



# Briefing to Portfolio Committee on Human Settlements

**PFMA**  
2019-20

*20 November 2020*



AUDITOR - GENERAL  
SOUTH AFRICA

## Reputation promise

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



## Role of the AGSA in the reporting process

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 the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report (BRRR)*.



# The 2019-20 audit outcomes





# Our annual audit examines three areas

THE AG'S  
ANNUAL  
AUDITS  
EXAMINE

3

AREAS:



**1** FAIR PRESENTATION AND  
ABSENCE OF SIGNIFICANT  
MISSTATEMENTS IN  
FINANCIAL STATEMENTS

**2** RELIABLE AND CREDIBLE  
PERFORMANCE  
INFORMATION FOR  
PREDETERMINED OBJECTIVES

**3** COMPLIANCE WITH ALL  
LAWS AND REGULATIONS  
GOVERNING FINANCIAL  
MATTERS



# The AGSA expresses the following different audit opinions

## Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

## Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align performance reports to the predetermined objectives they committed to in APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

## Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

## Adverse opinion



Auditee:

- 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

## Disclaimed opinion



Auditee:





- 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








# Important to note

The percentages in this presentation are calculated based on the **completed audits of five auditees**, unless indicated otherwise.

**Audit outcomes are indicated as follows:**

 Unqualified with no findings	 Unqualified with findings	 Qualified with findings	 Adverse with findings	 Disclaimed with findings	 Outstanding audits
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**Movement over the previous year is depicted as follows:**

 Improved	 Unchanged	 Regressed
Movement of 5% or less:  Slightly improved  Slightly regressed		

## AUDITEES IN THIS PORTFOLIO

- 1) National Department of Human Settlements – **NDHS**
- 2) National Home Builders Registration Council – **NHBRC**
- 3) Estate Agency Affairs Board – **EAAB**
- 4) National Housing Finance Corporation – **NHFC**
- 5) Community Schemes Ombud Service - **CSOS**

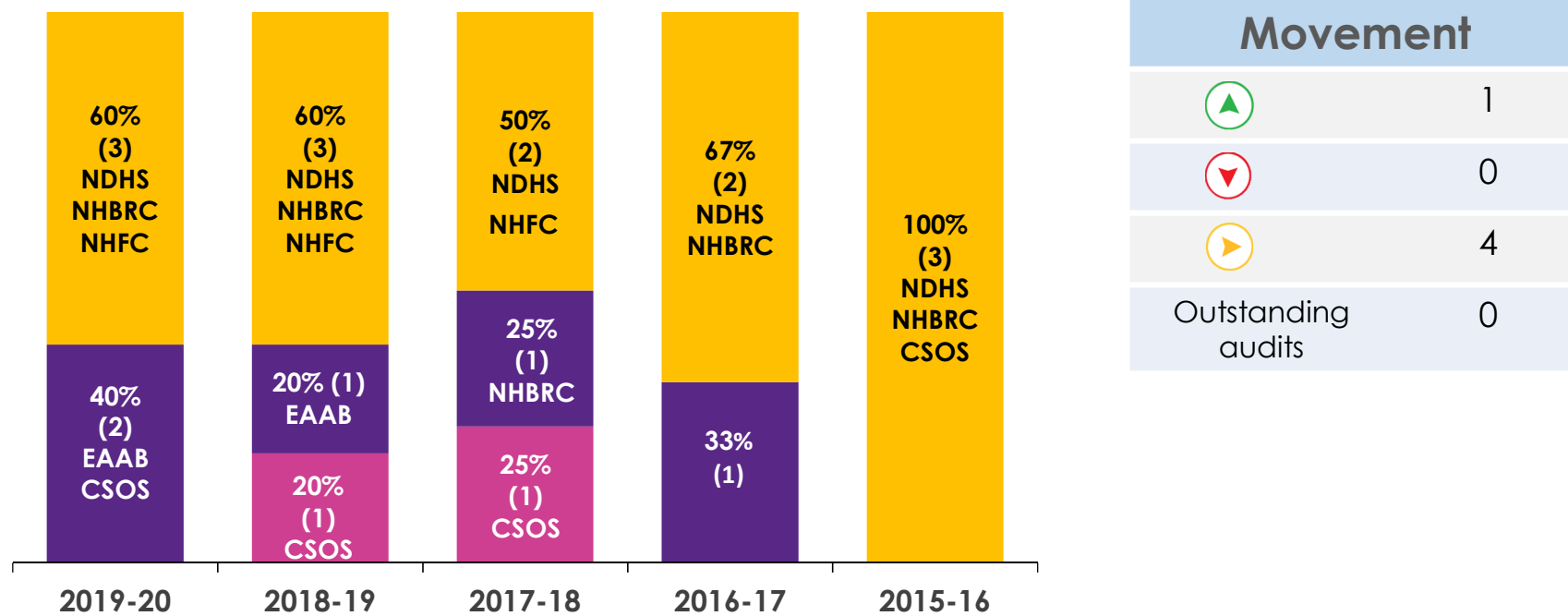


# ACCOUNTABILITY = PLAN + DO + CHECK + ACT





# Audit outcomes of portfolio over five years



- **Overall**, no entity has managed to obtain a clean within the portfolio. Leadership is required to set the right tone and provide the necessary oversight support in ensuring that the audit outcomes of the portfolio as a whole improve.
- **NHBRC** and **NHFC** material misstatements in the financial statements were corrected by management, resulting in an unqualified with findings audit opinion. This can be attributed to inadequate and lack timely review processes, as well as the ineffective use of the internal audit function.
- **CSOS** and **EAAB** both received a qualified opinion as a result of inadequate controls and processes around revenue management. Both entities have no permanent CFO appointed.
- **NDHS** submitted financial statements with no errors, and did not material contravene laws & regulations that govern financial matters. However, the systems and processes to ensure performance information reported is useful and reliable require improvement.





# Credible financial reporting



## Financial statements

Submission of financial statements by legislated date

Financial statements submitted without errors (**NDHS**)

Quality of final financial submission after audit (**NHBRC and NHFC**)

### Movement



2019-20

2018-19

	2019-20	2018-19
	5	5
	1	1
	2	2

- Only the **NDHS** has consistently submitted for audit, financial statements that are of the required quality.
- **NHBRC** and **NHFC** submitted financial statements that required adjustments to be made, as a result of audit differences identified through the audit process.
- **EAAB** and **CSOS** submitted financial statements that had misstatements identified through the audit process, which management could not provide sufficient and appropriate evidence to address the matters identified

## Key qualification areas

- **EAAB** – Revenue was materially understated as penalties for late renewals of fidelity fund certificates by estate agents were not always raised. The qualification in 2018-19 on commitments has been resolved.
- **CSOS** – Similar to prior years, revenue is materially understated as not all levies from community schemes were identified and collected. Though still qualified, some improvement were noted towards addressing the finding.





# Credible performance reporting



## Performance report

Performance report submitted without errors  
**(CSOS)**

Quality of final submission after audit **(NHBRC, NHFC and EAAB)**

### Movement



### 2019-20

### 2018-19

	1	0
	3	1

An arrow points from the '3' in the 2019-20 column to the text box below.

**Three** had no material findings only because they corrected all misstatements identified during the audit

Reliable reporting of achievements **(NDHS)**



1

3

Usefulness of performance indicators and targets  
**(NDHS)**



1

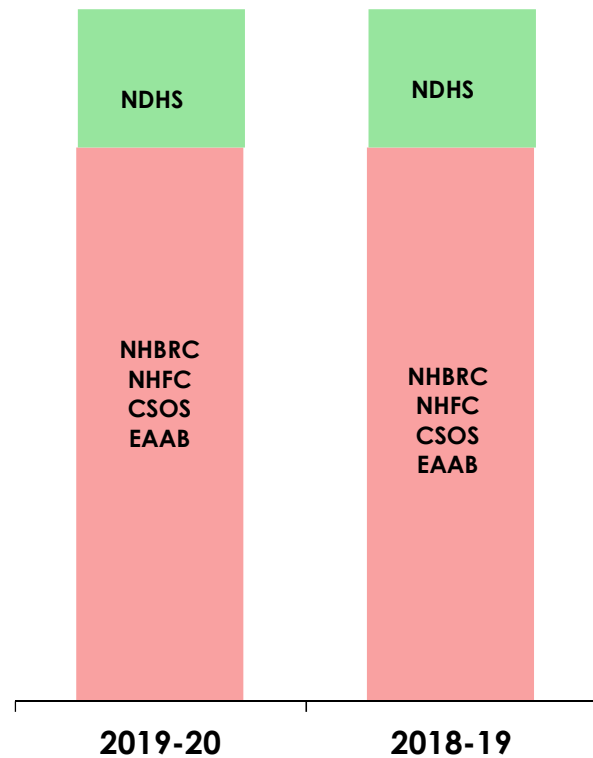
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# Disregard for compliance with legislation

Findings on compliance with key legislation



With no findings    With findings

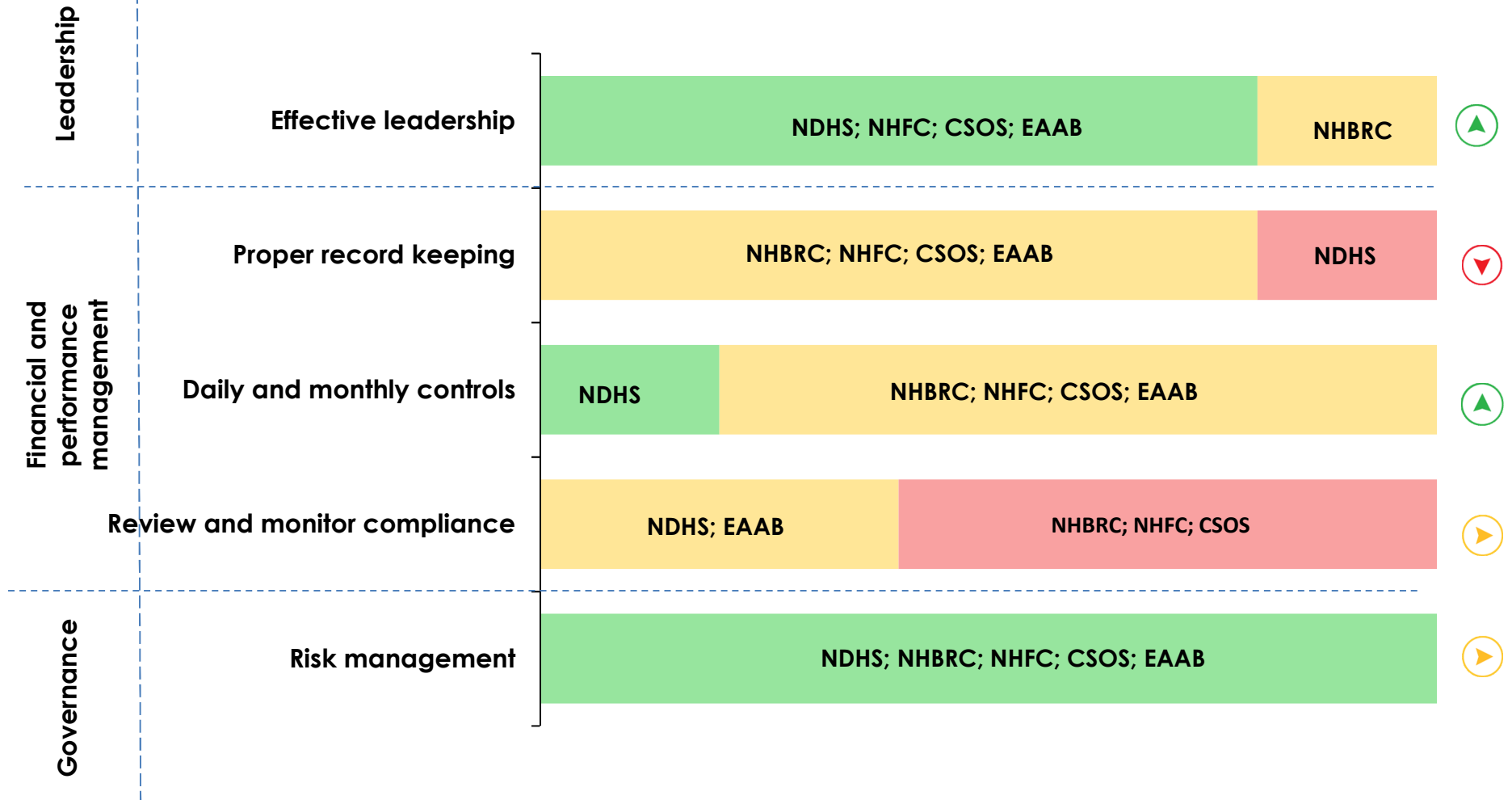
Top three non-compliance areas

- Quality of financial statements (**NHBRC, NHFC, CSOS, EAAB**)
- Prevention of irregular expenditure (**NHBRC, NHFC, CSOS, EAAB**)
- Prevention of fruitless and wasteful expenditure (**CSOS**)





# Status of internal control



Good



Of concern



Intervention required

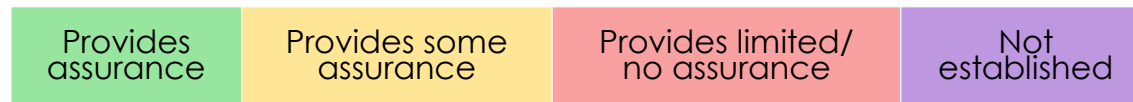
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# Assurance provided

		Assurance		
First level	Senior management	NDHS; NHBRC; CSOS	NHFC; EAAB	▲
	Accounting officer/authority	NHBRC; NHFC	NDHS, CSOS; EAAB	▲
	Executive authority	NDHS; NHBRC; NHFC; CSOS; EAAB		▶
Second level	Internal audit unit	NDHS; NHBRC; NHFC; CSOS	EAAB	▲
	Audit committee	NDHS; NHBRC; NHFC; CSOS	EAAB	▶



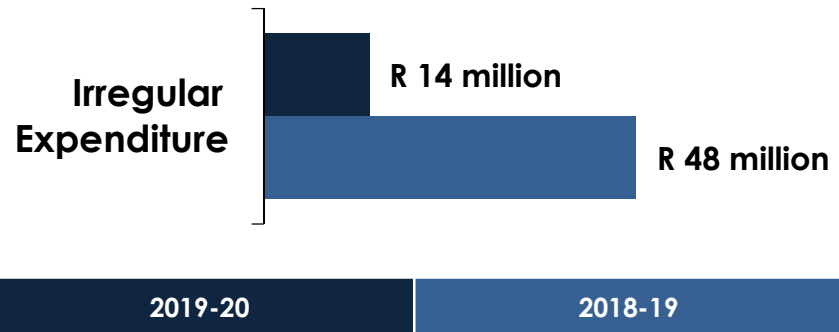
# Financial management



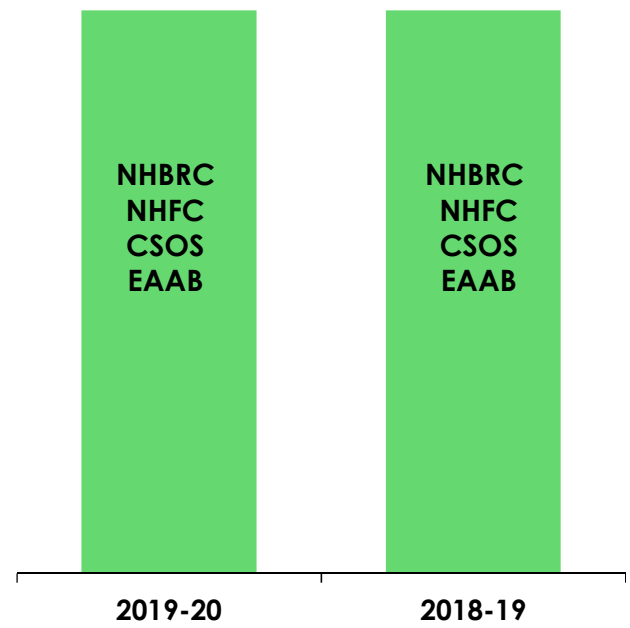
# Irregular expenditure decreased over 2 years

**Definition** Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

Irregular expenditure incurred by entities in portfolio



## Previous year irregular expenditure reported for investigation



## Nature of irregular expenditure

- The majority was caused by contravention of SCM legislation through **deviations** and irregularities in the **procurement process** at NHBRC, CSOS and EAAB, as well as NHFC's continued **use of contracts after expiry dates**.

Investigated Not investigated



# Fruitless and wasteful expenditure expenditure decrease over 2 years

## Definition

*Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!*

Fruitless and wasteful expenditure incurred by entities in portfolio



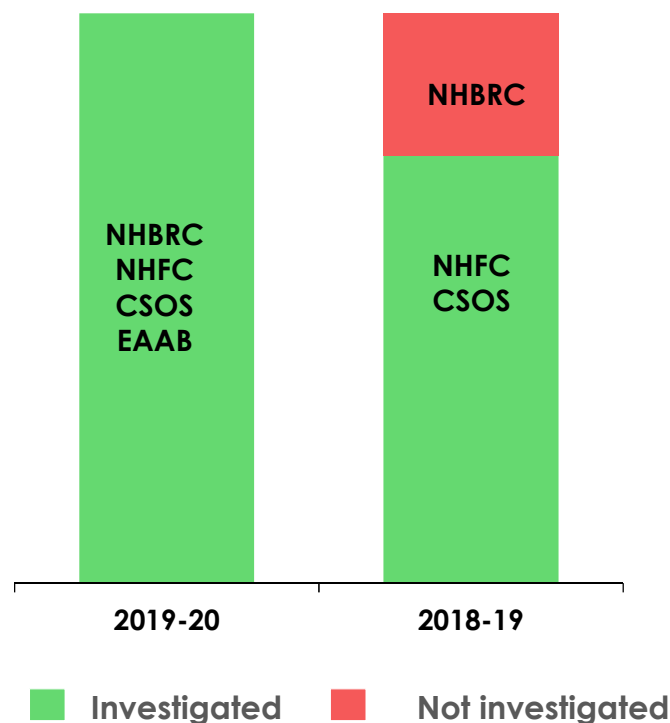
2019-20

2018-19

## Nature of the fruitless and wasteful expenditure

- The majority of the disclosed fruitless and wasteful expenditure for the current year was caused by **interest and penalties charged on late payment to creditors at NHFC.**

## Previous year fruitless and wasteful expenditure reported for investigation



Investigated

Not investigated



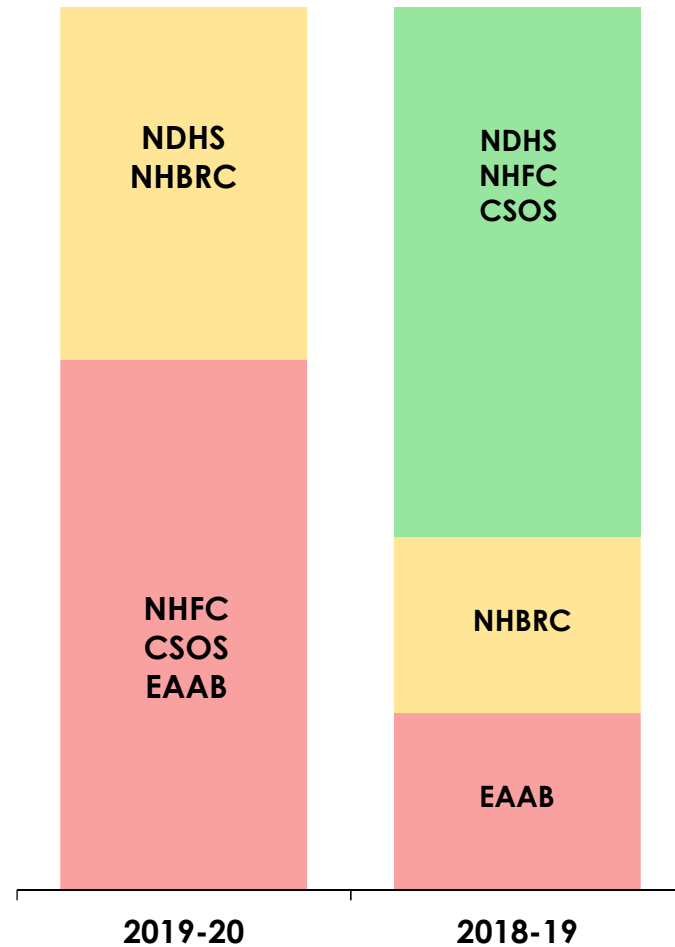
# Supply chain management

**Regression in SCM compliance (2019-20: 100% with findings)**

All SCM findings should be investigated

## Most common findings on supply chain management

- Procurement without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations (**NHBRC**, **EAAB**);
- Contracts were amended or extended without approval by a delegated official (**NHFC**);
- Procurement without inviting competitive bids, and the deviations were approved even though it was practical to invite competitive bids (**CSOS**).



With no findings



With findings



With material findings 18



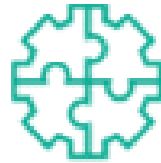
# Portfolio snapshot (2019-20)



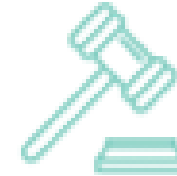
**Clean audits: 0**  
(2018-19: 0)



**Financially unqualified financial statements: 3**  
(2018-19: 3)



**No findings on performance reports: 4**  
(2018-19: 1)

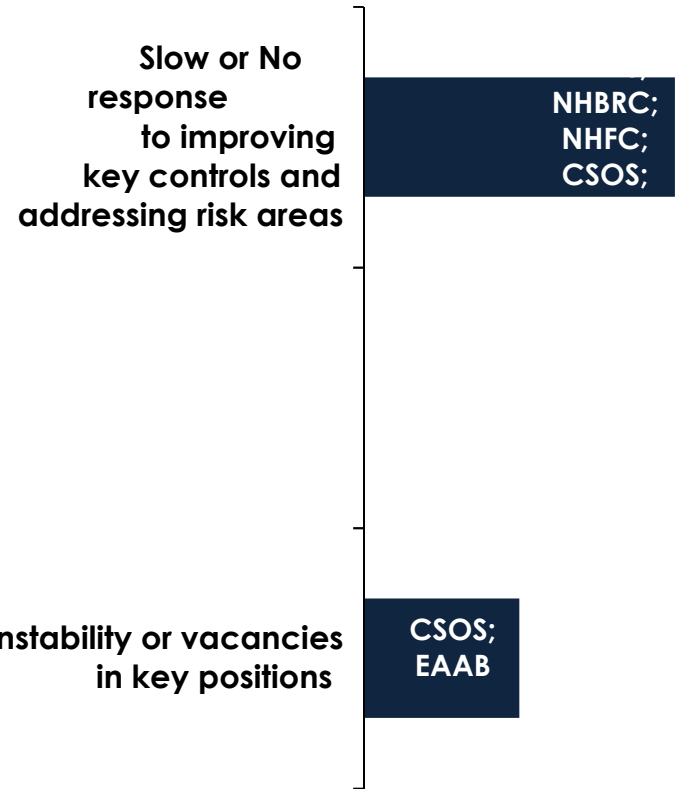


**No findings on compliance with legislation: 1**  
(2018-19: 1)



**Irregular expenditure: R14 m**  
(2018-19: R48 m)

# Root causes



Management (accounting officers/ authorities and senior management) do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.



The **instability** and **prolonged vacancies in key positions** can cause a **competency gap** and affect the rate of improvement in audit outcomes.



# Implementation of amended Public Audit Act



# Key expansion of our mandate



**Refer material irregularities** to relevant public bodies for further investigations



**Take binding remedial action** for failure to implement the AG's recommendations for material irregularities



**Issue a certificate of debt** for failure to implement the remedial action if financial loss was involved

# What is a material irregularity?

## Irregularity



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 ...

## Impact



a **material financial loss**





# Material irregularities

## Phase II implementation – scoped in audit



Risk areas:

Irregular expenditure

Incurred	R1,4 m
Balance	R711,5 m

While there is IE reported, there were no MIs identified as non-compliance did not result in financial losses – i.e. goods/ services were still rendered and at reasonable prices.

MIs identified:

No MI's identified during the 19/20 regulatory audit

The balance is from previous years and under investigation. There is no continuing financial loss, thus unlikely to result in a MI.



## Management and delivery of key programmes and insights from First Special Report on Covid audit



## Management and delivery on key programmes

Key commitments made last year in respect of the sector were not implemented:

No customized/uniform indicators.

The indicators and targets of the national and provincial departments are not consistent with the published ENE indicators.

As a result of the scope reduction due to COVID 19, we could not continue with sector audit work and focused on the special report on Covid expenditure.

As the NDHS did not have systems and processes to collect, collate and reconcile reported achievements, we were not able to confirm the achievement of the following critical indicators:

- Number of households benefitting from informal settlements upgrading programmes per year;
- Number of title deeds registered.

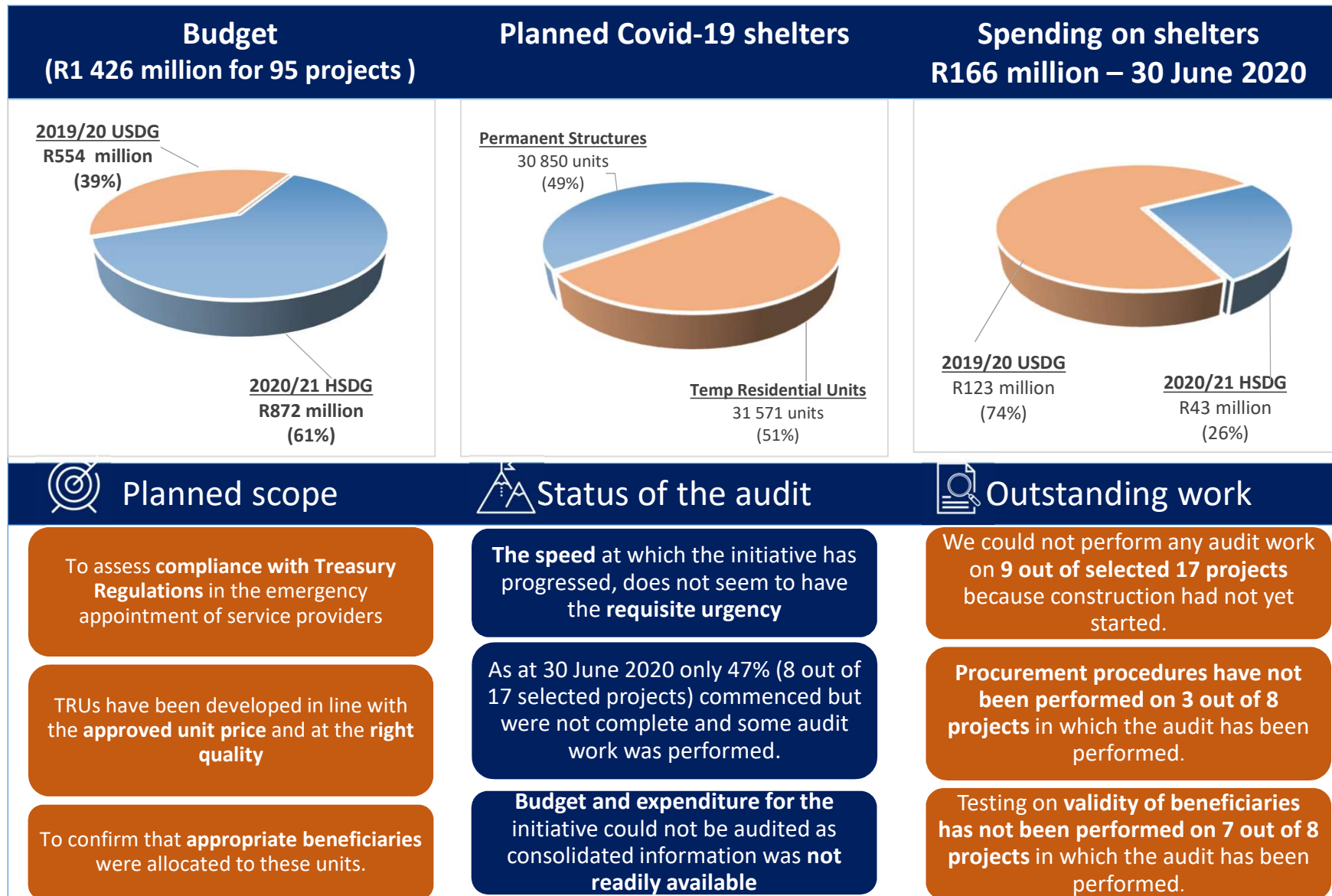
Although the NDHS had indicators relating to the “support” provided to provinces and municipalities to deliver on these indicators, valid, accurate and complete records of the reported achievements were not maintained by the NDHS.

## Purpose of the real time audit



The objective of the real-time audit is to allow for **quick and responsive changes** to the processes and preventative controls to enable enhancements and necessary corrective actions by management, where necessary.

# Focus of the audit (SR1)





# Observations, recommendations and commitments

## Observation

## Recommendation

## Planned Action

**Timelines for individual project plans were not aligned** to the timelines of the overall sector. HSCC was not deliberate in ensuring that most of the residence in informal settlements are resettled to observe social distancing

The HSCC should enhance their **coordination and oversight processes**, thereby ensuring that the sector responds adequately to the “emergency” need for the resettlement of residents of informal settlements.

The AO disagreed and highlighted that projects implementation is **an intricate and complicated process**.  
Given that the factual issues raised are hindering the progress, **we will continue to engage the department** to ensure these concerns receive necessary attention

Departments and municipalities have contracted to build the TRUs for a **maximum amount of R64 441** for the shelters. However, this **includes an amount for basic municipal services** of R6 019,03 that should not have been included in the shelter cost per unit.

The accounting officers should have a process in place to ensure that active oversight and monitoring occurs to confirm that provinces **adhere to the established protocols over pricing**.

The DHS **will investigate the details** on the project approval and costing. The accounting officer will then verify these details against the relevant programme and subsidy quantum guidelines.  
**Where necessary** the DHS should consider **recoveries**

Completed TRUs have been **occupied, prior to the official hand-over, by people who are not the intended beneficiaries** and as a result, the sector may be spending funds on beneficiaries that do not meet the criteria for occupying a temporary shelter.

The process to review beneficiaries allocated TRUs should be enhanced to ensure that the completed units are officially handed over to families on the approved beneficiaries listing.

The AO disagree with this finding being of the view that beneficiary lists were reviewed against the HSS.  
However, some of the **names still did not agree to the system** and we will continue engagement with the AO



# Overall message



# Guide on Preventative Controls





Definition of  
**preventative  
controls**

Preventative controls are measures designed and *implemented by management* to *avoid* threats to the objectives of the entity materialising.



# Preventative controls



## Typical auditee business processes



Supply chain management



Contract management



Payments



Employee processes and payroll



Assets and liabilities management



Revenue management



## Preventative controls



Built on **strong control** environment with assurance provided by:

Senior management

Accounting officer/  
authority

Internal audit unit  
and audit committee

Preventative controls not designed or implemented or not working effectively

## Material irregularity and poor audit outcomes

### Consequences

Financial loss

Costly investigation

Disciplinary processes

Litigation



# FUNDAMENTALS OF STRONG PREVENTATIVE CONTROLS

Leadership that inspires a **culture of ethical behaviour and commitment** to good governance

**Adequate and sufficiently skills officials** who instill confidence toward effective and consistently functioning of internal controls

**Comprehensive policies and procedures** that empowers the employees to perform their day to day duties with ease

**Mechanisms for officials to report any pressure or influence** directed towards them not to act in line with the set policies and procedures

**Regular risk assessment** accompanied with **response** measures that are monitored on a regular basis

**Combined assurance model** where all assurance providers; i.e. Senior management, internal audit function and audit committee are working toward the same goal to strengthen controls through monitoring and oversight.



# Conclusion



# Recommendations

## To department and its entities

- There should be the required urgency by management in responding to our messages about addressing risks identified and improving internal controls.
- Vacancies in key positions should timeously filled with relevant qualified and skilled personnel.
- Management should track action plans and ensure timely implementation, to prevent recurrence of findings.
- Finalise the appointment of internal auditors at EAAB, and enhance the use of internal audit function to monitor action plans and for better monitoring in order to improve audit outcomes.

## To the portfolio committee

- The PC should request accounting officers/authorities and the Minister to provide feedback on the implementation and progress of action plans to ensure improvement in the audit outcomes of the portfolio.





## Overall message

- The inability for the portfolio to improve overall audit outcomes, as demonstrated by a lack of clean audits, is a cause for concern. An increased level of oversight is required from those charged with governance.
- Effective corrective actions to address internal control deficiencies identified must be implemented with the requisite urgency.
- Leadership should enhance oversight and adopt a zero tolerance approach when it comes to non-compliance with legislation, with a focus on repeat non-compliances.
- The effectiveness of the work performed by the various assurance providers such as audit committee and the internal audit has not yet yielded the desired results, due to management's failure to adequately implement their recommendations.
- The processes by the department to collect and collate information in respect of reported achievements were not always adequately implemented resulting in material findings reported. In crafting indicators management should ensure that processes are simultaneously designed to ensure that evidence as reflected in the technical indicator descriptions can be provided.



# Thank you



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