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Management and delivery of key programmes

3. Management and delivery of key programmes

The NDP launched in 2012 is the long-term strategy for South Africa that focuses on the long-term goals set by government to systemically improve the well-being of the country and its citizens, with the aim of eliminating poverty and reducing inequality by 2030. The sustainable development goals adopted by South Africa drive the same agenda and also aim to protect the planet through sustainable development.

Accountability for government spending: from the plan to the people, which is a central theme of this report, is about holding the leadership answerable to the public for actions, decisions and policies that should bring about qualitative improvements to the lives of citizens. In addition, it is about determining whether the quality and effectiveness of government spending fall within sustainable financial limits.



The achievement of these goals (**IMPACT**) requires a systematic and well-coordinated process of planning (**PLAN**), disciplined implementation (**DO**), progress monitoring and evaluation (**CHECK**), and corrective action where delivery does not take place as planned (**ACT**).

Against the backdrop of the NDP, the MTSF articulates government's five-year plan to achieve its goals. Through the MTSF, the intended outcomes of the period are determined, which then inform the **strategic plans and budgets of auditees**. The cycle of planning, budgeting and reporting is illustrated below.

Figure 1: Planning, budgeting and reporting cycle



Source: Framework for Managing Programme Performance Information – National Treasury, May 2007

To support the goals set out in the NDP and the MTSF, the 2016-17 budget was tabled in February 2016. This budget was tabled at a time when both global and domestic economic conditions continued to be difficult. Therefore, it is very important for government to exercise sound financial management in the midst of this challenging environment to ensure that government service delivery is not negatively affected.

An abridged version of the budget, called the **estimates of national expenditure** or ENE, was also published. The ENE includes the budget for every national department and what they plan to achieve with the allocated funds. The budget of a department is **broken down into programmes**. Each programme

has a specific purpose and objectives that are aligned to the mandate of the department and the objectives of the MTSF. The ENE includes **key performance indicators and targets** that are used to measure whether departments achieved **what they set out to do with the money allocated to them**. A number of the national departments use provincial departments, public entities and other bodies to achieve their objectives and provide funding to them through **grants**. Therefore, the financial information and key performance indicators in the institutional budget plans set out in the ENE provide Parliament and the public with the necessary information to hold government accountable against the outcomes of the MTSF.

Departments also have more detailed annual performance plans that include additional performance indicators and targets, which they then report on through their annual reports. We audit the performance reports and the plans that inform them, by **selecting the most relevant and material programmes and testing whether the indicators and targets are useful and the reported achievements are reliable**. This audit is performed in an **integrated** manner with the audit of the financial statements and compliance with key legislation. At some of the bigger service delivery departments and sectors, we do **additional work on the key projects that enable delivery on these programmes**, often using performance auditors and experts such as engineers to determine if money was used effectively and efficiently – including the quality of project deliverables (e.g. infrastructure projects). This provides us with a unique and comprehensive view of the **management and delivery of key government programmes**. We reported our findings on key programmes to the accounting officers, provincial leadership, ministers and portfolio committees to assist in the accountability and improvement process. In this section, we report on the following five key programmes we had audited, which all have a significant impact on the achievement of government priorities:

- Water infrastructure development
- Expanded public works programme
- School infrastructure
- Food security and agrarian reform
- Housing development finance

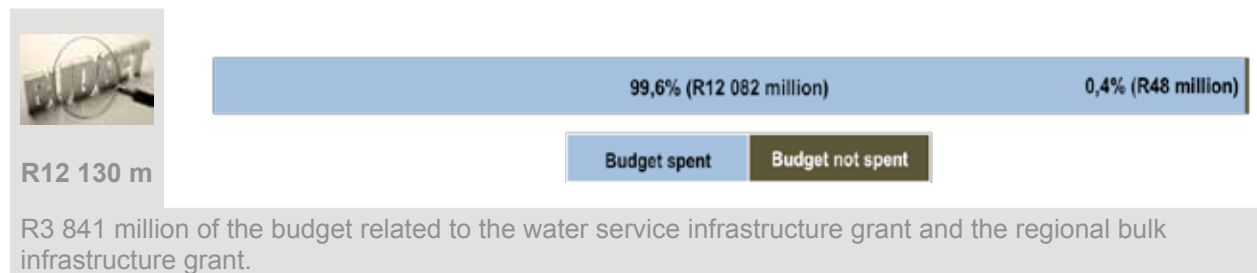
We report on the management and delivery of these key programmes to demonstrate the importance of **transparency and accountability for government spending**. Plans and budgets as included in the ENE should translate into service delivery through good financial, performance and project management, supported by the fair and transparent procurement of goods and services. Departments should also report in a credible and transparent manner on how the money was spent and the successes and failures of the funded programmes.

For each programme, we show the following:

- The **budget and purpose** of the programme and how much of the programme **budget had been spent**.
- Whether the key **indicators included in the ENE were achieved** and whether the reported achievement was **reliable**.
- Any **performance planning and reporting concerns** we identified and any **accounting problems** on the programme at the national department.
- **Findings on the key projects** we had audited.
- If a department provided a **grant to provincial departments**, how that grant was **spent and accounted** for by the provincial departments (intergovernmental coordination) and whether the money was **spent in accordance with the grant framework** that defines the intended purpose of the grant. On the projects funded by grants, we indicate whether the **targets were achieved and reliably reported as well as whether we raised any SCM or other findings on the projects**.
- A **conclusion**.

Vote 36 – Department of Water and Sanitation

Programme 3: Water infrastructure development



Programme purpose

Develop, rehabilitate and refurbish raw water resources and water services infrastructure to meet the socio-economic and environmental needs of South Africa.

Key targets planned	Achievement reported	Reliable?
Number of bulk raw water projects completed during the year = 1	1	✓
Number of large water and wastewater services construction projects completed = 3	2	✓
Number of mega-water and wastewater services construction projects completed = 1	0	✓
Number of small water and wastewater services projects completed per year = 282	31	✓

Performance planning and reporting concerns

The department reported on its performance in a reliable and useful manner, but the **programme did not achieve its targets**. The reasons provided by the department for this included the reprioritisation of funds for drought relief and to its trading entity, projects that were behind schedule, and SCM and contracting processes that had been delayed.

The programme is partly enabled through the water service infrastructure grant and the regional bulk infrastructure grant transferred to municipalities. We reported material non-compliance with the Division of Revenue Act by the department, as the **performance of the projects funded by the grants was not evaluated**. The expenditure and non-financial information were also **not monitored in-year**.

Correctly accounted?

X

The financial statements of the department did not correctly portray the expenditure, assets, implementing agent arrangements, liabilities and commitments related to this programme.

In total, R1,8 billion was shown as a transfer payment even though the affected projects were under the control of the department. The accounting was not in accordance with the Modified Cash Standard and we gave the department a qualified audit opinion as a result.

Concerns regarding water infrastructure projects

We tabled a **stand-alone performance audit** report in November 2016 on water infrastructure, which reported on the planning, management and implementation of water infrastructure projects. Our detailed audit of these projects highlighted weaknesses in the areas of leadership and oversight, funding, project management and intergovernmental coordination. We also reported significant weaknesses in the management of water infrastructure projects at municipalities (funded by the water service infrastructure grant and the regional bulk infrastructure grant) in the **2015-16 general report on local government**.

In 2016-17, we audited 10 key projects administered by the department and implemented by the Water Trading Entity, water boards or a district municipality. We reported the following at an overall level:

- The department enters into contracts with implementing agents (e.g. water boards) to construct capital infrastructure. These **implementing agents need to follow procurement processes and manage contracts in compliance with the same legislation** the department is subject to, as they manage these projects and the funds on the department's behalf. We identified various contraventions of legislation on these projects, which resulted in irregular expenditure. The department could not quantify the irregular expenditure amount in 2016-17. The most common finding was that **competitive bidding processes had not been followed** as the procurement was deemed an emergency, even though it related to multi-year projects. We also reported that the lack of processes and systems at the department to monitor compliance meant that the irregular expenditure could be even more.
- Contractors were overpaid or paid for services not rendered. We could not determine the full extent of the **fruitless and wasteful expenditure** and reported that the department needed to investigate this further.

The projects we audited are listed below, followed by some examples of our findings.

Greater Mbizana regional bulk water supply (EC)	Lower Thukela bulk water supply scheme (KZN)	Giyani bulk water services and Giyani water services (LP)	Northern Nsikazi bulk water scheme (MP)	Taung / Naledi (NW)
Mopani emergency project (LP)	Nwamitwa dam (LP)	Raising of Tzaneen dam wall (LP)	Raising of Clanwilliam dam wall (WC)	Mzimvumbu water project (EC)

- The Mopani emergency project was not budgeted for in 2016-17 and was not included in the department's annual performance plan, even though the project had been ongoing for a number of years and R98 million was spent in the current year (R364 million to date). The project has now been placed on hold due to a lack of funding.
- The 2016-17 voted budget was overspent on the Lower Thukela and Giyani projects.
- The initial project budgets for five of the nine projects with budgets were insufficient and had to be increased; for example, the budget of the Nwamitwa dam increased from R1,3 billion to R3,7 billion.
- There was non-compliance with SCM legislation on 80% of the projects; for example, the irregular expenditure on the Nwamitwa project was R155,9 million and on the Tzaneen project R43,6 million.
- We assessed the value for money received on some projects and identified the following on the Giyani, Nwamitwa and Tzaneen projects:
 - Double invoices were paid.
 - Professional fees (rates) were not in line with the norm and non-market rates were charged on the actual installation and costs paid.



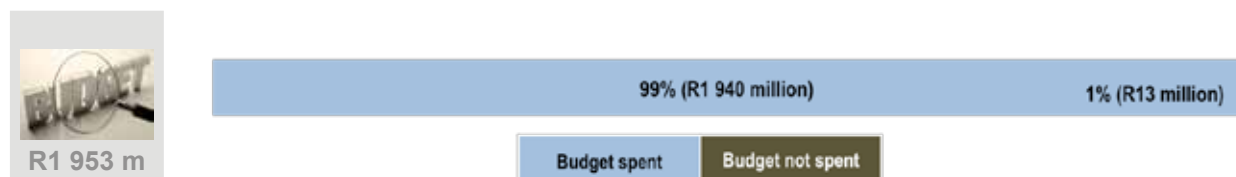
The programme did not achieve its targets in spite of all the money allocated having been spent. Our audits showed poor planning and project management, inadequate financial management and a serious breakdown in controls. The inadequate monitoring by all role players involved and the lack of accountability and consequences created an environment conducive to service delivery failure and corruption.

Commitments

The portfolio committee committed to increase oversight and monitoring by requesting the department to report quarterly on their audit action plan and status of the project management and control of key infrastructure projects – including those implemented by agents. The committee will also monitor the follow-up of, and actions taken against, those responsible for irregular and fruitless and wasteful expenditure.

Vote 11 – Department of Public Works

Programme 3: Expanded public works programme



R1 426 million of the budget related to grants to municipalities, provincial departments and non-profit institutions – of which R402 million was the expanded public works programme integrated grant for provinces, which we audited.



Programme purpose

Coordinate the implementation of the expanded public works programme, which aims to create work opportunities and provide training for unskilled, marginalised and unemployed people in South Africa.

Key targets planned	Achievement reported	Reliable?
Number of public bodies, reporting on expanded public works programme targets, provided with technical support per year = 290	297	X (Should be 190)

Performance planning and reporting concerns

Even though included in the ENE, **the department did not report on the number of work opportunities created** by the programme – the indicator and target were also not included in the 2016-17 annual performance plan. The information was available from the expanded public works programme reporting system, but the department chose not to report thereon as it was unreliable and would have led to material audit findings.

The other key indicator in the ENE on technical support was **incorrectly reported as achieved**.

We further reported to management our concerns regarding the **inadequate reporting by the departments, public entities and municipalities (public bodies) that receive the expanded public works programme grant**. The reports submitted monthly only indicated the amount received and spent, and not the outputs (as required by the grant framework) or how the grant had been utilised.

Concerns regarding the expanded public works programme projects

In 2016-17, we audited 10 expanded public works programme projects across the country, in addition to testing the grants given to the provinces. The projects we audited are listed below, followed by our findings.

Epping and Ndabeni service products (WC)	Recycling, greening and beautification (EC)	Roads and stormwater (Nkomaba) (GP)	Sol Plaatjie cleaning project (NC)	Maintenance of heritage sites (EC)
VDM borehole operators (LP)	Waste management (MP)	Escourt prison (KZN)	Beautification of DLM (FS)	Zeerust SAPS (NW)

- Work opportunities reported at these projects were not always supported by reliable supporting evidence, such as identity documents, attendance registers and proof of payments.
- Reported beneficiaries were in some cases deceased.
- The identity numbers of some beneficiaries were found to be invalid.
- Some beneficiaries were included on multiple projects when they worked on only one project.

Expanded public works programme integrated grant for provinces

Purpose: To provide incentives to provincial departments to expand work-creation efforts through the use of labour-intensive delivery methods, in compliance with expanded public works programme guidelines. Focus areas include road maintenance, maintenance of buildings as well as tourism and cultural industries.

Results based on 50 projects tested at 41 provincial departments

Budget – R402 million

Nine of the 41 provincial departments where we audited the grant underspent by more than 10%. The departments were:

- Education (Gauteng)
- Health (Free State and Mpumalanga)
- Cooperative Governance, Human Settlements and Traditional Affairs (Limpopo)
- Social Development (Eastern Cape)
- Sport, Arts, Culture and Recreation (Gauteng)
- Sport and Recreation (KwaZulu-Natal)
- Economic, Small Business Development, Tourism and Environmental Affairs (Free State)
- Human Settlements (Mpumalanga)

Spending complied with grant framework?

✓

Correctly accounted for grant in financial statements?

✓



Achievement of planned targets for the 50 projects audited



Reliable reporting of achievement?

X

Public Works, Roads and Infrastructure – Limpopo

Supply chain management on projects

None of the 50 projects audited had SCM findings.

Project and grant concerns

The reasons for the underspending on projects varied, and included community unrest, the late appointment or payment of community workers, and delays in finalising service level agreements or project plans.



The department had not put in place adequate internal controls to ensure that reliable information was obtained on the use of the grant money and the number of job opportunities created. As the department did not report transparently on the programme, it could not be determined whether the programme had achieved its targets. The lack of credible information affected the planning and oversight processes and weakened the accountability for this programme.

The national department should enhance the grant agreement signed between the public bodies receiving expanded public works programme funding and the department. This should clarify the evidence that should be maintained, require money received to be reconciled with money spent, and include the number of work opportunities created.

The inclusion of the number of work opportunities created in the annual report of the national department and the enhanced monitoring of the project management and data validation processes of public bodies are essential in improving the overall effectiveness of the programme to achieve the planned six million job opportunities as set out in the MTSF.

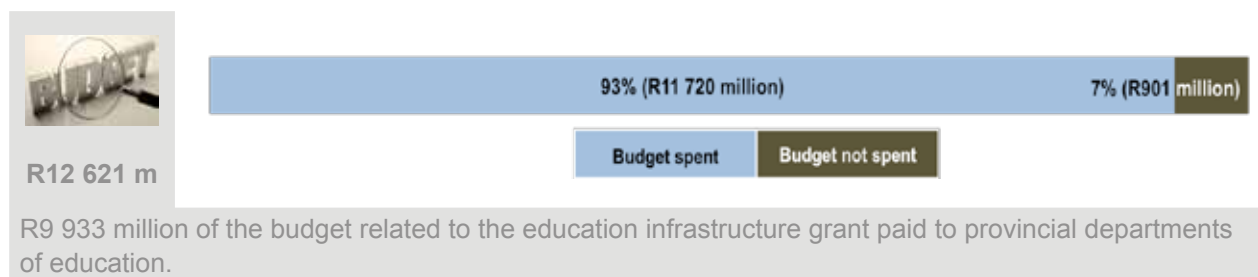
Commitments

The public works portfolio committee requested and reviewed a comprehensive action plan prepared by the department to address the root causes that resulted in inaccurate reporting on job opportunities created through the expanded public works programme grant. The action plan included regular site visits by the national department to the public bodies receiving grant funding and the improvement of the expanded public works programme integrated grant template to ensure that proper records which support the reported job opportunities created are consistently maintained. The committee further committed to monitor this plan on a quarterly basis to make certain that it has the desired impact of improving the management and reporting of the expanded public works programme achievements.

Vote 14 – Department of Basic Education

Programme 4: School infrastructure

(Please note that the name of the programme on the ENE is 'planning, information and assessment'.)



Programme purpose

Promote quality and effective service delivery in the basic education system through planning, implementation and assessment.

Key targets planned	Achievement reported	Reliable?
Number of new schools built and completed through the accelerated schools infrastructure delivery initiative per year = 59	16	✓
Number of schools provided with sanitation facilities through the accelerated schools infrastructure delivery initiative per year = 265	30	✓
Number of schools provided with water through the accelerated schools infrastructure delivery initiative per year = 280	29	✓
Number of schools provided with electricity through the accelerated schools infrastructure delivery initiative per year = 620	None	✓

Performance planning and reporting concerns

The department reported on its performance in a reliable and useful manner, but the **programme did not achieve its targets**. The reasons provided by the department for this included poor performance by contractors and implementing agents, resulting in the termination of contracts, and inferior quality work that had to be redone. Other reasons were weather conditions, a shortage of building material and disruptions due to community unrest. The rationalisation process and mergers of schools on the accelerated schools infrastructure delivery initiative programme further contributed to the set targets not being achieved.

Accelerated schools infrastructure delivery initiative

The department is responsible for the infrastructure development projects funded as part of this initiative. The **objective of the accelerated schools infrastructure delivery initiative** is to eradicate the basic safety norms backlog in schools without water, sanitation and electricity and to replace those schools constructed from inappropriate material such as mud and asbestos to contribute towards levels of optimum learning and teaching.

During the current and previous three years, we reported a number of cases where the completed schools had not been transferred to the custodian department or where it took unnecessarily long to finalise these transfers.

We noted during site visits that classes were **not always used for teaching and learning**. For example, at one of the schools visited, the security guard lived in one of the classrooms and made food inside the room on a paraffin stove. As a result, the floor had been damaged and the walls and cupboards were soiled with food spatter and other foreign matter.

Record keeping for the accelerated schools infrastructure delivery initiative was lacking and resulted in material adjustments to both financial and performance information. The department could not provide credible financial information from implementing agents necessary for the disclosure items in the financial statements of the department, such as commitments, accruals and immovable tangible capital assets. In the case of performance reporting, a significant number of practical completion certificates were obtained from implementing agents only through external audit effort and initiatives of the director-general.

During 2016-17, we conducted infrastructure audits in four provinces, namely the Eastern Cape, Limpopo, Mpumalanga and KwaZulu-Natal. We identified various issues during the audits, which included that adequate project management processes were not in place to manage and monitor the construction schedule and expenditure on the projects. As a result, the following occurred:

- **The services of contractors were terminated** at eight of the 20 projects in the Eastern Cape, which caused delays and increased the cost of projects. One of the reasons given for the terminations was that some contractors cancelled their contract due to financial analysis and undercosting. In some cases, the cost of the replacement contractor was more than the original contract. Also, in most cases the **total cost of the project was more than the original value**.
- **Delays** of between four and 14 months were experienced on all projects in Mpumalanga. Delays of between three and 22 months were experienced on all projects in the Eastern Cape. Some of the reasons given for these delays were additional work having to be carried out on site, scope changes as well as an inability to obtain materials.
- The department did not submit all information requested for audit purposes. A **limitation of scope** was experienced in all four provinces, with the majority of the outstanding information being in KwaZulu-Natal and Limpopo.
- No progress had been made on two projects in KwaZulu-Natal that had been **dormant since the previous audit in 2016**, and the contractors had abandoned the projects. In addition, we noted quality issues during site visits to both of these projects.
- Quality issues were also noted in the other three provinces, as illustrated in the pictures below.



Education infrastructure grant

Purpose: Help accelerate the construction, maintenance, upgrading and rehabilitation of new and existing infrastructure in education, including district and circuit accommodation; enhance capacity to deliver infrastructure in education; address damage to infrastructure caused by natural disasters; and address the achievement of the targets set out in the minimum norms and standards for school infrastructure.

Results based on 25 projects tested at the nine provincial departments

Budget – R9 933 million

Two of the nine departments where we audited the grant underspent by more than 10%.

Spending complied with grant framework?

X

Free State

Correctly accounted for grant in financial statements?

X

Free State and Mpumalanga



Achievement of planned targets for the 25 projects audited

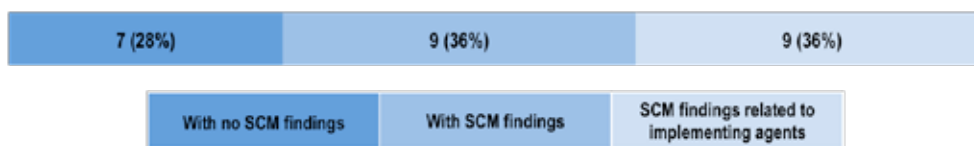


Reliable reporting of achievement?

X

KwaZulu-Natal and Limpopo

Supply chain management on projects



Project and grant concerns

The Free State **underspent their budget by more than 10%** as investigations resulted in some projects being delayed. In Mpumalanga, the underspending was as a result of delays in appointing contractors.

Planned targets **were not achieved or not even evaluated on 88%** of the projects. In addition, the reported achievements were **not reliable in two provinces**.

Money was used in accordance with the grant framework except in the Free State. However, the prevalence of SCM findings on most of the projects raised questions about the **appropriateness of the spending** – especially where implementing agents were used.

The following are some of the findings we reported on the projects:

- Some departments **did not have enough capacity** to implement projects and relied heavily on consultants and project managers.
- The lack of consequences for poor performance and transgressions resulted in **shortcomings previously reported being repeated** and action plans developed not being adequately implemented.
- The provincial departments and their implementing agents did not effectively plan and manage projects. This resulted in the following:
 - We noted **poor quality work and poor workmanship** in six provinces. Furthermore, in four provinces, the assessment and certification of work performed were not well managed, which resulted in payments for substandard or poor quality work.
 - There were **delays in the completion of projects in eight provinces**. In three provinces, the delays were due to the late payment of the contractors by the departments and/or their implementing agents.
 - The **Standard for Infrastructure Procurement and Delivery Management** was not fully implemented in certain provinces.
 - There were a high number of **variation orders** in four provinces (Free State, Gauteng, KwaZulu-Natal and Northern Cape). These variation orders were approved for items that should have been included in the scope, which resulted in increased contract values.



The programme missed its targets by a significant margin. Poor planning and project management, inadequate and non-compliant procurement and contract management practices, and a lack of credible reporting hampered successful delivery on this very important initiative. The lack of accountability and consequences sustained an environment in which poor performance and irregularities were seen as business as usual.

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Commitments

Action plans will be developed by all heads of departments within the education sector by 31 October 2017 to address the weaknesses and deficiencies identified in the internal control environment at the provincial departments and to ensure that the deficiencies identified in previous years have been adequately addressed.

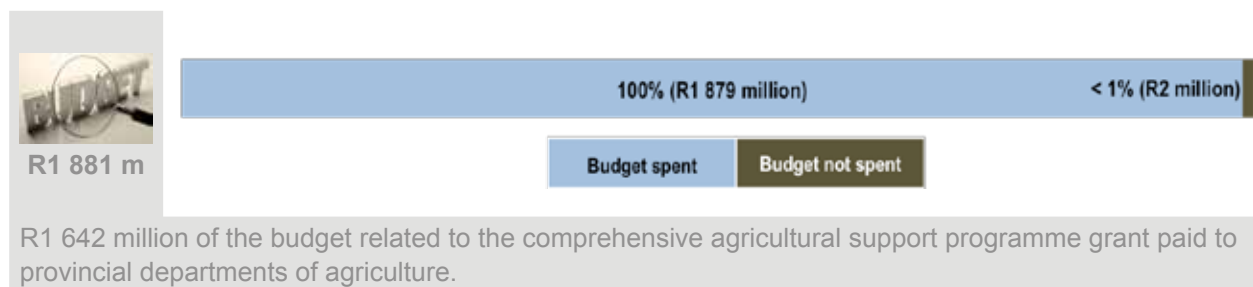
The education sector will focus on improving **coordination** between various departments (within and outside the education sector) and key role players such as implementing agents and contractors to enhance accountability and improve understanding between various stakeholders of their roles and responsibilities in achieving sector objectives. This should have a positive impact on service delivery.

Monitoring and evaluation processes will be strengthened to ensure frequent monitoring by dedicated staff of the various infrastructure projects in progress across all phases of construction to detect and prevent the risks that delay and impede service delivery.

Consequence management will be intensified to ensure that officials are held accountable and to minimise transgressions.

Vote 24 – Department of Agriculture, Forestry and Fisheries

Programme 3: Food security and agrarian reform



Programme purpose

Facilitate and promote food security and agrarian reform programmes and initiatives.

Key targets planned	Achievement reported	Reliable?
Number of smallholder producers supported per year = 16 000	17 004	√
Number of hectares in underutilised areas cultivated in communal areas per year = 120 000	35 213 (Affected by drought)	√
Performance planning and reporting concerns		
We reported material non-compliance with the Division of Revenue Act, as the department did not adequately monitor the expenditure and non-financial performance information on the projects funded by the grants that support this programme.		

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Comprehensive agricultural support programme grant

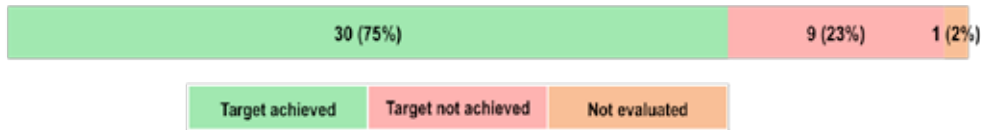
Purpose: Provide effective agricultural support services; promote and facilitate agricultural development by targeting beneficiaries of land reform, restitution and redistribution, and other black producers who have acquired land through private means and are engaged in value-adding enterprises domestically or involved in export; and address damage to infrastructure caused by floods.

Results based on 40 projects tested at the eight provincial departments

Budget – R1 642 million	Spending complied with grant framework?	Correctly accounted for grant in financial statements?
None of the departments where we audited the grant underspent by more than 10%.	X	X
	Free State and KwaZulu-Natal	Free State, North West, Gauteng and KwaZulu-Natal



Achievement of planned targets for the 40 projects audited



Reliable reporting of achievement?

X

Free State

Supply chain management on projects



Project and grant concerns

The grant was spent by the provincial departments but targets were not always achieved or assessed.

The grant was not spent in accordance with the grant framework in two provinces – the national department did not identify this as a result of poor monitoring practices.

Just over 40% of the projects funded by this grant that we had audited were plagued by **SCM irregularities, with a fifth of these irregularities being on projects where implementing agents were used**. The non-compliance typically related to the appointment of the implementing agent or the agent following inadequate procurement processes.

The incorrect accounting related to the **grant received and paid over to the implementing agent being shown as transfer payments** by the departments, which is contrary to the requirements of the Modified Cash Standard. It also resulted in a loss of accountability by some departments of the money spent and the ownership of the assets developed or purchased. Two departments in this sector received a qualified audit opinion as a result of incorrect reporting.

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It is not possible to determine whether the programme achieved its targets as a result of inadequate and unreliable reporting on the programme and the projects supported by the grant. The departments had not put adequate internal controls in place to ensure that reliable information was obtained on the use of the grant money and the achievement of targets. We have serious concerns regarding the projects implemented in the provinces and whether the money was used for its intended purposes, especially where implementing agents were used and the provincial departments did not take accountability for the projects – whether in their financial statements or through monitoring and oversight.

Commitments

The department committed to prioritise its resources to create capacity to monitor the performance of the programme's initiatives and deliverables. The portfolio committee also committed to support the department to enhance its capacity to effectively monitor the performance of this programme. The committee further agreed with the department's view that the inadequate monitoring of the programme's performance was a consequence of underfunding of the operations of the department where available resources had to be prioritised for more urgent and critical activities.

Vote 38 – Department of Human Settlements

Programme 4: Housing development finance



R29 931 m



R29 124 million of the budget related to grants to municipalities and provincial departments – of which R18 284 million was the human settlements development grant for provinces, which we audited.



Programme purpose

Fund the delivery of housing and human settlements programmes and manage all matters related to improving access to housing finance and developing partnerships with the financial sector.

Key targets planned	Achievement reported	Reliable?
Number of subsidy housing opportunities provided = 115 000	90 692	✓
Number of affordable rental opportunities delivered = 3 700	5 040	✓
Number of households upgraded to phase 2 = 175 000	75 941	✓
Number of catalytic projects implemented = 15	15	✓
Number of finance-linked individual subsidy programme subsidies allocated to approved beneficiaries per year = 17 231	2 660	✓

Performance planning and reporting concerns

The department reported on its performance in a reliable and useful manner, but the **programme did not achieve some of its key targets**. The reasons provided by the department for this included project delays (also because of weather conditions) and delays in council approval for upgrades. The reasons for the underachievement on the subsidy programme were the sluggish economy and over-indebtedness of customers.

Human settlements development grant

Purpose: Provide funding for the creation of sustainable and integrated human settlements.

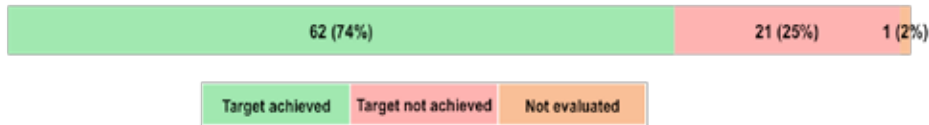
Results based on 84 projects tested at the nine provincial departments

Budget – R18 284 million	Spending complied with grant framework?	Correctly accounted for grant in financial statements?
None of the departments where we audited the grant underspent by more than 10%.	✓	✓



Achievement of planned targets for the 84 projects audited

Reliable reporting of achievement?



Supply chain management on projects



Project and grant concerns

The following provinces did not meet the delivery of their targets by more than 70%:

- Free State (only 38% of planned sites were serviced)
- Gauteng (only 59% of planned houses were built)
- Mpumalanga (only 42% of planned houses were built)

We identified non-compliance with SCM legislation on 45% of the projects we audited, mostly on projects where implementing agents were used.

We raised SCM findings relating to the appointment of service providers for the construction of houses, which resulted in irregular expenditure, in the following provinces:

- Free State – irregular expenditure of R974 million
- Mpumalanga – irregular expenditure of R745 million
- KwaZulu-Natal – irregular expenditure of R559 million
- Gauteng – irregular expenditure of R345,5 million

Furthermore, we raised the following findings during the audit of Princess Plots (Phase 1: Show Village) and Lawley Extension 3 & 4 in Gauteng, and Naledi Vryburg, Naledi Huhudi and Mamusa Glaudina in North West:

- Delays of between 18 and 20 months were experienced on the Princess Plots and Naledi Vryburg projects. This was due to the late approval by municipalities of construction drawings. In addition, adequate project management processes were not in place to prevent project delays. At Princess Plots, the delays led to community protests.
- Overspending of R20 956 478 was noted on the Princess Plots project, while fruitless and wasteful expenditure of R87 936 656 was incurred on 503 housing units that were constructed and demolished as part of the Naledi Vryburg project.
- The provincial human settlements departments in Gauteng and North West had lists of projects that had to be implemented. The projects were not prioritised, however, as the departments viewed all projects as equally important, which resulted in the milestones of some projects not being met.
- We identified quality defects such as cracks in floors and walls, inconsistent mortar application and incorrectly constructed or sealed joints on projects such as the Naledi Huhudi project, as illustrated on the following page. Certain quality defects were due to poor workmanship by the contractor and a lack of supervision of the contractor by the implementing agent and/or the provincial department. Such defects will reduce the lifespan of the infrastructure.



The department should pay close attention to compliance with procurement and SCM requirements to avoid irregular expenditure. Furthermore, contract and project management should be enhanced in the Eastern Cape, Gauteng, KwaZulu-Natal, Mpumalanga and North West, as poor planning, insufficient controls and inadequate project monitoring threaten the success of this programme. The department should also enhance the monitoring of grant expenditure to ensure that grant funding is spent on its intended purpose and in accordance with applicable laws and regulations. This will further ensure that planned targets are achieved through tracking expenditure against the budget and deliverables.

Commitments

The director-general committed to initiate a process of implementing customised indicators for the human settlements development grant received by the provincial departments to ensure consistent reporting and the achievement of the planned deliverable of 563 000 houses over the MTSF period, and to further strengthen the national department's ability to monitor spending of this grant.

Conclusion

Only 22% of the targets highlighted in the ENE were achieved – even though 98% of the allocated budgets had been spent. Where grants were given to provincial departments, the spending and achievement of targets were not adequately monitored on most of the programmes. In some cases, the provincial departments did not report on the performance of the projects funded by the programme or did not report reliably.

Accounting for the expenditure, liabilities and assets related to the programmes was not always credible and resulted in qualifications in the financial statements of departments, especially where the departments used implementing agents to manage projects. Irregularities in procurement processes and inadequate contract management were common on the projects. Some of the projects funded through these programmes displayed serious weaknesses in terms of delayed delivery, poor quality work, waste and mismanagement.

The following were the main reasons for the inadequate performance on these programmes at the national departments and the provincial departments that received the grants:



Poor planning (including budgeting and setting realistic targets) (**PLAN**).

Financial and performance management and project management that did not provide for the disciplined and controlled implementation of projects and the credible monitoring and reporting of financial and non-financial information (**DO**).

Inadequate monitoring of projects and grants (**CHECK**).

Lack of corrective actions to address project failures and SCM irregularities (**ACT**).

We intend to increase our focus in the audits of these key programmes – specifically on how the money is being spent without achieving the intended targets.