

DEVELOPMENT OF SUSTAINABLE HUMAN SETTLEMENTS:

OUTCOMES OF A PERFORMANCE AUDIT AT THE
**EASTERN CAPE DEPARTMENT
OF HUMAN SETTLEMENTS**



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence





Performance Audit

An independent auditing process to evaluate the measures instituted by management to ensure that resources have been procured economically and are used efficiently and effectively.

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FOREWORD

1

FOREWORD

I am pleased to present the report on the *Development of sustainable human settlements: outcomes of a performance audit at the Eastern Cape Department of Human Settlements*.

This performance audit was undertaken in response to a request by the Eastern Cape Provincial Treasury (which funded the audit). Performance audits are conducted in accordance with international standards¹ and the methodology is based on the principles of economy, efficiency and effectiveness.

This report highlights findings identified during the performance audit at the Eastern Cape Department of Human Settlements. These findings, if not addressed, will negatively impact the economy, efficiency and effectiveness of the development of sustainable human settlements projects.

Significant findings were raised in relation to strategic planning, financial management and project management, while limited findings were made regarding the implementation of strategic objectives, as well as coordination, municipal capacity building and support.



¹ ISSAI 300, Fundamental principles of performance auditing

The associated risks identified as part of the analysis provided in this report include the following:

- Human resources
- Funding the commitments
- Cash flow
- Project management
- The ability of contractors to deliver
- Vastness of the province as well as the geographical terrain.

The performance audit on the development of sustainable human settlements focused on the financial years 2011-12 to 2014-15 and includes information up to the third quarter of the 2015-16 financial year. The impact of projects approved and completed during the period from 1994 to 2011 was also taken into account. The audit focused on the department's target for the delivery of completed housing units unless otherwise stated.

The outcomes of the performance audit were shared with management of the Eastern Cape Department of Human Settlements, who undertook to address the findings based on the recommendations made. The outcomes were also shared with the Eastern Cape Provincial Treasury, which provided inputs.

I wish to thank the executive authorities, accounting officers and relevant staff of the Eastern Cape Department of Human Settlements and the Eastern Cape Provincial Treasury for supporting this audit and engaging with our team.

Auditor-General

Pretoria

March 2018





EXECUTIVE SUMMARY

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KEY FINDINGS

The following findings were raised on economical, efficient and effective practices at certain stages of the process to develop sustainable human settlements. The challenges leading to these findings contributed to funding being over-committed, historical housing delivery targets not being met and housing projects not being completed on time. We also identified the illegal occupation of houses.

1. Strategic planning and financial management

- 1.1 The Eastern Cape Department of Human Settlements (department) did not have complete and reliable data on the Eastern Cape's housing need. The only available information indicating the housing need was *Census 2011*. The department identified the need for a provincial housing register; this project started in 2014. By May 2016, data collection had not yet started at three of the 15 municipalities (20%), while data-capturing had not started at 10 municipalities (66%). A lack of resources such as questionnaires, computers and data capturers delayed the completion of the provincial housing needs register.
- 1.2 The department did not achieve the cumulative housing delivery target set for the 2011-12 to 2014-15 financial years. The shortfall was 12 005 completed housing units at the end of the four years.
- 1.3 The housing units on approved housing projects exceeded the targeted number of housing units that the department planned to deliver on the available funding. During the period 2011-12 to 2014-15, the department approved 99 668 more housing units than their target.
- 1.4 Therefore, their financial commitment to housing projects increased by 253% between the end of the 2011-12 financial year and the end of the 2014-15 financial year. At the end of the 2014-15 financial year, the total financial commitments on housing projects was R11,8 billion.
- 1.5 The department underspent the human settlement development grant allocations by a cumulative R612 million during the 2011-12 and 2012-13 financial years. Spending improved significantly in the 2013-14 and 2014-15 financial years, with the allocations being used fully after the new service delivery model was implemented.
- 1.6 The department did not pay contractors on time for work completed. At the end of the 2014-15 financial year, total accruals was R220,5 million, of which R215,9 million was classified as housing development. Total accruals was made up of R179,6 million that was due within 30 days and R40,9 million that was due for longer than 30 days. The department did not have the necessary funds to pay the contractors.
- 1.7 The department continued to make payments on housing projects approved before 1 April 2010. This related to projects that had been blocked and then unblocked in subsequent years. As at 31 March 2015, 23% of commitments and 29% of the 2014-15 project expenditure related to projects approved before 1 April 2010.

2. Implementation

The department did not have a standardised project management tool that could provide up-to-date project management information on the department's housing project portfolio. Regional managers were responsible for managing individual housing projects. Information on the status of projects had to be requested from the regions when needed.

3. Project management

- 3.1 During project planning, access roads to project sites, terrain conditions and the needs of beneficiaries were not adequately considered. As a result, some housing projects were delayed during the construction phase and significant variation orders were approved.
- 3.2 Many housing projects were not completed by the contractual completion dates. The projects were delayed due to poor performance by the appointed contractors. In some instances the contractors had to be replaced, which resulted in further delays and cost increases.
- 3.3 The department did not close out housing projects in good time. Project close-outs did not commence directly after they were completed and were not seen by project managers as an integral part of the development phases of the project. Projects that were not closed out added to the department's administrative burden of managing the commitments register and to larger ratios of projects being allocated to project managers.
- 3.4 Completed housing units in some projects were not handed over and occupied on time by the approved beneficiaries. The beneficiaries were not approved before the projects commenced and/or the department did not confirm that all of the approved beneficiaries were still alive and

were still interested in receiving a house in the housing project. As a result, completed houses were illegally occupied and/or vandalised.

4. Coordination, capacity building and support

The department did not assist and ensure that the Nelson Mandela Bay Metropolitan Municipality commenced and completed housing projects on time.

KEY RECOMMENDATIONS

Strategic planning and financial management

1. The department should make enough resources available to expedite the completion of the provincial housing register, which will enable the department to base their planning to address the housing need in the province on more reliable and complete information.
2. When identifying and approving new housing projects, the department should consider its capacity to deliver the housing units as well as the available funding. This also applies to setting annual targets for delivering housing units.
3. The department should monitor projects regularly and take corrective actions on time.
4. The department should apply cash flow projections to ensure that contractors are paid on time and in line with planned deliverables.

Implementation

5. The department should ensure that their project management processes provide up-to-date project management information on the department's project portfolio.

Project management

6. The department should consider the accessibility and terrain of the project sites as well as the needs of the beneficiaries. This will contribute towards ensuring that projects are not delayed during the construction phase.
7. The quality of the work done by the contactors should be monitored regularly to ensure that they adhere to the agreed deliverables.
8. The department should implement measures to ensure that projects are closed out soon after their completion.
9. Beneficiaries should be identified and approved before the projects to ensure that the housing units are handed over to the approved beneficiaries soon after projects are closed out.

Coordination, capacity building and support

10. The department should evaluate the capacity of municipalities before agreeing to fund housing projects. The evaluation should indicate the level of assistance required by the municipality.



KEY INITIATIVES AND MANAGEMENT COMMENTS

Inputs and comments received from the head and the management of the department were considered and, where applicable, included in this report. The head of department also indicated his agreement with the factual correctness of the content of the report.

On 5 September 2017, the department indicated that they were implementing a number of key initiatives to address the findings in this report:

A new service delivery model has been implemented which has resulted in an increase in delivery as the total delivery period of the final product has been reduced from seven years to three years. The department at the same time undergoing a process of de-committing [withdrawing] projects to an amount [of] R3,2 billion which were either slow moving or blocked because the project:

- *Has failed to start owing of rural or communal land disputes*
- *Municipalities lacking the capacity to start approved projects*
- *Lack of infrastructure hindering integrated human habitation*
- *Has become delayed because of a lack of planning and township establishment*
- *Has become dormant over many years for all the above reasons.*

The de-commitment process includes negotiations with municipalities and contractors to reduce the scope of the project. Furthermore, the department has stopped all new procurement and tightened controls over regional expenditure against projections.

Arising from the new service delivery model, the department embarked on a new implementation strategy (turnkey approach) which saw the reassignment

of 24 senior officials which, through an improved person-to-post matching saw greater focus on service delivery programs and increased productivity.

Inputs received from the Eastern Cape Provincial Treasury during the reporting phase were considered and, where applicable, included in the report. The Eastern Cape Provincial Treasury highlighted the following comment:

The perceived over performance of the Department of Human Settlements of the Eastern Cape, is indeed a case of historical over-commitment, the department must therefore be cautioned that the current level of over-commitment remains a major liquidity risk and unauthorised expenditure risk. The process recommended by the Department to decommit must be done in a responsible manner not to affect beneficiaries.







OVERVIEW

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MANDATE

The Constitution of the Republic of South Africa states that everyone has the right to have access to adequate housing. The Constitution also states that the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.

The department's performance against targets for delivering housing units has been aligned to priorities espoused in the state of the nation address, the state of the province address, the *National development plan and outcome 8 - Delivery agreements: Sustainable human settlements and improved quality of household life* contained in the annexures to the Medium Term Strategic Framework.

The key focus areas are as follows:

- Accelerate the delivery of housing opportunities
- Improve access to basic services
- More efficient use of state land
- Improved property market
- Rural human settlements development
- Research and innovation
- Alternative building technology methods
- Public participation
- Economic development
- Integrated development, planning, monitoring and evaluation
- Small town development
- Anti-corruption
- Institutional transformation.

Housing need in the Eastern Cape

According to the national Census 2011 there were 606 676 households in the Eastern Cape in need of adequate housing. This represented 35,5% of all households in the Eastern Cape. Table 1 reflects the number of households in need of adequate housing:

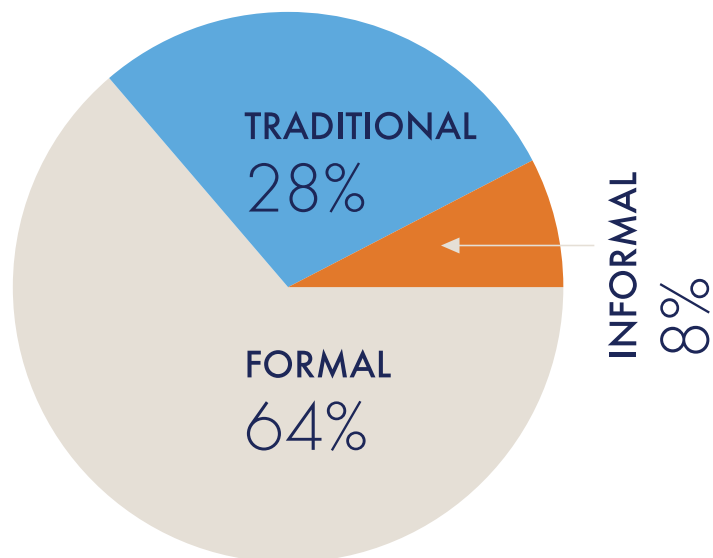
Table 1: Need for adequate housing in the Eastern Cape

Description of dwelling	Number of households
Traditional dwelling	476 285
Informal dwelling	95 983
Informal dwelling (backyard)	34 408
Total	606 676

Source: Census 2011

Figure 1 is a breakdown of the percentage of households living in formal, informal and traditional dwellings.

Figure 1: Percentage of households living in formal, informal and traditional dwellings



Source: Census 2011

Timeline for the development of the national housing policy

- **South Africa’s national housing accord (October 1994)**

In October 1994 a national housing accord was signed, which marked the beginning of the common vision that forms the essence of South Africa’s national housing policy.

- **Housing white paper (December 1994)**

The *Housing white paper* was promulgated in December 1994 and sets out the framework for the national housing policy. All subsequent policy, programmes and guidelines fell within the framework set out in the white paper.

- **Housing Act, 1997 (Act No. 107 of 1997)**

The Housing Act extended the provisions set out in the *Housing white paper* and served as the legal foundation for government’s housing programme. The Housing Act aligned the national housing policy with the Constitution of South Africa and clarified the roles and responsibilities of the national, provincial and municipal spheres of government.

- **Comprehensive plan for the development of sustainable human settlements (September 2004)**

The comprehensive plan *Breaking new ground in housing delivery*, National Department of Housing, September 2004, shifted the focus from the delivery of a house to a wider spatial and economic framework. In this policy document:

- the focus shifts from the provision of housing units, to sustainable human settlements
- reference is made to spatial restructuring of cities and both intra-governmental and inter-governmental integration, requiring integrated planning and coordinated investment
- the idea of housing being an asset is introduced, i.e. ensuring that property can be accessed by all as an asset for wealth creation

- the focus is on upgrading informal settlements to meet the government's commitment to achieve the United Nations' millennium goal of improving the lives of 100 million slum dwellers worldwide.

- **National Housing Code (2000, revised 2009)**

The National Housing Code, 2009 sets out the underlying policy principles, guidelines, norms and standards that apply to government's various housing assistance programmes since 1994.

Strategic objectives and targets

The department's main strategic goal is the development of integrated sustainable human settlements and addresses the core business of the department. The provision of integrated sustainable human settlements was structured under programme 3 - housing development of vote 11 in the department's budget and programme structure.

The main performance indicator for programme 3 was the number of new housing units completed across all the province's housing programmes. Table 2 compares the planned targets and actual completed new housing units reported for the four financial years 2011-12 to 2014-15.

Table 2: Targets and actual completed housing units reported for the financial years 2011-12 to 2014-15

Financial year	Targets (completed housing units)	Actual (completed housing units)	Variance between target and actual	Percentage actual of the target %
2011-12	15 419	14 498	(921)	94
2012-13	16 726	11 865	(4 861)	71
2013-14	18 900	12 187	(6 713)	65
2014-15	12 979	13 469	490	104

Source: Annual reports 2011-12 2012-13, 2013-14 and 2014-15

Funding for the development of human settlements

The human settlements development grant (HSDG) is a conditional grant allocated to provincial government and the main funding source for sustainable human settlements. The portion of the HSDG allocated to the Eastern Cape increased from R1,912 billion in 2010-11 to a revised estimate of R2,376 billion in 2013-14. In the 2014-15 financial year, the HSDG decreased by 9% to R2,159 billion.

Table 3 shows the difference between the department's total budget, actual expenditure for programme 3, and the total expenditure for the four financial years 2011-12 to 2014-15.

Table 3: Final appropriation and actual expenditure for programme 3 and total expenditure for the financial years 2011-12 to 2014-15

Financial year	Final appropriation	Actual expenditure for programme 3	Total actual expenditure for all programmes
	R '000	R '000	R'000
2011-12	2 618 262	2 013 386	2 143 154
2012-13	2 575 802	2 134 900	2 279 062
2013-14	2 837 461	2 691 523	2 827 992
2014-15	2 726 248	2 562 764	2 719 830

Source: Annual reports for the 2011-12, 2012-13, 2013-14 and 2014-15 financial years

Summary of the key service delivery achievements

At the beginning of the local government electoral period 2011 to 2016, the department embarked on a turnaround strategy to meet challenges that manifested in targets not being delivered and underspending.

In the department's human settlements service delivery report 2011 - 16 a number of key service delivery achievements are detailed. Table 4 depicts these key service delivery achievements from 2011 to 2016:

Table 4: Eastern Cape provincial summary of service delivery from 2011 to 2016

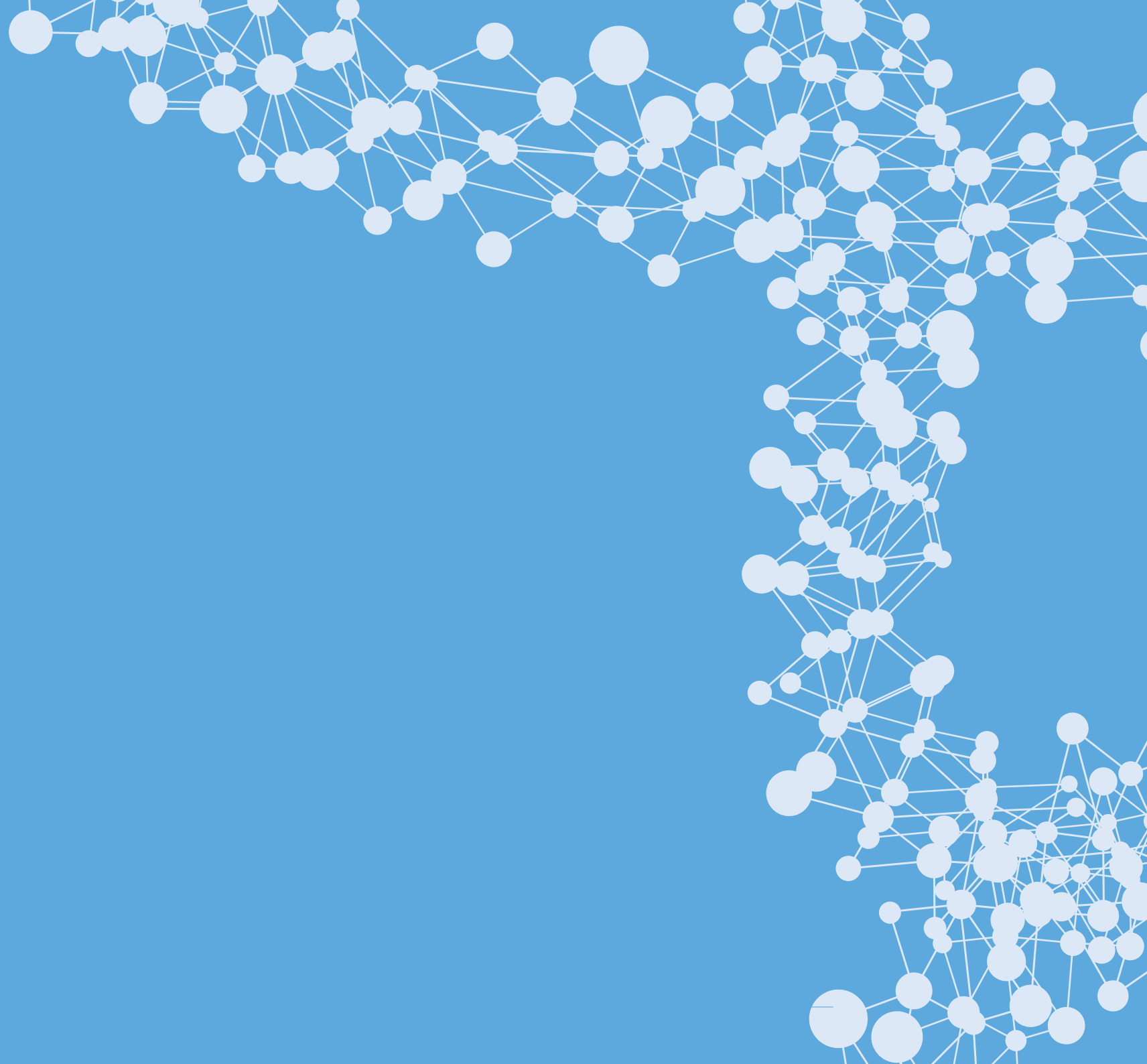
Service delivery	No of units delivered
Total houses	64 917
Number of title deeds issued	34 599
Number of houses rectified	21 688
Number of services installed	53 870
Social rental units	1 945
Number of hectare acquired	1 264
Number of approved subsidies	77 449
Number of jobs created	87 715

Source: Human settlements service delivery report 2011-2016

AUDIT SCOPE

The performance audit on the development of sustainable human settlements was conducted at the Eastern Cape Department of Human Settlements. The audit focused on the department's target for the delivery of completed housing units unless otherwise stated. A selection of 25 housing projects was subjected to detail testing and analysis during visits. The six regional offices from where the selected projects were managed were also visited. The selection of housing projects represented a total project value of R2 046 419 294. The project value represented the value that was approved and provided for the contract value and professional fees.

The audit focused on the financial years 2011-12 to 2014-15 and includes information up to the third quarter of the 2015-16 financial year. The impact of projects approved and completed during the period from 1994 to 2011 was also taken into account unless otherwise stated. The outcomes of the performance audit are included in the detailed audit findings of this report.





DETAILED AUDIT
FINDINGS AND
RECOMMENDATIONS

4



1. STRATEGIC PLANNING AND FINANCIAL MANAGEMENT

Audit question 1

Did the department ensure that the strategic planning of sustainable human settlements is effective and promotes economy and efficiency?

The departments' strategic planning measures did not always ensure the effective, efficient and economical development of sustainable human settlements.

Audit question 2

Did the department ensure that financial resources and conditional grants are effectively managed and utilised for the development of sustainable human settlements?

The department did not always effectively manage and utilise financial resources and conditional grants for the development of sustainable human settlements.

1.1 Housing need information and the establishment of a provincial housing register

The department did not have complete and reliable data on the housing need in the Eastern Cape. The only available information that indicated the housing need in the Eastern Cape was the *Census 2011*. According to the *Census 2011*, about 606 676 households (*Census 2001*: 750 854) in the Eastern Cape were in need of adequate housing. The department identified the need for a provincial housing register, and a project to establish a provincial housing register started in 2014.

As at May 2016, data collection had not yet started at three of the 15 municipalities (20%), while data capturing had not started at 10 municipalities (66%). A lack of resources such as questionnaires, computers and data capturers delayed the completion of the provincial housing needs register.

1.2 Recommendation

The department should make enough resources available to expedite the completion of the provincial housing register, which will enable the department to base their planning to address the housing need in the province, on more reliable and complete information.

1.3 Achievement of housing targets

1.3.1 The department did not achieve the cumulative housing delivery target set for the 2011-12 to 2014-15 financial years. The shortfall in the delivery of completed housing totalled 12 005 housing units at the end of the four years. During the financial periods 2011-12 to 2013-14 the department did not achieve the annual targets for completed housing units.

For the 2014-15 financial year, the department reduced the target by 31% and succeeded in delivering the targeted number of completed housing units. Table 5 reflects the housing delivery targets and actual housing units completed during the financial years 2011-12 to 2014-15.

Table 5: Targets and actual completed housing units for the financial years 2011-12 to 2014-15

Financial year	Targets (completed housing units)	Actual (completed housing units)	Variance between target and actual
2011-12	15 419	14 498	(921)
2012-13	16 726	11 865	(4 861)
2013-14	18 900	12 187	(6 713)
2014-15	12 979	13 469	490
Total	64 024	52 019	(12 005)

Source: Annual reports, 2011-12 2012-13, 2013-14 and 2014-15

1.3.2 Root causes of the department's failure to achieve the targeted number of housing units include the following:

- Poor performance by contractors resulting in delays in the completion of housing projects. Refer to paragraph 3.3.1.
- A significant number of housing projects were blocked. Blocked projects are projects where contracts were entered into with contractors but later became stalled and could not be completed. According to a departmental report (based on project 786) to the member of the executive council (MEC) for Human Settlements, 70 housing projects (6%) were blocked as at 13 March 2013. The following causes were identified:
 - Lack of technical capacity at municipalities that had previously managed projects.
 - Rural and communal land challenges, which included remote locations, geotechnical conditions and transfer of land.

- The contractors appointed on housing projects lacked the necessary capacity, experience and cash flow and performed poorly.
- Beneficiary management challenges, where beneficiaries were missing, as well as community and political interference in drawing up beneficiary lists. Municipalities did not have beneficiary allocation committees and a list endorsed by the council.
- Many previous projects had not conformed to the sustainable integrated human settlements principles.
- Bulk infrastructure services were not provided and the provisioning of electricity was a challenge as Eskom only considered a project once it was more than 70% complete.
- Delays in pre-planning for projects, such as obtaining decisions on environmental impact assessments, township establishment processes and infrastructure design proposals due to lack of capacity at municipalities.

1.3.3 Significant variances occurred at a housing project level between the planned (target) and actual housing units completed during the 2014-15 financial year. The nine projects in the Alfred Nzo region listed in the table below serve as examples. At five projects in the Alfred Nzo region the actual number of housing units completed exceeded the planned number of housing units by 1 377, while at four projects, the actual number of housing units completed was 419 lower than planned. Table 6 reflects examples of the differences between the planned number of housing units and the actual numbers of housing units completed for the 2014-15 financial year in the Alfred Nzo region.

Table 6: Planned number of housing units and the actual numbers of housing units completed for the 2014-15 financial year in the Alfred Nzo region

No.	Project description	HSS number	Planned number housing units	Actual number of housing units	Variance
1	Mvenyane 500	C10090015/1	241	56	(185)
2	Masakala 500	C10070004/1	50	500	450
3	Lubhacweni 1000	C11110008/1	120	0	(120)
4	Ludeke 1000	C12100003/1	200	500	300
5	Queensmercy 300	C09070002/1	60	156	96
6	Qadu 250	C09070003/1	66	7	(59)
7	Rhode 1000	C10090019/1	0	79	79
8	Ebenezer Phase 1 (1000)	C14030004/1	20	472	452
9	Maluti 200 (desstitute)	TBA	55	0	(55)

Source: Business plans and project implementation plans for the 2014-15 financial year

1.4 Recommendations

- 1.4.1 When setting annual targets for the delivery of housing units, the department should consider its capacity to deliver the housing units as well as the available funding.
- 1.4.2 The department should monitor projects regularly and take corrective action on time.
- 1.4.3 The department should apply cash flow projections to ensure that contactors are paid on time and in line with planned deliverables.
- 1.4.4 The department should consider the accessibility and terrain of the project sites as well as the needs of the beneficiaries. This will

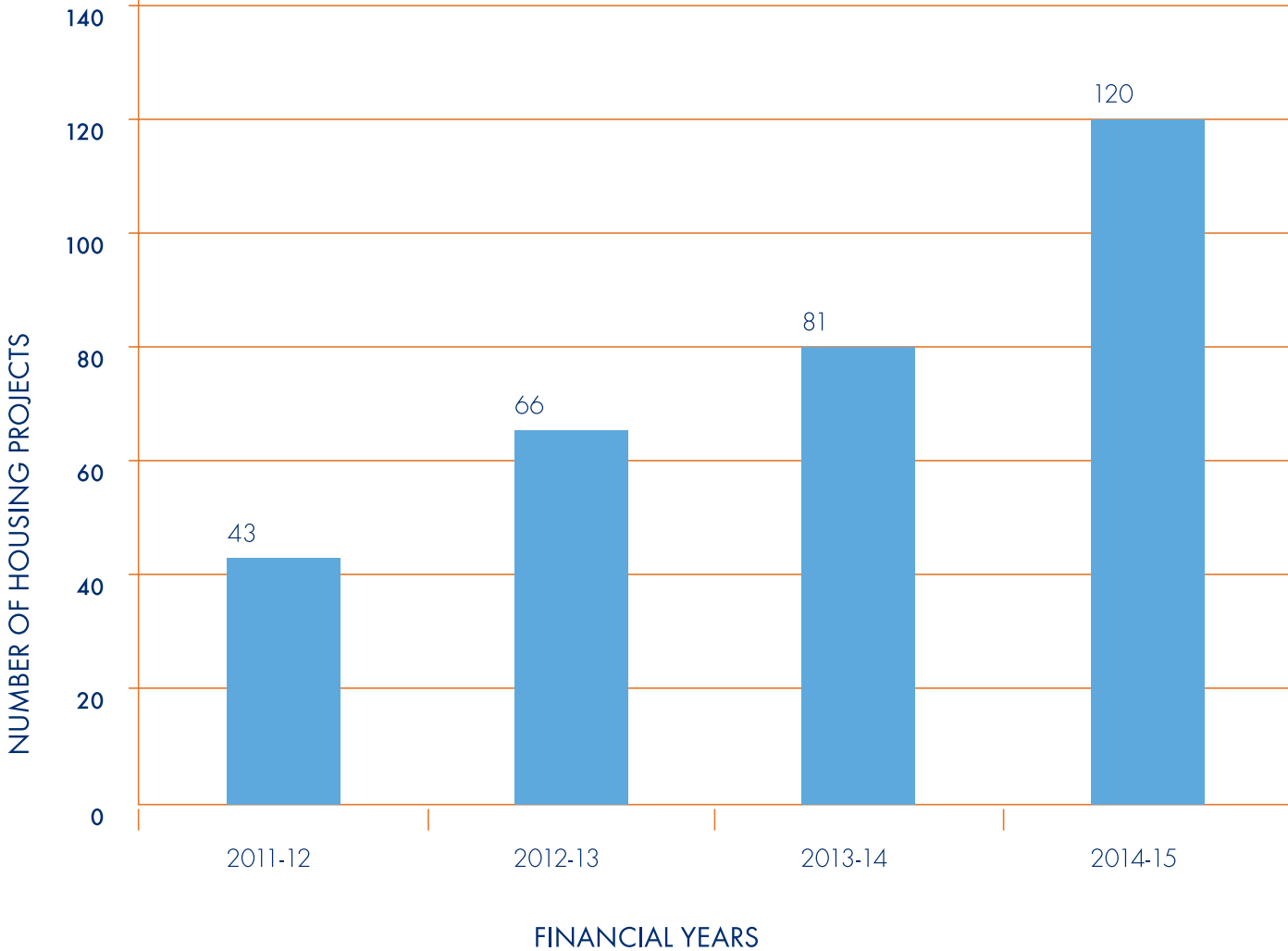
contribute towards ensuring that projects are not delayed during the construction phase.

- 1.4.5 The quality of the work done by the contactors should be monitored regularly to ensure that they adhere to the agreed deliverables.
- 1.4.6 Beneficiaries should be identified and approved before projects are approved to ensure that the housing units are handed over on time to the approved beneficiaries after close-out of projects.

1.5 Approval of housing projects

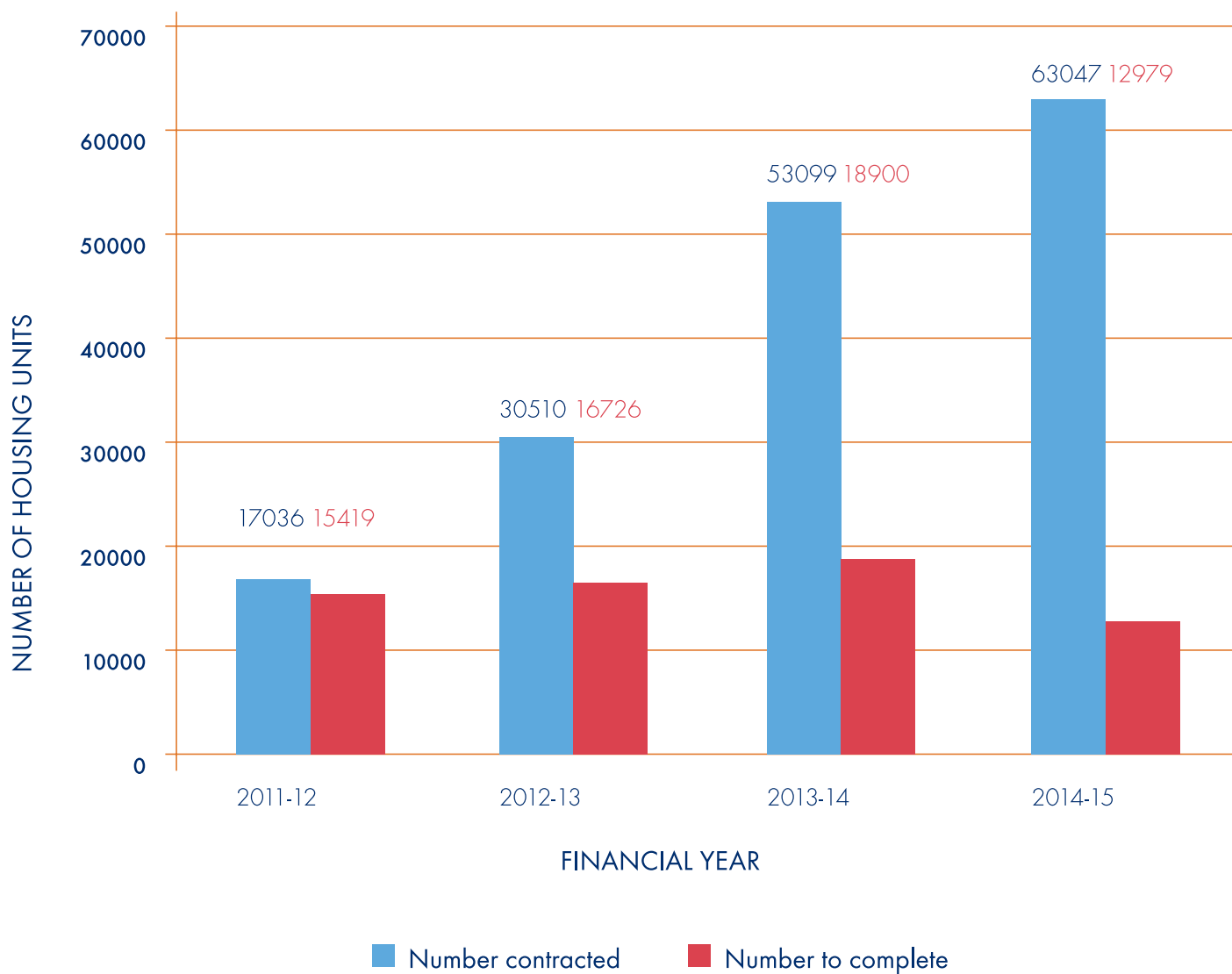
- 1.5.1 The department approved more housing units and housing projects than it had planned to deliver. The number of housing units on approved housing projects exceeded the targeted number of housing units that the department planned to deliver given available funding. During the period 2011-12 to 2014-15 the department approved contracts for projects with a total number of 163 692 housing units, which is 99 668 housing units more than the total target for housing units to be completed during the same period. Furthermore, at the average delivery rate of completed houses during the four-year period, it would take a further eight years to complete the housing projects approved during the 2011-12 to 2014-15 financial years. There was also a significant increase in the number of housing projects approved per financial year. Figure 2 reflects the number of housing projects approved per financial year, while figure 3 reflects the number of housing units approved in comparison with the targets for completed housing units per financial year.

Figure 2: Number of housing projects approved during the 2011-12 to 2014-15 financial years



Source: Conditional grant approved and contracted commitments 2015-16 third quarter.

Figure 3: Number of housing units approved in comparison with the targets for completed housing units for the 2011-12 to 2014-15 financial years



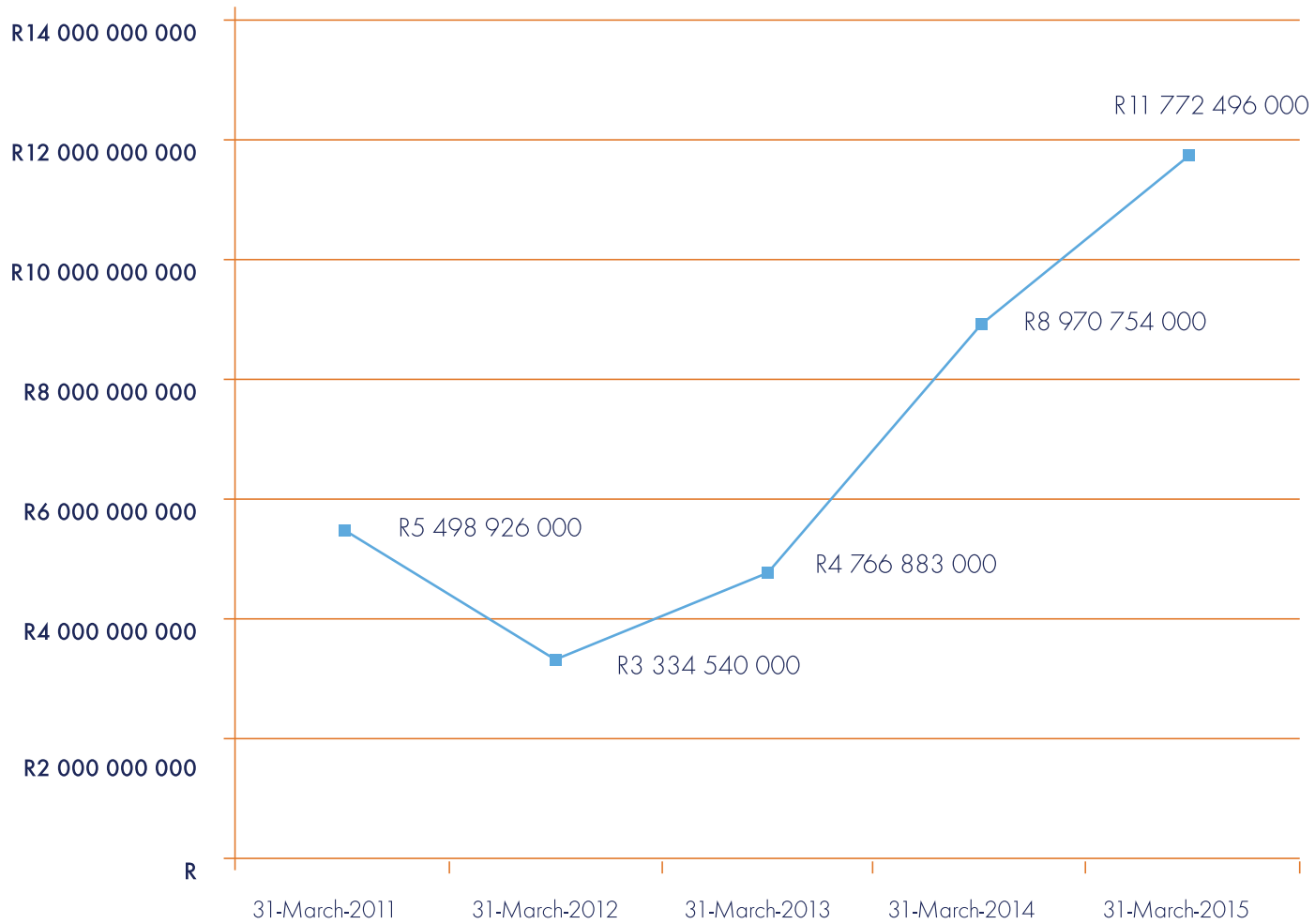
Source: Conditional grant approved and contracted commitments 2015-16 third quarter, annual reports 2011-12 to 2014-15

1.5.2 As from the 2012-13 financial year, the department did not limit the approval of housing units and housing projects to the targets for completed housing units and the available funding. The department approved an increased number of projects and housing units annually that were not in line with the annual targets for completed housing units. The increase was not sustainable and the department's capacity to manage the increased number of projects did not improve.

1.5.3 Therefore, the financial commitments for housing projects increased by 253% from the end of the 2011-12 financial year to the end of the 2014-15 financial year. At the end of the 2014-15 financial year, the total financial commitments on housing projects amounted to R11,8 billion. Figure 4 reflects the increase in financial commitments.



Figure 4: Increase in financial commitments



Source: Financial statements for the 2011-12, 2012-13, 2013-14, 2014-15 and 2015-16 financial years

1.5.4 The current commitment was made up of projects that had been approved as early as 1994. For projects that were approved during the financial period 1994-2001, a balance of R289 788 334 remains, which constituted 26,34% of the total amount approved

during the 1994-2001 financial period (2,35% of the total of all the financial years). Table 7 indicates the percentages of the projects approved and committed in the respective financial years.

Table 7: Percentages of projects approved and committed per financial year

Financial year when projects were approved	Total approved project values R	Amount paid R	Remaining commitments R	Remaining commitments as a percentage of total approved project values %	Percentage of total remaining commitments %
Unknown	1 068 961 456	120 965 106	947 996 350	88,68	7,7
1994-2001	1 100 338 112	810 549 778	289 788 334	26,34	2,35
2001-02	439 679 845	329 220 852	110 458 993	25,12	0,90
2002-03	364 011 963	338 885 815	25 126 148	6,90	0,20
2003-04	50 006 019	47 248 153	2 757 866	5,52	0,02
2004-05	255 386 534	236 705 127	18 681 407	7,31	0,15
2005-06	262 306 002	239 524 970	22 781 032	8,68	0,19
2006-07	59 903 837	37 136 132	22 767 705	38,01	0,18
2007-08	235 055 008	201 313 716	33 741 292	26,94	0,27
2008-09	995 210 188	818 614 223	176 595 965	17,74	1,43
2009-10	3 274 998 494	2 273 593 188	1 001 405 306	30,58	8,13
2010-11	4 917 942 608	2 041 662 101	2 876 280 507	58,49	23,36
2011-12	1 569 273 417	1 056 476 917	512 796 500	32,68	4,16
2012-13	2 685 050 105	1 358 577 731	1 326 472 374	49,40	10,77
2013-14	2 863 468 556	775 572 507	2 087 896 049	72,91	16,96
2014-15	2 705 211 673	441 447 705	2 263 763 968	83,68	18,38
2015-16	603 575 524	9 350 000	594 225 524	98,45	4,83
Totals	23 450 379 341	11 136 844 022	12 313 535 320	52,51	100,00

Source: Conditional grant approved and contracted commitments 2015-16 third quarter

1.6 Recommendation

When identifying and approving new housing projects, the department should consider its capacity to deliver the housing units as well as the available funding.

1.7 HSDG allocations and actual expenditure

1.7.1 The department underspent the HSDG allocations by a cumulative total of R612 million during the 2011-12 to 2012-13 financial years. The department estimated that funding of R952 million had been returned to the national Department of Human Settlements during the 2011 to 2013 years. Spending improved significantly in the 2013-14 and 2014-15 financial years, with the HSDG allocation being fully used. Table 8 reflects the HSDG allocations and actual expenditure for the 2011-12 to 2014-15 financial years.

Table 8: HSDG allocations and actual expenditure for the financial years 2011-12 to 2014-15

Financial year	Grant allocation (Dora grant + roll overs + adjustments)	Grant actual expenditure	Variance between grant allocation and spent	Grant spent as a percentage of grant allocation
	R '000	R '000	R '000	%
2011-12	2 311 504	1 897 075	414 429	82,07
2012-13	2 200 006	2 002 175	197 831	91,01
2013-14	2 429 631	2 429 631	0	100,00
2014-15	2 392 718	2 392 718	0	100,00
Total	9 333 859	8 721 599	612 260	93,44

Source: Annual reports for the 2011-12, 2012-13, 2013-14 and 2014-15 financial years

1.7.2 The main reason for the department underspending its budgets was that it did not achieve the cumulative housing delivery target set for the 2011-12 to 2014-15 financial years. The shortfall in the delivery of completed housing totalled 12 005 housing units during the four years (refer to paragraph 1.3.1).

1.8 Recommendation

When setting annual targets for the delivery of housing units, the department should consider its capacity to deliver the housing units as well as the available funding.



1.9 Payment of contractors for work performed

1.9.1 The department did not pay contractors on time for work completed. At the end of the 2014-15 financial year, total accruals amounted to R220,5 million of which R215,9 million was classified as housing development. Total accruals was made up of R179,6 million that was due within 30 days and R40,9 million that was due for longer than 30 days. The department did not have the necessary funds to pay the contractors due to the following:

- Approval of housing projects and units in excess of the planned targets and available funding (refer paragraph 1.5.1).
- The department underspent the HSDG allocations and estimated that funding of R952 million had been returned to the national Department of Human Settlements during the 2011 to 2013 years (refer to paragraph 1.7.1).
- The department continued to make payments on housing projects approved before 1 April 2010. This related to projects that had been blocked and then unblocked in subsequent years. As at 31 March 2015, 16% of commitments related to projects approved before 1 April 2010, while 29% of the 2014-15 project expenditure related to projects approved before 1 April 2010. Table 9 reflects the balance of commitments of projects approved

Table 9: Commitment balances and 2014-15 expenditure relating to projects approved before 1 April 2010

Intervals of financial years during which projects were approved	Balance of the commitments as at end of interval of financial years		Expenditure during the 2014-15 financial year	
	R	%		%
1994-2001 (7 years)	289 788 334	3	36 151 116	5
2001-2008 (7 years)	236 314 443	2	85 322 522	4
2008-2010 (2 years)	1 178 001 271	11	418 736 940	20
2010-2015 (5 years)	9 067 209 398	84	1 472 690 202	71
Total	10 771 313 446	100	2 012 900 780	100

Source: Conditional grant approved and contracted commitments 2015-16 third quarter

before 1 April 2010, as well as the expenditure incurred during the 2014-15 financial year on projects approved before 1 April 2010.

1.9.2 The department had to fund the outstanding payments from the 2015-16 budget, while its conditional grant allocation for the 2015-16 financial year was reduced by R300 million. This contributed to its inability to make payments in respect of invoices submitted by contractors during the three months from 1 October 2015 to 31 December 2015. The invoices that were not paid amounted to R326 million. The department also requested contractors to curtail construction work on some projects until 31 March 2016 as it would not be able to make payment for work performed. Table 10 reflects the amount outstanding per region as at 31 December 2015.

Table 10: Outstanding payments as at 31 December 2015 per region

Region	Outstanding payments to contractors R
Sarah Baartman	15 787 264
OR Tambo	58 832 310
Chris Hani	53 136 182
Joe Gqabi	14 574 327
Alfred Nzo	87 239 116
BCM	50 020 681
Nelson Mandela Bay	26 363 171
Amatole	20 183 579
Total	326 136 630

Source: Conditional grant approved and contracted commitments 2015-16 third quarter

1.9.3 At four (16%) of the 25 housing projects reviewed during the audit, the department did not pay the contractors on time. The department's business plan and overall project implementation plan were not aligned to the contractual agreements with the contractors. The value of work performed by contractors exceeded the department's estimates. As a result, the department was not able to meet their payment obligations. The department requested contractors to slow down their rate of building or to stop construction until the department was able to make payment in the following financial year. Table 11 reflects the details of the projects and the value of the outstanding payments.



Table 11: Projects where the contractors were not paid on time

Housing project	Value of outstanding payments R	Comments
Mbizana Ebenezer 1000 (HSS C14030004/1)	5 617 695	By the end of December 2015, invoices submitted by the contractor for November and December 2015 had not been paid
Elliotdale 1000 (HSS C12120006/1)	4 926 524	By the end of December 2015, invoices submitted by the contractor for November and December 2015 had not been paid
Libode and Ngqeleni - Nyandeni 800 (HSS C14050001/1 and C14050001/2)	7 899 000	By the end of December 2015, invoices submitted by the contractor for November and December 2015 had not been paid
East London Needs Camp 1072 (HSS C13070007/3)	6 000 000	By the end of December 2015, invoices submitted by the contractor for November and December 2015 totalling R2 073 627 had not been paid. The project came to a standstill from 9 to 21 September 2015 because the department did not pay the September 2015 claims. According to site meeting minutes dated 8 February 2016, payments of approximately R6 million were outstanding.
Mount Fletcher - Mangoloaneng (HSS C14100010/2)	2 686 588	As per minutes of a technical meeting held on 2 March 2016, the department owed the turnkey contractor R2 686 588.

1.10 Recommendation

The department should ensure that strategic targets are aligned to its business plans and project implementation plans. Plans should be prepared and maintained based on accurate project information and estimates of delivery, as well as available funding.



2. IMPLEMENTATION

Strategic planning and financial management

Audit question 3

Did the department ensure that measures are implemented to achieve the strategic objectives for the development of sustainable human settlements?

The department did not, in all instances, implement measures required to ensure that strategic objectives for the development of sustainable human settlements are achieved.

2.1 Management information

The department did not have a standardised project management tool that can provide up-to-date project management information on its housing project portfolio. At the end of December 2015, the department had 669 housing projects and its financial commitments amounted to R12 313 316 619. Project management of individual housing projects was the responsibility of the regions and the regional managers. Information on the status of projects had to be requested from the regions when needed. Furthermore, each region maintained different tools (mainly spreadsheets) to track progress made with their housing projects. Table 12 reflects the number of housing projects per region.

Table 12: Number of housing projects with financial commitments per region

Region	Number of housing projects per region
Alfred Nzo	56
Amatole	60
Buffalo City metro	57
Chris Hani	102
Departmental projects	7
Joe Qabi	40
Nelson Mandela Bay metro	124
OR Tambo	96
Sarah Baartman	127
Total	669

Source: Conditional grant approved and contracted commitments 2015-16 third quarter

2.2 Recommendation

The department should ensure that their project management processes provide up-to-date project management information on the department's project portfolio.



3. PROJECT MANAGEMENT

Audit question 4

Did the department ensure that housing projects are completed economically, efficiently and effectively?

Shortcomings in the department's project management contributed to housing projects not being completed economically, efficiently and effectively.

3.1 Project planning

During project planning, access roads to project sites, terrain conditions and the needs of the beneficiaries were not adequately considered. As a result, some housing projects were delayed during the construction phase and significant variation orders were approved. At the following four (16%) of the 25 housing projects reviewed during the audit, significant delays were experienced and/or variations orders had to be approved due to shortcomings in the planning phases of the projects:

Maritseng 1500 (HSS C10070003/1) housing project

A contractor was appointed and the contract was signed on 10 June 2014 for this project. The contract value was R138 436 500 for 1 500 housing units and the project should have been completed on 10 June 2016. A variation order of R62 471 565 (45% of the contract value) was approved on 20 July 2015. The variation order provided, among others, for the following:

- Access road works
- Electrification
- Subsoil drainage systems
- Geo technical foundation
- Additional design.

Furthermore, the geotechnical report compiled during the planning phase was not detailed enough and another geotechnical report had to be compiled. The completion date for the project was extended by 21 months to 30 March 2018. As at December 2015, only 269 housing units (18%) had been completed.

Port St Johns 110 (HHS C13080004/1) housing project

A contractor was appointed and a contract was entered into for the project on 13 December 2013 for 110 housing units at a contract price of R15 642 000. As at 28 October 2014, the contractor worked on 77 of the 110 sites, of which 35 had difficult terrain issues. The department encouraged the contractor during the project period to proceed with the project despite the difficult terrain challenges that were raised. The prevailing site conditions included the following:

- Lack of access to the sites in the villages
- Water-logged sites which required drainage measures to control storm water
- Lack of construction materials in the development areas, especially concrete that had to be sourced from Mthatha, 92 km away
- Sparse distribution of the site.

On 12 January 2015 the department approved a variation order of R427 250 for the difficult terrain at 35 sites.

The same contractor was also appointed and a contract was entered into on 13 November 2013 for a contract period of two months for the **Port St Johns 30 (HSS C12090003/1)** project for 30 housing units at a contract price of R4 286 700. As at 29 October 2014, eight months after the contract end period, the project had not been completed. Six months later on 12 May 2015, the department approved a variation order of R362 250 for the difficult terrain at 29 sites.

The contractor eventually abandoned both the sites and did not complete all the housing units. The department then appointed another contractor for the **Port St Johns Ntafufu (HSS C10070003/1)** project and entered into a contract on 15 March 2016. The contract included the completion of 42 housing units abandoned by the previous contractor of the Port St Johns 30 and 110 projects plus an additional 279 new housing units. The value for the replacement contract was R45 358 530.

Fort Beaufort Bhofolo 300 (HSS C00110014/1) housing project

A contractor was appointed and a contract was entered into on 3 March 2014. The Development Bank of South Africa was the implementing agent. This was a rectification project with a contract value of R16 990 220. The project should have been completed on 12 September 2015. Delays were experienced due to the difficult terrain, inaccessible sites, two land claims and delays in consultation with the beneficiaries over the choice of house types to be built. The department estimated that the project would be completed by 31 March 2017.

Mbizana Ludeke (HSS C12100003/1) housing project

A contractor was appointed and a contract was entered into on 30 October 2012. The contract value was R86 000 000 for 1 000 housing units and the project duration was 12 months. Three variation orders totalling R27 796 355 (32% of the contract value) was approved by the head of the department as follows:

- A variation order of R15 802 000 for additional scope was approved on 24 January 2014
- A variation order of R9 958 400 for electrical installation was approved on 6 November 2014
- A variation order of R2 035 955 for difficult terrain was approved on 5 August 2015.

As at 24 February 2016, electricity had not been connected from the main to the houses.

3.2 Recommendation

The department should consider the accessibility and terrain of the project sites as well as the needs of the beneficiaries. This will contribute towards ensuring that projects are not delayed during the construction phase.

3.3 Performance by contractors

Many housing projects were not completed by the completion dates contractually agreed with the contractors. The projects were delayed due to poor performance by the appointed contractors. In some instances the contractors had to be replaced, which resulted in further delays and cost increases.

At four (16%) of the 25 housing projects reviewed during the audit the contractors did not perform in accordance with their contract conditions. The estimated completion dates had to be extended and in some instances the contract was terminated.

- The contractor for the **Fort Beaufort Hillside 638 (HSS C00120020/1)** project was appointed on 11 September 2014. The contract value was R63 516 848 and the project should have been completed on 11 May 2016. The project consisted of the construction of 187 new housing units and the rectification of 451 defective units. The contractor did not perform and the department terminated the contract on 13 November 2015 (13 months after the project commencement date). A site progress report dated October 2015 indicated that the only progress that the contractor had made was to demolish 66 of the defective units.
- The contractor for the **Mount Fletcher-Mangoloaneng 365 (HSS C14100010/2)** project was appointed on 11 June 2013. The contract value was R39 624 918 for 365 housing units for a project duration of 10 months. The project should have been completed in April 2014. The contractor did not perform and the department terminated the contract on 10 October 2014. The contractor only partially completed 30 housing units. A new contractor was appointed on 2 July 2015 at a cost of

R46 868 143. Expenditure incurred by the previous contractor was R1 266 785 on 30 incomplete houses.

- One of the contractors for the **Steynsburg 530 (HSS C09100003/2)** project was appointed on 11 April 2011. The contract value was R32 077 512. On 2 April 2012, the department terminated the contract because the contractor did not perform in terms of the project implementation plan, did not have sufficient materials and labour on site and made slow progress. Expenditure was R16 038 756. A replacement contractor was appointed on 6 December 2012 for construction of the 229 remaining housing units at a contract value of R24 248 003.
- One of the three contractors for the **East London Potsdam (HSS C0906004/2)** project was appointed in May 2013. The contract value was R29 469 880 and 400 housing units should have been completed. As at April 2016, the contractor had not made any progress and none of the 400 housing units had been completed.

3.4 Recommendations

- 3.4.1 The department should continuously monitor projects and take prompt action.
- 3.4.2 The quality of the work performed by the contractors should be monitored regularly to ensure that they adhere to the agreed deliverables.

3.5 Close-out of projects

The department did not close out housing projects on time. Project close-outs did not commence directly after the completion of projects and were not seen by project managers as an integral part of the development phases of the project. Project close-out, which consisted of financial, technical and administrative reconciliations, became increasingly complicated due to the time lapsed after completion of the development phases. This was due to missing documentation and the resultant difficulty to reconcile project balances. Projects that were not closed out added to the department's administrative burden to manage the commitments register and larger ratios of projects allocated to project managers.

According to a departmental report (based on project 786) to the MEC for Human Settlements, 541 projects (49%) were still in the close-out phase as at 13 March 2013.

3.6 Recommendation

The department should implement measures to ensure that projects are closed out soon after completion.

3.7 Beneficiary management

3.7.1 Completed housing units were not handed over and occupied timely by approved beneficiaries. The department failed to ensure that all beneficiaries of housing projects were approved before the projects commenced. Furthermore, where housing projects were significantly delayed, the department did not confirm timely that all of the approved beneficiaries were still alive and were still interested in receiving a house in the housing project. Some of the completed

houses that were not handed over timely to the approved beneficiaries were illegally occupied and/or vandalised.

3.7.2 At four (16%) of the 25 housing projects reviewed during the audit, shortcomings were identified in the approval and management of beneficiaries.

- The **PE Zanenvula Chatty extension (HSS C12060014/2)** project for 1 380 housing units was approved and the department entered into a contract with the Housing Development Agency on 8 October 2012 at a total cost of R110 402 511. Not all beneficiaries were approved before the project commenced, with the result that as at March 2016 the project was 83% completed but beneficiaries could not be identified. The completed houses were invaded by illegal occupants and some were vandalised. As at April 2016, the process of evicting the illegal occupants was still ongoing.
- The **PE Missionvale Garden Lots (HSS C12080010/1)** project for 2 498 housing units was approved and the department entered into a contract with the Nelson Mandela Bay Metropolitan Municipality (NMBMM) on 24 January 2013 for R187 249 505. Not all the beneficiaries were approved before the project commenced. The project was 92% completed by April 2016, but some of the approved beneficiaries could not be identified. The completed houses were then invaded by illegal occupants and some were vandalised.
- The **East London Potsdam (HSS C0906004/1-5)** project for 400 housing units was approved on 8 February 2013. The total project value amounted to R34 379 000. A total of 72 beneficiaries could not be identified to hand over their

houses. Furthermore, because the project did not provide for the electrification of the houses, many beneficiaries were not willing to take occupation of the houses or moved back to informal settlements.

- The **Uitenhage Rosedale (HSS C13060012/1)** project for 505 housing units was approved on 14 November 2013. The total project value was R46 014 463. A total of 81 beneficiaries (16%) were not approved before the project commenced. The project was ongoing as at April 2016 and the department estimated that it would be completed by 31 March 2017.

3.8 Recommendation

Beneficiaries should be identified and approved before the projects are approved to ensure that the housing units are handed over to the approved beneficiaries soon after projects are closed out.



4. COORDINATION, CAPACITY BUILDING AND SUPPORT

Audit question 5

Did the department ensure that intergovernmental coordination, municipal capacity building and support are effective and promote economy and efficiency?

The department did not, in all instances, ensure that municipal capacity building and support was provided.

4.1 Agreements with the Nelson Mandela Bay Metropolitan Municipality for the development of housing projects

- 4.1.1 The department entered into funding agreements with the NMBMM for the development of housing projects. The department did not assist and ensure that the NMBMM commenced and completed housing projects on time.
- 4.1.2 NMBMM was used as the developer for seven of the housing projects reviewed during the audit. At four (57%) of these housing projects, there were delays in the commencement and completion of the projects.
- On 24 January 2013, the department entered into a funding agreement with the NMBMM to be the developer for the **PE Motherwell NU 29 (HSS C12080011/1)** project. The project was for 2 101 housing units and the approved funding amounted to R160 103 931. On 13 October 2014, the department approved additional funding of R7 061 516 for the construction of

730 duplex units instead of free standing units. According to the funding agreement, the project should have been completed by 31 October 2013. The March 2016 project status report indicated that 1 527 housing units (73%) had been completed and that 574 housing units were at various stages. Minutes of a meeting held on 28 January 2016 indicated that the contractors had vacated the site and that the uncompleted housing units had been vandalised.

- On 20 November 2013, the department entered into a funding agreement with the NMBMM to be the developer for the **PE Roos Street 28 (HSS C12080012/1)** project. The project was for 28 housing units and the approved funding amounted to R2 133 703. On 26 February 2014, the department approved additional funding of R449 081 in line with the interim quantum applicable from 6 December 2012 to 31 March 2013. According to the funding agreement, the project should have been completed by 31 March 2014.

- On 18 July 2011, the department entered into a funding agreement with the NMBMM to be the developer for the **PE Arcadia North 329 (HSS C11060023/2)** project. The project was for 329 housing units and the approved funding amounted to R26 017 271. According to the funding agreement, the project should have been completed by 31 March 2014.

Progress was slow and the project was only only completed on 31 March 2015.

- On 19 August 2014, the department entered into a funding agreement with the NMBMM to be the developer for the **Uitenhage Rosedale 505 (HSS C13060012/1)** project. The project was for 505 housing units and the approved funding amounted to R46 014 464. Construction started in September 2014 and on 13 November 2014 the contractor requested further funding due to cost escalation. The NMBMM only applied to the department for the additional funding on 18 January 2016 (14 months after the contractor requested increased funding). The reason for the delay was given as the dysfunctional state of the Human Settlements business unit at the NMBMM. On 9 May 2016, the department approved additional funding of R12 226 505 in respect of the new national norms and standards and escalation. As at 25 February 2016, the project progress report indicated that 385 housing units had been completed and the project manager indicated that the project was running slowly.

4.2 Recommendation

The department should evaluate the capacity of municipalities before agreeing to fund housing projects. The evaluation should clearly indicate the level of assistance required by the municipality.







PERFORMANCE
AUDITING

5

AUDITING CONCEPTS AND APPROACH

MANDATE

The performance audit was conducted in accordance with the mandate conferred by section 188(4) of the Constitution of the Republic of South Africa, 1996, read in conjunction with sections 5(1)(d) and 29(3) of the Public Audit Act, 2004. The audit was also conducted in accordance with ISSAI 300, *Fundamental principles of performance auditing* and the methodology as described in the *Performance Audit Manual*.

While it is not within the auditor-general's mandate to question policy, he/she does assess the effects of policy (in terms of the principles of economy, efficiency and effectiveness) and the overall management measures that lead to policy decisions.

PURPOSE OF PERFORMANCE AUDITING

Performance auditing is an independent, objective and reliable examination of whether government undertakings, programmes, systems, activities or organisations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations. Subject matter is not limited to specific programmes, entities or funds but can include topics related to service delivery, value for money or effects of regulations.

Performance auditing places special focus on citizens. The primary questions being asked are whether government is *doing the right thing* and doing this *in the right and least expensive way*.

The reports generated through the performance auditing process inform Parliament and other institutions charged with oversight of the extent to which audited entities:

- procure resources of the right quality in the right quantities at the right time and place at the lowest cost (economy)
- achieve the optimal relationship between the output of goods, services or other results and the resources used to produce them (efficiency)
- achieve policy objectives, operational goals and other intended effects (effectiveness).

ADVANTAGES OF PERFORMANCE AUDITING

Performance auditing benefits government by:

- promoting good governance, accountability and transparency
- creating mechanisms for change and improvement
- contributing to learning and change and serving as a basis for decision-making.

Promoting good governance, accountability and transparency

Performance auditing assists those charged with governance and oversight to improve their performance. This is done by examining whether decisions by the legislature or executive authorities are efficiently and effectively implemented, and whether citizens have received value for money. It provides constructive incentives for the responsible authorities to take appropriate action.

Performance auditing affords taxpayers, financiers, ordinary citizens and the media an insight into the management and outcomes of different government activities. It contributes in a direct way towards providing useful information to the citizen while also serving as a basis for governmental learning and improvement.

Creating mechanisms for change and improvement

In the private sector, a company's success can be measured by its ability to generate a profit. A company that does not continually improve will ultimately be forced to leave the market. There is no similar mechanism in the public sector. While it is possible to reorganise activities in the public sector, and even close some agencies, even the most unsuccessful key ministry will retain some necessary functions.

This requires the public sector to create different mechanisms to measure results and ensure continual improvements in government entities. Performance budgeting, management and reporting are commonly used as such a mechanism. Performance auditing plays a role in highlighting problems and promoting change.

Contributing to learning and change and serving as a basis for decision-making

Performance auditors are not part of the system they audit, which makes it easier to objectively listen to the views and knowledge of different stakeholders at different levels of the public administration. This enables performance auditors to impart new knowledge and understanding to stakeholders. Such new knowledge promotes learning and change.

As resources are scarce, the efficient and effective achievement of objectives is emphasised. Decisions need to be made on how to prioritise different programmes. Performance auditing serves as a basis for decisions on how to prioritise and make better use of available resources.

DIFFERENCE BETWEEN PERFORMANCE AUDITING AND OTHER TYPES OF AUDITING

The three recognised types of government auditing are:

- financial auditing
- performance auditing
- compliance auditing.

The concept of regularity auditing covers both financial and compliance auditing. Performance auditing may include dimensions of compliance, but not as an end in itself. In performance auditing, compliance with rules and regulations is a tool to assess the performance of the audited entity. The main differences between regularity auditing and performance auditing are highlighted in table 13.

Table 13: Differences between regularity auditing and performance auditing

Aspect	Performance auditing	Regularity auditing
Purpose	Assess whether the performance of the audited entity meets the three Es (economy, efficiency and effectiveness)	Assess financial statements, financial management and whether the accounts are true and fair
Starting point	Presumed problems	Performed on an annual basis
Focus	The performance of the organisation/programme and its activities	The accounting and financial management systems
Academic base	Interdisciplinary (economics, political science, engineering, health, education, etc.)	Accounting and financial management

PERFORMANCE AUDIT METHODOLOGY

The audit methodology was standardised and guided by the *Performance audit manual* of 2008 which was updated and replaced by the *Performance audit manual*, December 2015, which sets out the policies, standards and guidelines for the planning, execution, reporting and follow-up of performance audits conducted in the public sector.

The planning phase of the performance audit was conducted according to the *Performance audit manual* of 2008, while the execution and reporting phases were according to the *Performance audit manual*, December 2015.

As required by the *Performance audit manual*, sufficient audit evidence was obtained for the findings and illustrative examples contained in this report. These examples have been included to illustrate the consequences and effects of deficient management measures but are not collectively a full reflection of the extent of audit work conducted at entities.

The following were some of the methods applied in conducting the audit and obtaining evidence:

- Interviews with management and staff
- Observations during visits to the various projects
- Analysing information and data
- Project file reviews.

Data from the following sources were also analysed:

- Strategic plans and annual performance plans
- Annual reports and financial statements
- Current and medium-term budgets
- Business plans
- Project implementation plans
- Approved contracted commitments 2015-16 up to the third quarter
- Project management information received from regions
- Special report on project 786
- Eastern Cape housing needs register
- Eastern Cape Human Settlements service delivery report 2011-16.
- Organisational charts/structure
- Internal guidelines and operating manuals
- Official statistics.

FOCUS AREAS AND KEY AUDIT QUESTIONS

The performance audit focused on the development of sustainable human settlements. Table 14 sets out the focus areas, key audit questions and audit criteria. The sources of criteria included the following:

- Good practice with regard to general management
- Framework for Managing Programme Performance Information
- Comprehensive plan for the development of sustainable human settlements *Breaking new ground* (September 2004)
- Relevant legislation including the Constitution, 1996, the PFMA, 1999 and the Housing Act, 1997
- Policy documents
- National Housing Code, 2009
- Procedure manuals and process flowcharts of the department
- *National development plan*
- Supply chain management guide to accounting officers.

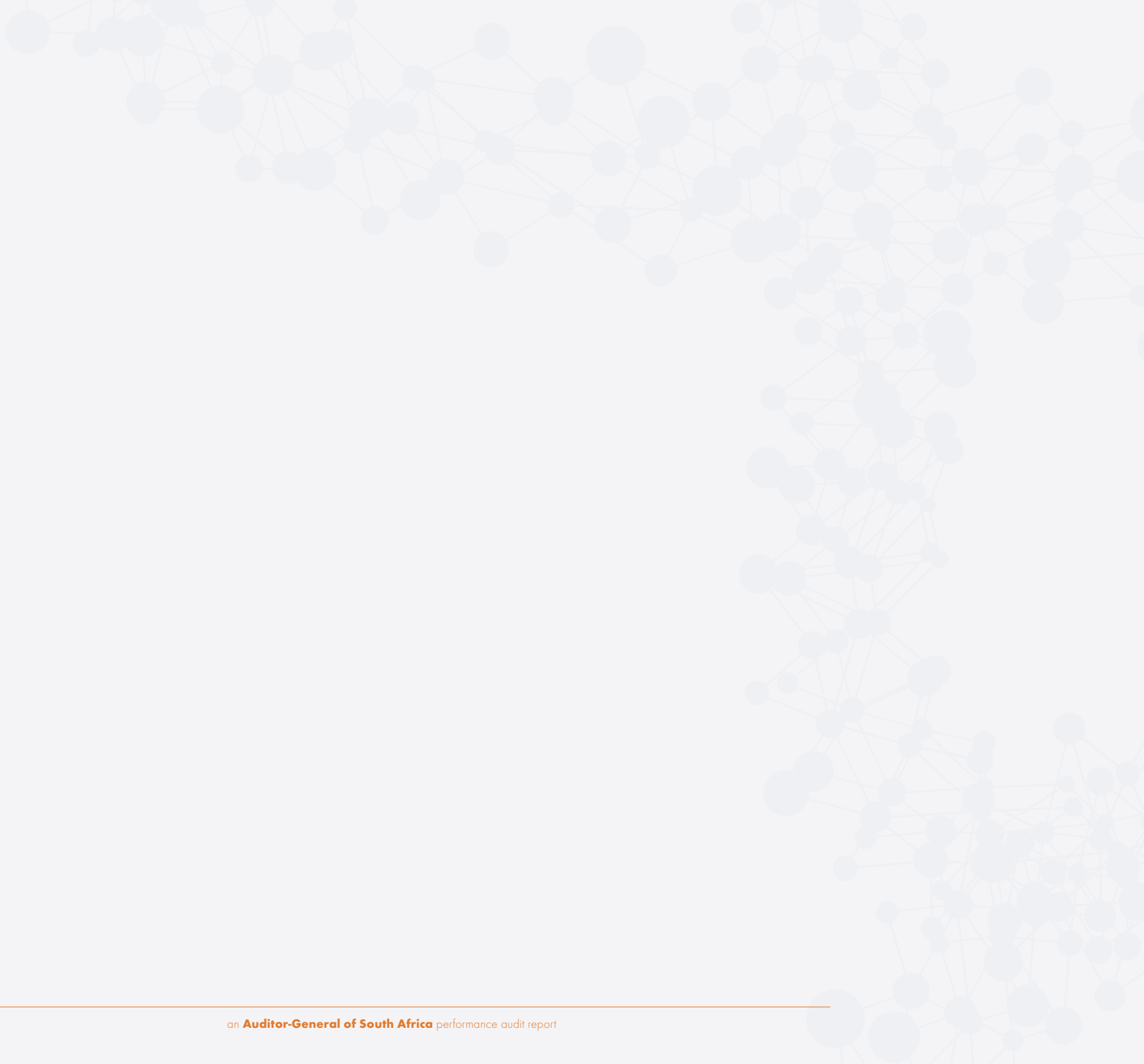
Table 14: Focus areas, key audit questions and audit criteria

Focus area	Key audit questions	Audit criteria
Strategic planning and financial management	<p>Did the department ensure that the strategic planning of sustainable human settlements is effective and promotes economy and efficiency?</p> <p>Did the department ensure that financial resources and conditional grants are effectively managed and used for the development of sustainable human settlements?</p>	<p>Setting strategic objectives and targets</p> <p>Setting strategic objectives and targets</p> <ul style="list-style-type: none"> The strategic objectives and performance targets should be informed by ongoing research and assessments of the human settlement needs in the province, national targets and the national service delivery agreement, outcome 8. The set performance targets should be reflected in strategic and operational plans, which include multi-year housing plans, business plans and project implementation plans. Plans should be prepared and maintained, based on accurate project information, MEC-approved projects and multi-year estimates of delivery. <p>Monitoring, evaluation and reporting of performance</p> <ul style="list-style-type: none"> The key performance indicators should be well defined and verifiable, and should measure inputs, activities, outputs and outcomes in relation to economy, efficiency and effectiveness. The performance targets, read in conjunction with the relevant key performance indicators, should be: <ul style="list-style-type: none"> specific in clearly identifying the nature and required level of performance measurable in identifying the required/ actual performance achievable based on the existing resources and capacity relevant to the achievement of the specific objectives time bound in specifying the period or deadline for delivery. The department should conduct a continuous process of monitoring, evaluation and reporting of performance and correction of deviations. <p>Financial management</p> <ul style="list-style-type: none"> Budgets should be aligned to the objectives and performance targets in the strategic and operational plans. Budgets should be informed by the actual value of contracts in progress and the estimated cost and delivery for the year. estimated cost and delivery for the year.

Focus area	Key audit questions	Audit criteria
Implementation	Did the department ensure that measures are implemented to achieve the strategic objectives for the development of sustainable human settlements?	<p>Organisation</p> <ul style="list-style-type: none"> The service delivery model required for the development of sustainable human settlements should be determined, approved and implemented and the implementation thereof should be monitored. The organisational structure required for the development of sustainable human settlements should be determined, aligned to the service delivery model, approved and implemented. <p>Staffing</p> <ul style="list-style-type: none"> The department should have sufficient qualified staff to support the housing programme and housing project process and, when necessary, qualified professionals should be contracted in to support the process. The department should have an adequate number of trained project managers to ensure the effective management of housing projects. <p>Processes and procedures</p> <ul style="list-style-type: none"> Approved processes and standard operating procedures should be documented, communicated and implemented and compliance with such procedures should be monitored. The project approval committee's terms of reference, approval process and guidelines should be documented, communicated, implemented and regularly reviewed. The project approval committee should consist of members with the necessary expertise and skills to adjudicate and make proposals to the MEC. <p>Information and operating systems</p> <ul style="list-style-type: none"> Management information systems that provide accurate, complete and reliable information should be in place to facilitate effective decision-making for unit costing and budget purposes, beneficiary management, project management and the tracking of projects.

Focus area	Key audit questions	Audit criteria
		<ul style="list-style-type: none"> • Databases used for management information purposes should be integrated or reconciled with the relevant accounting information to ensure the accuracy and completeness of information on the database. • Management information systems should be supported by updated information technology, communication and electronic equipment. Updated technology should be used where this would promote efficiency, economy and effectiveness.
Project management	Did the department ensure that housing projects are completed economically, efficiently and effectively?	<ul style="list-style-type: none"> • The housing programme should be effectively monitored and progress made on projects overall evaluated to ensure timely, cost-effective and quality housing projects. • The department should design and approve a housing programme implementation plan for the management of housing projects, with due consideration of the following: <ul style="list-style-type: none"> - How the projects will be organised. - Procurement for the construction. - Quality control, scheduling of milestones and costs. - Communication, reporting and mitigation against risk. • Beneficiary management should take place throughout the life cycle of projects to ensure effective and timely handover to valid beneficiaries. • The need determination and feasibility studies for housing projects should be completed timely and all the requirements met before submission for project approval. • The planning and design for housing projects should start directly after project approval. • All relevant factors that can prevent or delay implementation of housing projects should be identified and addressed timely. • The housing project tender process should ensure timely, cost-effective and quality appointment of contractors. • The department should ensure that all legal and supply chain management requirements are strictly adhered to.

Focus area	Key audit questions	Audit criteria
		<ul style="list-style-type: none"> • Contracts should be signed timely by all relevant parties and make provision for milestones and penalties that are specifically linked to a milestone to ensure effective and timely application of the penalties. • Progress made with a project should be monitored continuously and penalties imposed where necessary. Any requests for additional time due to delays should be carefully considered and only awarded in line with the provisions of the contract. • Measures should be implemented to ensure that quality housing units are completed and handed over to beneficiaries timely and within budget. • All costs and cash flows should be monitored against the allocated budgets to ensure that the housing projects remain within budget and timely corrective action should be taken if required.
Coordination, capacity building and support	Did the department ensure that intergovernmental coordination, municipal capacity building and support are effective and promote economy and efficiency?	<ul style="list-style-type: none"> • Regular interaction should take place between the municipalities, district offices and the department to allow the necessary social facilitation processes to be undertaken to ensure the success of the projects. • Intergovernmental coordination should take place through appropriate intergovernmental forums and joint steering committees. • Capacity-building efforts should be undertaken to enable the targeted municipalities to be accredited to administer national housing programmes. • The performance of municipalities should be monitored. If a municipality cannot or does not perform its duties in terms of the Housing Act, appropriate steps should be taken to ensure that such duties are performed.





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