

**GOVERNANCE**

**PART C**



## 1. INTRODUCTION

## 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, evaluating and monitoring 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 ToRs and the risk management policy and framework, which is updated on a yearly basis where necessary.

The committee is supported by a Risk Management Directorate. The committee meets on a quarterly basis to review processes and discuss critical issues in respect of risk management which are also tabled before the Audit Committee.

During the period under review the Risk Management Committee was not optimally functional due to lack of participation from the risk owners as well as lapse of the contract for the chairperson and additional executive member. This was discussed both in the Risk Management Committee and the Audit Committee. The acting chairperson has been appointed and the process of appointing the new chairperson is being finalised. The committee held three meetings in this financial year.

A strategic Information technology risk assessment process was undertaken where the Department identified, evaluated and allocated responsibility for managing and controlling the IT risks confronting the Department. The fraud risk assessment for 2012/13 had yet not been done and will be done after the assessment of the impact of the implementation of turnaround strategy.

Risk description	Risk mitigation measures
Lack of and the development of provincial and municipal programme and project management pipeline planning and implementation	Provinces and municipalities have been provided with support to establish programme management units A programme management branch has been established to specifically manage national programme and project pipeline planning Intensive business planning support is provided to provinces and municipalities
Inadequate alignment of financial management and administration across the spheres of the state	Intensive business planning support is provided to provinces and municipalities Monitoring and oversight visits are undertaken to ensure compliance with administrative procedures
Lack of appropriate monitoring, reporting and evaluation of financial and non-financial performance	A process to improve data integrity and management between provinces and municipality is underway Compliance with the housing subsidy system policy and procedures is mandatory
Lack of appropriate alignment of national, provincial and municipal planning and funding of grants	Intensive business planning business support is provided to provinces and municipalities The relevant grant frameworks have been amended to ensure mandatory alignment and coordination of municipal programme and project planning to fund grants A new grant has been introduced by the National Treasury to support to alignment with planning, funding and special outcomes

Lack of appropriate technical capacity, knowledge and expertise

A city support programme has been put in place to support municipalities in respect of prioritised programmes and projects. The NUSP is now in place to support informal settlement upgrading. The municipalities accreditation programme provides for support to both municipalities and provinces to ensure appropriate skills and capacity. A progressionalisation programme is in place to support knowledge sharing and improvement of qualification of officials. The entities have been provided with a mandate to support capacity expertise and knowledge sharing.

### 3. FRAUD AND CORRUPTION

The Chief Directorate participated in the Department's induction programme for local government employees and officials, including members of the mayoral committee and councilors. This programme seeks to train and/or inform local government employees of human settlements policies and programmes.

#### The programme achieved the following:

- Monitored 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 that were conducted in terms of the Proclamation referred to above are "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".

#### Housing subsidy system investigations

The investigation into housing subsidies (Auditor General's findings for the 2005/06 and 2007/08 financial years) was finalised by the SIU. These investigations sought to prosecute and recovery monies lost (by the government) as a result of fraudulent allocation and accommodation of low-income houses by non-qualifying government employees. The SIU advised the Department that they are finalising their report, and will furnish a copy to the Presidency and the Ministry for Human Settlements. This report will be tabled in Parliament once finalised and submitted to the Presidency.

#### Housing contracts investigations

- Twenty-four investigations were conducted during the period under review.
- Ten investigations were finalised whilst 14 are still pending (ongoing).

#### *Findings made in respect of the completed housing contract investigations include, inter alia:*

- Fruitless and wasteful expenditure incurred in respect of seven matters amounting to R668 499 860,44.
- Potential losses to the respective provincial departments in respect of expenditure incurred versus value created on the ground amounting to R63 994 313,32.
- Civil recoveries identified in respect of six matters amounting to R669 756 140,07.
- Irregular expenditure incurred in respect of five matters amounting to R526 023 263,46.
- Unauthorised expenditure incurred in respect of two matters amounting to R611 797 643,40.
- Disciplinary matters (misconduct) to be further investigated and dealt with by the relevant provincial departments in respect of 11 matters; this relates to 80 officials within the relevant provincial administration.
- Criminal matters/referrals; these relate to transgressions in respect of section 86(1) of the PFMA in respect of eight matters relating to 12 heads of department.

#### 94 systemic findings were made in respect of 17 matters, namely:

- Lack of project application and appropriate contractual arrangements in compliance with the National Housing Act and National Housing Code.
- Non-compliance with the project payment regime in terms of the provisions of the National Housing Act and Housing Code in respect of the progress payment and/or tranche payment regimes.
- Non-adherence to the provisions of the National Housing Act and National Housing Code in respect of prescripts of the relevant subsidy instrument utilised.
- Irregular award of tenders to service providers.
- Contractual non-compliance and inadequate monitoring of contractual terms.
- Inadequate project monitoring regimes.

There are seven completed housing contract investigations that are currently a subject of criminal investigation. These cases include matters that were completed during previous and current financial years.

#### **4. MINIMISING CONFLICT OF INTEREST**

None

#### **5. CODE OF CONDUCT**

None

#### **6. HEALTH SAFETY AND ENVIRONMENTAL ISSUES**

The Department, in line with the Occupational Health and Safety Act (Act No. 85 of 1993), established the committees and relevant structure to assist on matters of compliance. The Occupational Health and Safety (OHS) Committee conducted monthly inspections to identify risks and challenges to be addressed and to monitor compliance for a conducive and safe work place. Several training interventions were done in compliance with provisions of the OHS Act including first-aiders appointed to assist with emergency onsite injuries on duty.

According to the Act, the main duty of the Department, as an employer, is to provide and maintain, as far as is reasonably practicable, a working environment that is safe and without risk to the health of the employees. There are, however, many challenges that are experienced in the Department.

One of the serious health and safety issues in the Department is OHS non-compliant buildings at inception of leases which results in departmental employees being accommodated in unsafe buildings, exposing them to injuries and sicknesses and defeating the above duty of the employer. This non-compliance is proved by invalid certificates of compliance that have been issued for buildings used by the Department and also complaints coming from employees. Also, alteration of buildings and overloading of the energy (electricity) supply with non-SABS approved gadgets, without following applicable prescripts as contained in the OHS Act and incorporated legislation have compromised health and safety in the workplace. An example is the absence of windows in some offices due to partitioning, poor ventilation due to absence of windows and blocked mechanical ventilation flow, also due to partition walls.

There are also no approved plans for alterations in some buildings housing the Department and this causes delay for fire drills which are required to be implemented as per the law. In some cases the layout plans in the buildings do not match the configuration of offices.

However, these challenges are being addressed with the relevant stakeholders.

#### **7. INTERNAL CONTROL UNIT**

Internal controls exist to benefit an organisation. They strengthen the management practices that govern administrative and financial performance in pre-determine activities. In the Department these are in the form of policies, guidelines and procedures or processes put in place by management to ensure that departmental goals and objectives can be met. The Department has in place an Internal Control Unit accountable to the Chief Financial Officer. The Internal Control Unit has during the financial year achieved the following:

##### **Awareness workshops**

These were held quarterly. The main aim is to prevent undesirable events from occurring while ensuring that compliance is achieved. In these sessions procedures and processes are outlined as well as how the departmental policies and other applicable laws and regulations work.

##### **Compliance checks**

This is detective in nature, as the main purpose is to detect and subsequently correct the undesirable events/non-compliance that have already occurred. Most fruitless, wasteful expenditure and irregular expenditures were identified during this process.

### Policy reviews

The unit also reviews the effectiveness of the internal policies and where necessary the policies are amended. In the current financial year the following financial policies have been reviewed and circulated to all employees for inputs before Director General's approval:

- Gifts, donations and sponsorship policy
- Management of losses policy
- Debtors policy
- Debt write-off policy
- Procurement policy

### Advisory

On a monthly basis during the financial year the unit produced reports with recommendations to management.

### Management of losses

The Department handles the management of losses through the Internal Control Unit and the Loss Control Committee. During the financial year the unit handled a number of cases of loss which were presented to the Loss Control Committee for a decision. The unit also successfully managed the loss control register.

### Internal control environment

Circulars were issued to provide awareness to all the employees in the Department regarding protection of state property, procedures on management of batches and all the proper measures that should be in place to ensure safety.

### Batch control

As custodians of all current year payment batches, the unit enhanced its procedures on requesting of batches. Safety of the batches is a priority and effective controls are in place to prevent loss of batches and other files.

## 8. AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2013.

### Audit Committee members and attendance

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

Name of member	Number of meetings scheduled	Attended
Mr K Buthelezi (Chairperson)	5	5
Mr J Weapond (contract expired 31 December 2012)	4	3
Ms T Moja	5	4
Mr N Monakedi	5	4

### Audit Committee responsibility

The Audit Committee reports that it complied with its responsibility in terms of section 38(1) (a) of the PFMA and Treasury Regulation 3.1.

The Audit Committee also reports that it adopted appropriate formal ToRs as outlined in its Audit Committee charter and met its responsibilities as stipulated in the charter.

### Effectiveness of internal control

The Department's system of internal controls of risk management is adequate. Despite this, the entire risk management process was not effective due to risk owners' lack of commitment. The Audit Committee subsequently tasked management to address the weaknesses identified.

The system of internal control was not entirely effective for the year under review. Deficiencies in and/or deviations from the system of internal controls were reported by internal auditors and the Auditor General.

The quality of management and quarterly reports submitted in terms of the PFMA and the DoRA was also reviewed.

During the year under review, the Audit Committee reviewed the internal audit reports on audits of the quarterly performance information prepared and issued by the Accounting Officer of the Department.

#### **Evaluation of financial statements**

##### **The Audit Committee:**

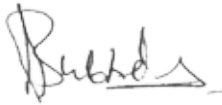
- Reviewed and discussed the unaudited financial statements to be included in the annual report.
- Reviewed the Auditor General management report and management responses to the report.
- Reviewed unaudited financial statements and adjustments made.

#### **Internal audit**

The Audit Committee is satisfied that 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 South Africa**

The Audit Committee met with the Auditor General South Africa to ensure that there were no unresolved issues.



Mr Khulekani Buthelezi  
Chairperson: Audit Committee  
30 May 2013