



PART C

GOVERNANCE

1. INTRODUCTION

The Department is committed to the principles of good governance and this commitment is demonstrated through governance structures that have been established and also the core values guiding and regulating the Department to ensure effective, efficient and economic utilisation of resources. These structures are continually reviewed to ensure their effectiveness.

2. RISK MANAGEMENT

The Department has a fully functional Risk Management Committee whose responsibility is to assist the Accounting Officer in addressing its oversight requirements of risk management, evaluation and monitoring of the institution's performance with regard to risk management. Furthermore, the committee's role is to formulate, promote and review the institution's enterprise risk management objectives, strategy and policy and monitor the process at strategic management and operational levels.

The committee is composed of executive and non-executive members including a representative from the Audit Committee and the chairperson, who is a non-executive member. The Risk Management Committee operates in accordance with the approved terms of reference and risk management policy and strategy, which are updated on a yearly basis where necessary.

The Committee is supported by a Risk Management Directorate. The committee meets quarterly to review processes and discuss critical issues in respect of risk management, which are also tabled before the Audit Committee. The Risk Management Committee is currently chaired by a representative from Audit Committee while it finalises the process of appointing the new chairperson.

The Department has identified, monitored and reported the progress on management of the following risk categories: strategic, branch (tactical), fraud and information technology. The Department has further identified emerging risks and incidents that occurred during the year under review and will continuously monitor those risks.

3. FRAUD AND CORRUPTION

The Departmental Special Investigations Directorate participated in the induction programme for local government employees and officials, including members of Mayoral Committee and councillors. This programme seeks to train and inform local government employees about human settlements' policies and programmes for respective municipalities. Furthermore, the Department has also conducted anti-fraud and awareness sessions for departmental employees in which the focal area was raising awareness on issues of ethics, values, integrity and morals.

The Department has finalised 16 cases that relate to illegal sale of low-cost houses and tender irregularities. Evidence gathered suggests that there is an involvement of a syndicate in the illegal sale of low-cost houses. The Department is also investigating allegations of illegal sale of low-cost houses through various IT mediums.

The programme achieved the following:

- The Department continues to monitor external cases being investigated by the Special Investigating Unit in terms of Presidential Proclamation R.7 of 2007, which was extended by Proclamation R.35 of 2010 and R.15 of 2012.

The objectives of the investigations conducted in terms of the Proclamation referred to above were:

- To investigate any fraud, corruption and maladministration in respect of the development and delivery of low-income housing in South Africa, by national and provincial departments, local authorities (and agents) and housing development boards
- The Department has recovered over R53.8 million by the end of March 2014, from officials who benefited illegally from the housing subsidy. Furthermore, the Department continues to monitor the progress of cases that are investigated by the Special Investigating Unit.

4. MINIMISING CONFLICT OF INTEREST

Supply chain practitioners are made to sign a code of conduct and are security vetted. All bidders or their representatives (all procurement, i.e. open bids and quotations) are required to declare (on SBD4 forms) their positions or relationship in relation to any person employed by the Department. Members of the Bid Adjudication Committee declare their financial interests on an annual basis. Members of the Bid Adjudication Committee and Bid Evaluation Committee as well as all officials rendering administrative support to these committees are required to sign a declaration form at each meeting. Any members with an interest in the matter at hand must recuse themselves.

Human resource management has the following involvement in minimising conflicts of interest:

- Declaration forms are issued to and completed by members of selection panels in the interview process, in which they indicate any possible conflict of interest in the form of relationships with candidates.
- When applications for approval for remunerative work outside the public service are processed, the issue of possible conflict of interest with the official duties of employees is considered and advised upon.
- Labour relations conducts training on a quarterly basis, during which the issue of conflict of interest is addressed.
- The management of financial disclosures.
- The maintenance of a gifts register.

5. CODE OF CONDUCT

Labour relations conducts awareness sessions, which include information on the code of conduct, on a quarterly basis. Employees are informed that breaches of the code of conduct constitute misconduct. During the year in question, no breaches of the code of conduct were reported to labour relations or human resources.

6. HEALTH SAFETY AND ENVIRONMENTAL ISSUES

(Refer to AR Guide for requirements)

The Occupational Health and Safety Act (Act No. 85 of 1993) charges the Department with a responsibility to reasonably and practically provide and maintain a safe and risk-free working environment for its employees.

In compliance with provisions of the Act, the Department continued to monitor consistent implementation of prescribed measures to ensure a conducive, habitable working environment, through monthly inspections conducted at all departmental sites to identify risks and challenges with recommendations for address.

The OHS risks and challenges identified previously that resulted in non-compliance were corrected and eliminated. These include but are not limited to overloading of power and electricity supplies and gadgets, absence of windows, poor ventilation, unauthorised partitioning, loose electric cables and cords in passageways, acquisition of anti-slip threads for staircases, fire drills as well as alignment of building layout plans to configured offices.

7. PORTFOLIO COMMITTEES

The 2013/14 financial year for Parliament was the last year aimed at assessing its success in execution of its mandate. The departmental strategic plan and individual programme performance underpinned by governance became the key focus for the period. An intergovernmental relations framework was effectively managed in supporting Parliament's oversight role.

For the period under review, Parliament had a three-pronged approach, focusing on the effectiveness of internal governance systems, use of state resources, the human settlements plan as implemented in respective provinces and performance of the different funding stream to deliver integrated human settlements.

The Rental Housing Amendment Bill was served before Parliament. Its recommendations were factored back to the Department to inform its comprehensive policy and legislation development processes. Departmental quarterly performance reports on respective housing programmes were served before the committees as scheduled and in line with the parliamentary programme.

Parliamentary questions posed during the period focused on informal settlement upgrading, plans and funds set aside for this upgrading, experiences of individual complainants in informal settlements, spatial restructuring, performance of the USDF and the Housing Development Grant and the RHIG as a facilitator of RHIP on rural sanitation. The bucket eradication programme took the better part of the last two quarters of the financial year; the Western Cape featured prominently in this regard with a backlog on rolling out waterborne toilets. The nature of questions posed by Parliament can be categorised as follows: programme planning, governance, policy interpretation and application, financial accountability and internal procurement processes, procedures in the Department, human resources and employment practices, adherence to regulatory legislation in transforming the public service and effectiveness of strategic leadership.

At the close of Parliament, the Department and its leadership were appreciated for their efforts in enabling parliamentary oversight performance in all human settlements programmes and its transparency in the management of the budget.

During the financial year under review, the Departmental annual report 2012/13 was tabled as per legislative requirements. The departmental quarterly performance reports were presented to the Portfolio Committee and senior management for decision-making, further guidance and planning. The departmental compliance reports were also presented to senior management for corrective measures.

8. STANDING COMMITTEE ON PUBLIC ACCOUNT RESOLUTIONS

There were no resolutions taken by the Standing Committee on Public Accounts in respect of the Department during the year under review.

The following prior resolutions have been addressed by the Department as reported in the previous financial year:

- Approval and allocation of housing subsidies at provincial housing departments (2005/06 performance audit report).
- Approval of housing subsidies to municipal employees and the administration of low housing projects by certain provincial housing departments (2008/09 performance audit report).

9. PRIOR MODIFICATIONS TO AUDIT REPORTS

Based on the final management letter, an action plan was developed that clearly indicates the audit findings, planned actions to address the findings, the responsible senior manager and the timeframes within which the planned actions will be implemented.

The action plan was updated monthly by the Internal Control unit and verified by internal auditors. In updating the action plan, responsible senior managers had to indicate progress in implementation of planned actions. On a monthly basis the Internal Audit unit presented a report to executive management on the outcomes of their verification

Matters of non-compliance	Financial year in which it first arose	Progress made in clearing or resolving the matter
Assets not removed from asset register after disposal	2012/2013	Two contract workers resumed their duties on 14 October 2013. Contract workers were appointed and the senior supply chain practitioner was also appointed on 01 November 2013. She will be responsible for the financial statements. Interviews for the DD and ASD of asset management positions were held 28 and 29 November 2013. Human resources expect to finalise the appointment by 28 February 2014. Interns have been appointed as at 10 February 2014.
Supply chain management process not followed while no deviations for not obtaining the required quotes were documented	2010/2011	(1) Service providers were appointed to conduct training as follows: (a) Demand management (dates: 06–08 August 2013, 14–16 August 2013 and 21–23 August 2013) and (b) Bid specifications and bid evaluations (dates: 23–25 October 2013, 06–08 November 2013 and 13–15 November 2013). (2) Requests for quotations for professional services are advertised in the Government Tender Bulletin to ensure that the required number of quotations are obtained. (3). A procurement check list is used to monitor the process of obtaining the required number of quotations.
Treasury not made aware of deviation (irregular expenditures)	2011/2012	(1) The irregular expenditure was reported to the Director-General, requesting signature of a letter to the National Treasury. (2) A letter reporting and requesting condonation of the irregular expenditure was sent to the National Treasury. The National Treasury has acknowledged receipt of the letter and undertaken to provide feedback on the matter.
Service level agreement signed after contract commenced and payments made	2012/2013	(1) Orders are created once the service level agreement has been signed by both parties. (2) Regular follow-ups on outstanding service level agreements are done. Furthermore, outstanding agreements are reported weekly to executive management. (3). Payments are not made if the service level agreement is not signed by both parties.
Inconsistencies in Bid Evaluation Committee scoring	2012/2013	(1) Service providers were appointed to conduct training as follows: (a) Demand management (dates: 06–08 August 2013, 14–16 August 2013 and 21–23 August 2013) and (b) Bid specifications and bid evaluations (dates: 23–25 October 2013, 06–08 November 2013 and 13–15 November 2013). (2) Requests for quotations for professional services are advertised in the Government Tender Bulletin to ensure that the required number of quotations are obtained. (3) A procurement check list is used to monitor the process of obtaining the required number of quotations. A template for forwarding a bid evaluation report to the Bid Adjudication Committee to facilitate motivation of vast scoring discrepancies has been developed.
Names of bidders that submitted bids not published on Department's website	2012/2013	(1) Names of bidders that submitted bids are published on the Department's website. (2) Evidence of publication is printed and kept on bid files for audit purposes.

Matters of non-compliance	Financial year in which it first arose	Progress made in clearing or resolving the matter
Procurement policy not approved	2012/2013	A copy of the approved procurement policy was sent to all staff members and the Office of the Auditor General on 28 August 2013.
Payments not made within 30 days of receipt of invoice	2010/2011	A new approach of handling of invoices in the supply chain has been developed, Weekly reporting of invoices by supervisors is done. Officials delaying invoices for payment are reported to the Chief Financial Officer for her attention. The electronic register has been amended for the supervisor to follow up on invoices sent out to managers for approval and to give updates. An internal audit has been conducted and a report produced.
Subsistence and travel: Inappropriate car, air, travel and hotel accommodation categories used	2012/2013	A transport policy was drafted and approved by the Director-General on 05 September 2013 (implementation date) and it was circulated to all staff members on 12 September 2013.
Debt management policy not approved	2011/2012	Approved debt management policy SUBMITTED TO Attorney-General on 20 August 2013. The policy was approved subsequent to the issuing of an audit query (April 2013).
Payroll certification not performed and returned in a timely manner	2010/2011	Financial delegations have been amended and approved by the Director-General on 03 March 2014. Acting Chief Directorate: Human Resource Management was requested to move officials to the new pay points.
Performance agreements not signed on time by SMS members	2010/2011	Human resources issued letters to branch heads regarding non-compliance in November 2013, requesting reasons for non-compliance and advising of the consequences. The matter will be presented to executive management and finalised by 31 March 2014 to address the issue non-compliance and approve the action plan.
Department does not perform pre-employment screening when appointing	2010/2011	An action plan has been developed and implemented which includes pre-employment screening when appointing. The newly developed action plan clearly outlines roles, responsibilities and timelines in order to speed up the recruitment process. Human resources is to finalise this process by 28 February 2014. The investigation has been concluded and document evidence will be resubmitted to Internal Control to close this matter.
Acting allowances paid late	2012/2013	A director has been assigned to manage the payment of the acting allowance. Acting allowance becomes effective after approval by the delegated authority and allowance is paid are after six weeks of acting.
Employee performing remunerative work outside of the Department without prior approval	2011/2012	The draft policy to be presented by human resources to executive management by 31 March 2014. Furthermore, the draft policy is ready and will be en route for approval.
No implementation or action plan for the five-year human resource plan	2010/2011	A written confirmation has been received from the DPSA that there is no template for an implementation plan for the human resource plan, and that Section 8 of the plan is the action plan. Human resources has completed Section 8 of the human resource plan.
Irregular expenditures: No proof that identified irregular expenditure was reported to Treasury	2011/2012	An investigation was conducted and a report compiled addressing all of the abovementioned issues, which was submitted to the Chief Financial Officer on 30 November 2013. This report has not been returned to human resources. Also, human resources has drafted a memo requesting condonation of the irregular expenditure, as advised by SCM. This memo has been submitted to finance for advice; we are still awaiting proper advice so that the memo can be finalised. Regarding the finding related to the acting appointments, human resources has disputed the finding; a formal letter and supporting documents will be submitted to finance in this regard. The memo will be reproduced and be submitted to the acting Chief Financial Officer by 31 March 2014.

Matters of non-compliance	Financial year in which it first arose	Progress made in clearing or resolving the matter
Entity-wide strategic risk assessment not conducted regularly	2012/2013	Department-wide risk assessment was conducted on 29 August 2013. The risk owners have developed action plans based on the draft risk register. The processes was finalised on 30 September 2013. The strategic risk register with action plans was finalised, tabled at the Risk Management Committee meeting held on 28 October 2013 and adopted. The Department has finalised the process of strategic and IT risks assessment (i.e. actions have been implemented for all risks identified and status updated. The department-wide strategic risk assessment has been completed and adopted by both the Risk Management Committee and executive management and approved by the Accounting Officer. • The fraud risk assessment draft has been compiled and distributed for inputs. The fraud risks will be assessed once all inputs are consolidated. A meeting will be scheduled for rating of the risk by executive management.
Strategic plan (Annexure E of APP) not completed: Technical indicator descriptions not compiled	2012/2013	The strategic plan is at an advanced state of development. Consultation with sector stakeholders is nearing conclusion.
Strategic plan does not contain vision, mission and values of the Department	2012/2013	<ul style="list-style-type: none"> • The branch has made sure that in the development of the 2013/16 strategic plan vision, mission and values are contained. • 2013/16 strategic plan contains all National Treasury frameworks on strategic planning requirements.
Strategic plan not aligned to 2012/14 MTEF	2012/2013	Proposals have been tabled with the Chief Financial Officer.
Strategic plan does not include specific Constitutional and other legislatives	2012/2013	The branch has made sure that in the development of 2013/16 strategic plan Constitutional and other legislative are included. Refer to the 2013/16 strategic plan.
Inconsistency between planned indicators and targets and reported indicators and targets	2012/2013	<p>To exercise oversight and ensure compliance with performance reporting prescripts, the Chief Directorate has introduced an ongoing system of exception letters where there is poor performance and non-compliance. The Chief Directorate has also introduced a system of information packs and assessment questionnaires.</p> <p>The Chief Directorate has introduced a system of compulsory performance review sessions.</p> <p>The Chief Directorate has ensured compulsory training of all SMS members in areas monitoring and evaluation, strategic planning, governance and accountability. In addition, the Chief Directorate has developed the enterprise operations performance assessment framework as well as guidelines on enterprise architecture. The Chief Directorate has also introduced a system of tracking outstanding targets.</p>
Relevance of indicators and targets		
Information to support reported achievements not provided		
Targets not achieved		
Reasons for variances for targets not supported by sufficient evidence		

10. INTERNAL CONTROL UNIT

The unit is a custodian of all current financial year's financial transactions. During the year:

- It conducted compliance testing in relation to internal policies, laws and regulations and ensured effectiveness of internal controls. Discrepancies were identified, noted and brought to the attention of management with recommendations to enhance the controls and deal with them in compliance with prescripts.
- It served as a secretariat to the Loss Control Committee and is tasked to implement the decisions of the committee. The committee held four meetings during the financial year.

- It managed the process of submission of audit findings to the Department and submission by the Department of management responses to external auditors.
- It developed an action plan to address the audit findings by the office of the Auditor General. This action plan was updated on a monthly basis as planned actions were implemented. The plan was presented to various stakeholders such as the Audit Committee, executive management team, internal audit and MinTop for review and recommendations.

11. INTERNAL AUDIT AND AUDIT COMMITTEES

Internal audit

The Department has an Internal Audit Directorate which operates in accordance with the PFMA, Treasury regulations and the approved internal audit charter which defines the purpose, authority and responsibility of the unit. The unit also conducts its operations in accordance with the standards for the professional practice of internal auditors issued by the Institute of Internal Auditors. The Internal Audit Unit focuses mainly on providing assurance and consultancy services to management and the Audit Committee on matters pertaining to systems of control, risk management and governance processes. The unit through its chief audit executive reports functionally to the Audit Committee and administratively to the Accounting Officer.

The Audit Committee continuously assesses the performance of the Internal Audit Directorate to determine the level of its effectiveness and recommends areas which need improvement. The unit as per requirements of Institute of Internal Auditors's standards and Treasury regulations developed a three-year rolling strategic plan inclusive of a one-year operational audit plan in consultation with management and approved by the Audit Committee. All the reviews conducted by the function had reflected that the systems of internal controls are adequate in those areas reviewed while on certain areas there were control weaknesses identified pertaining to effectiveness of those controls. Recommendations were made on weaknesses identified and management committed itself to implement agreed actions plans.

Audit Committee

The Department has an Audit Committee, which operates in accordance with the requirements of the PFMA and Treasury regulations; the Audit Committee comprises members appointed from outside the public service. In addition the committee also operates in terms of the audit charter terms of reference, which were reviewed and approved in the period under review. The committee has currently two vacancies which the Department is in the process of filling to bring the number of committee members to five. During the period under review the committee met five times and the Accounting Officer and executive management were always represented at these meetings. The Office of the Auditor General, National Treasury and the chairperson of the Risk Management Committee are always invited to these meetings.

The committee has unrestricted access to both information and personnel of the Department. A 360-degree evaluation of the performance of the committee is done annually to assess its performance and measures are put in place to address weaknesses identified. The results of the assessment conducted during the period under review reflect that performance of the committee is satisfactory and the committee is adding value to the Department.

Name	Qualifications	Internal or external	If internal, position in the Department	Date appointed	Date resigned	No. of meetings attended
Mr K Buthelezi	BComm degree Diploma in Accountancy Further Diploma in Accountancy (ACCA)	External	Not applicable	1 January 2011	Not applicable	5
Ms T Moja	BComm degree BCompt degree Advanced Treasury Management Master's in Business Leadership	External	Not applicable	1 January 2012	Not applicable	4
Mr N Monakedi	Master's in Project Management BTech (Construction Management) National Diploma Building Diploma in Labour Intensive Management	External	Not applicable	22 August 2011	Not applicable	5

12. AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2014.

Audit Committee members and attendance

The Audit Committee consists of the external members listed below and meets at least four times per year, in accordance with its approved Terms of Reference. During the current financial year five meetings were held.

Name of member	Number of meetings scheduled	Attended
Mr K Buthelezi	5	5
Ms T Moja	5	4
Mr N Monakedi	5	5

Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities in terms of Section 38(1)(a)(ii) of the Public Finance Management Act and Treasury Regulation 3.1.13. The Audit Committee also reports that it has adopted appropriate formal terms of reference as outlined in its Audit Committee charter and met its responsibilities as stipulated in the charter.

The effectiveness of internal control

The Committee review of the findings of the Internal Audit work, which was based on the risk assessments conducted in the department revealed certain weaknesses, which were then raised with the Department.

The following internal audit work was completed during the year under review:

- Review of the Interim Financial Statements audit
- Payments made within 30 days audit
- Human Resource Management audit
- Payroll audit
- Asset Management audit
- Supply Chain Management audit
- Human Settlements Development Grant audit
- Urban Settlements Development Grant audit
- Audit of Performance Information audit
- Performance Audit on Facilities Management
- Performance Audit on Outcome 8 (Output 1 and Output 3)

The following are areas of concern from the Committee. There are recurring system deficiencies raised by both Internal and External Auditors from the previous years and management have not addressed them adequately:

- Rural Household Infrastructure Programme/ Grant
- Performance Information
- Accruals
- Human Resource Management
- Commitments
- Non-compliance with legal and regulatory provisions
- Information Technology Governance

In-Year Management and Monthly/Quarterly Report

The quality of management and quarterly reports submitted to the Treasury as is required by the PFMA and the DoRA was also reviewed.

Evaluation of Financial Statements

The Audit Committee:

- Reviewed and discussed the audited and adjusted financial statements to be included in the annual report.
- Reviewed the Auditor-General management report and management responses to the report.
- Reviewed audited financial statements and adjustments made

Changes to accounting policies

The Audit Committee noted that there were no changes to accounting policies.

Internal Audit

The Audit Committee is satisfied that the Internal Audit Function is independent, objective and operating effectively and also strives to address the risks pertinent to the department in its audits.

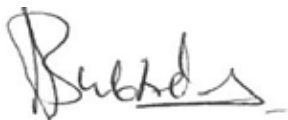
Auditor General's Report

We have reviewed the department's implementation plan for audit issues raised in the previous year and we are not satisfied with progress especially with regard to the following:

- Strategic planning and performance management
- Annual financial statements, performance and annual reports

- Human resource management and compensation
- Asset management and liability management

The Audit Committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the audited financial statements be accepted and read together with the report of the Auditor-general.



Mr K Buthelezi
Chairperson Of The Audit Committee
Department Of Human Settlements
31 July 2014

