and capturing information as per the Framework for Managing Programme Performance Information and the Reporting Framework from National Treasury to support performance reporting. The financial systems in place do not cater for the timeous capturing and payment of invoices within the legislative deadlines. The department does not have appropriate systems to facilitate the preparation of performance reports.

#### - Governance

The effectiveness of internal control over supply chain management is not properly monitored and supervised.

*Auditor-General*

Pretoria

29 July 2010