

Eastern Cape Department of Human Settlements

Expenditure Tracking Report

2012/13

Yeukai Mukorombindo Chiweshe

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Public Service Accountability Monitor

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Findings And Recommendations

Finding: The Annual Report reveals the Department's expenditure for the 2012/13 year is R2.28 billion out of a total adjusted budget of R2.57 billion. The Department incurred under expenditure of 11% or R291 million for the 2012/13 financial year.

Recommendation: The Department's considerable problems with delayed payments, contractor performance, blocked projects as a result of bulk infrastructure challenges has resulted in a number of delayed housing projects which have negatively impacted upon performance and expenditure during the financial year. Adequate oversight from leadership to ensure adequate contract performance and on time payments to creditors as well as improved inter-governmental partnership to improve performance and expenditure is required.

Finding: The Department has successfully begun to address its high vacancy rate. The vacancy rate has dropped from 58% down to 13%. This financial year the Department managed to recruit a total of 145 posts which include both vacated posts and newly activated posts. The majority of these appointments were the much needed highly skilled and technical positions in supply chain and project management.

Recommendation: The Department has managed to find a solution to the human resource challenges posed largely by an insufficient equitable share budget by using 5% of the Conditional Grant Operational Capital Budget to recruit much needed capacity in planning and implementation of projects on performance based contracts. For years insufficient capacity has negatively affected the Department's ability to achieve its mandate. The Department needs to ensure that this strategy is a long term solution to hiring and retaining qualified and skilled staff.

Finding: For three consecutive financial years the Department failed to meet its housing targets achieving only 70% of all 2012/13 housing planned targets. Furthermore only 64% of planned sites were serviced in the 2012/13 financial year however a 94% target was achieved for the rectification of post 1994 units.

Recommendation: The Annual Report highlights project delays due to poor performing contractors, implementation challenges on rural projects as a result of poor terrain and material supply as well as delays in procurement processes. A boost in supply chain management and project management capacity, more inter –sectoral and integrated planning can go a long way in attaining better results.

Finding: The Department incurred irregular expenditure of R211.6 million in the 2012/13 financial year up from R184.8 million in the previous financial year. Fruitless and wasteful expenditure also increased to R61 000 this financial year from R33 000 in the 2011/12 financial year. On the other hand there was no unauthorized expenditure for the 2012/13 compared to R59.7 million incurred in unauthorized expenditure in the previous financial year. According to the Auditor General, this irregular expenditure was as a result of non-adherence to procurement procedures and payments made under contracts previously classified as irregular. Fruitless and wasteful expenditure was incurred as a result of traffic fines and penalties not honoured by departmental officials.

Recommendation: The AO is also obliged by the PFMA to take all the necessary steps to prevent irregular and fruitless expenditure as well as take disciplinary measures against officials who are not complying with all legal and regulatory provisions outlined in the PFMA. The Department needs to ensure that irregular expenditure and wasteful expenditure does not keep increasing and re-occurring as the Department is already battling resource shortages and must make effective use of available resources.

Finding: The Auditor General awarded the Department an unqualified audit opinion for the very first time. The AG expressed an unqualified on the basis that the Department's financial statements were free from material misstatements and were presented fairly in all material respects. The AG also drew attention to the following matters: contravention of the Division of Revenue Act, Treasury Regulations and PFMA relating to supply chain management practices, poor reporting on performance objectives as a result of poor record keeping and a lack of readily available documentation. Internal controls failed to monitor implementation of risk assessment strategy among other approved policies and internal controls failed to generate accurate and complete information to support the quarterly and annual performance reports. The Department's failure to pay creditors within 30 days among other matters.

Recommendation: The Department's managed to attain an unqualified audit opinion as a result of compliance with all relevant legislation regarding presentation of financial statements as well considerable improvement in effectively implementing its internal controls. Poor reporting, failure to pay creditors as well as non compliance with applicable legislation regarding procurement processes have remained serious and long-standing problems in the Department. Senior management, the Audit Committee and the Legislature need to exercise oversight in this regard and ensure that improvements are realised in these areas. Senior management and the Legislature need to ensure that corrective action is taken where deficiencies are identified and where officials are not complying.

Introduction

The South African Constitution commits government departments to the progressive realisation of socio-economic rights, including the right to education, healthcare, housing and social welfare, within available resources. The PSAM defines social accountability as the obligation by public officials and private service providers to justify their performance in progressively addressing the above rights via the provision of effective public services.¹ In order to effectively realise these rights through the delivery of public services, state departments and private service providers responsible for the management of public resources must implement effective accountability and service delivery processes. These include: planning and resource allocation processes; expenditure management processes; performance monitoring processes; integrity management processes; and, oversight processes. Together these processes combine to form a *social accountability system*, which acts as the central pillar of a responsive democratic state. The effectiveness of these processes can be established by monitoring their information outputs. To evaluate the social accountability system, the PSAM has developed a set of evidence-based tools for monitoring the information produced annually by each process.

This Report focuses on the implementation of an effective expenditure management process by the government department under review. It provides an account of what funds were available and whether they were spent during the financial year under review.

The Eastern Cape Department of Human Settlement's is responsible for facilitating and coordinating the provision of quality, integrated and sustainable human settlements.

The Department operates through four main programmes:

- Programme 1, Administration, provides essential services relating to finance and supply chain management, strategic management, monitoring and evaluation, communication and information services
- Programme 2, Housing Planning and Research, is responsible for a number of important activities, namely facilitating the development of housing policy and legislation, coordinating housing planning, undertaking research which will inform planning.
- Programme 3, Development, seeks to respond to the housing question in the Province by planning and administering provision of housing subsidies as well as facilitating, coordinating and managing social housing.

¹ *Constitution of the Republic of South Africa*, Chapter 2, Sections 26, 27 and 29.

- Programme 3.1, Project Management and Quality Assurance, The programme is also responsible for ensuring that housing projects are well located and that quality housing infrastructures are constructed within building regulations, housing norms and standards
- Programme 4, Housing Assets Management, manages rental and social housing stock, maintains housing assets and an asset register, and assists in the acquisition of land for housing development

Broad overview of Expenditure

Table 1: Expenditure per economic classification ²

Line item	Final Appropriation R'000	Actual Expenditure R'000	Variance: (over)/ under expenditure R'000	% of (over)/under expenditure R'000
Current payments				
Compensation of Employees	199,558	199,361	197	0.10
Goods and Services	69,140	68,481	659	0.95
Transfers and subsidies				
Households	2,293,995	2,003,147	290,848	12.68
Payments for capital assets				
Machinery and equipment	8,049	8,071	(22)	(0.27)
Payments for financial assets	2	2	-	-
Total	2,570,744	2,279,062	291,682	11.35

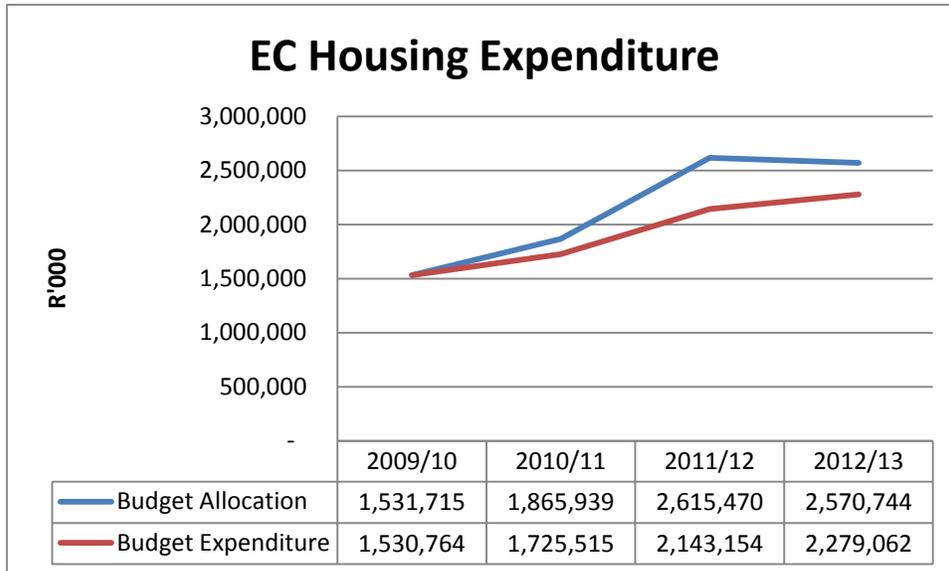
As Table 1 illustrates, the Department spent R2.27 billion of its R2.57 billion budget which is an under- expenditure of 11% of its total allocation. This year's expenditure has slightly improved from the previous years under expenditure of 18%.³ Graph 1 below

² Eastern Cape Department of Human Settlements Annual Report 2012/13,p.177

³ Eastern Cape Department of Human Settlements Annual Report 2012/13, p.30

depicts a history of recurring under expenditure of its budget with one exception of 5% over expenditure in the 2009/10 financial year.⁴

Graph 1: Eastern Cape Housing Expenditure 2009/10 – 2012/13⁵



For the last 4 financial years, the Department has failed to spend its entire budget. The table below shows that for the last four financial years Department has on average under spent its budget by 10.54% which equates to R 905 million.

⁴ Eastern Cape Department of Human Settlements Annual Report, 2007/08, 2008/09, 2009/10, 2010/11, 2011/12

⁵ Eastern Cape Department of Human Settlements Annual Reports, 2009/10, 2010/11, 2011/12, 2012/13

Table 2: ECDoHS Expenditure over the last four financial years⁶

Financial Year	Total Budget R'000	Expenditure R'000	Variance: under expenditure R'000	%of under expenditure
2009/10	1,531 715	1,530,764	951	0.06
2010/11	1,865,939	1,725,515	140,424	7.50
2011/12	2,615,470	2,143,154	472,316	18.00
2012/13	2,570,744	2,279,062	291,682	11.34
Total	8,583,868	7,678,495	905,373	10.54

Over the years the Department has attributed its under expenditure to accruals/commitments and rollovers which could not be processed before the financial year end.⁷ Previous audit reports and SCOPA resolutions make reference to the Department's failure to accurately disclose its commitments consequently these were understated by R930 million in 2009/10 and by R430 million in 2011/12.⁸ As a result of the Department's failure to adequately review its commitments it was difficult to accurately ascertain expenditure for the financial year. To improve in-year monitoring and reporting of Departmental commitments, the Department has developed clear accounting processes and procedures for the handling of commitments.⁹ The Department has also embarked on an exercise to reconcile approved projects/commitments with the Housing subsidy system (HSS) on a quarterly basis. The HSS has also been cleared of old and cancelled projects/commitments.¹⁰ This financial year, the Auditor General Report did not emphasise the issue of the Department's failure to accurately disclose its commitments. The Department must be commended for successfully addressing the issue of accurately disclosing commitments and should sustain the progress achieved.

The 2012/13 under –expenditure was not a result of understated commitments but was largely as a result of R284 million of the Integrated Housing and Human Settlement Grant (IHSDG) being withheld by National Treasury.¹¹ In order to see where the budget needs to be spent more efficiently, effectively or even appropriately, the IHSDG budget will be considered in greater detail below.

⁶ Ibid

⁷ Eastern Cape Department of Human Settlements, Annual Report 2010/11, p.14; 2011/12, p.30

⁸ Eastern Cape Department of Human Settlements Annual Report 2012/13, p.157-159

⁹ Ibid, p.158

¹⁰ Ibid

¹¹ Ibid, p.101 and 203

Table 3: Conditional grants and earmarked funds received 2012/13¹²

Conditional Grant	Division of Revenue Act/Provincial Grants Allocation R'000	Total Available R'000	Amount received by Department R'000	Amount spent by department R'000
[IHSDG]	2,200,006	2,200,006	2,008,046	2,002,175
Housing Disaster Relief	92,853	92,853		
Expanded Public Works Programme Incentive Grant				
Total	2,292,859	2,292,859	2,008,046	2,002,175

A review of the Department's Division of Revenue (DoRA) allocated funds for the IHSDG and Housing Disaster Relief conditional grants show that a total of R284 million was withheld by the National Treasury of which R202 million was earmarked for IHSDG.¹³ This is an under expenditure of 9% for the IHSDG. In the previous financial year, the IHSDG recorded an under expenditure of R472 million or 20%.¹⁴ This was as a result of accruals and rollovers of expenses which could not be processed within the 2011/12 financial year.¹⁵ However this year's conditional under expenditure is attributed to delayed or blocked projects.¹⁶ According to the Annual Report, there were many delayed and blocked projects due to the following:¹⁷

- Delays in procurement
- Lengthy planning processes
- Late appointment of contractors and other service providers
- Poor contractor performance
- Poor municipal planning
- Bulk infrastructure challenges
- Lack of capacity to inspect projects
- Difficult rural terrain
- Beneficiary administration as a result of inter and intra provincial migration

These challenges were highlighted in the 2010/11 and 2011/12 financial years. The same challenges highlighted in the previous financial years unfortunately resurfaced in 2012/13 with serious implications on the Department's ability to meet targets.

¹² Eastern Cape Department of Human Settlements, Annual Report 2012/13, p.203

¹³ Eastern Cape Department of Human Settlements, Annual Report 2012/13, p.203

¹⁴ Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.152

¹⁵ Eastern Cape Department of Human Settlements, Annual Report 2011/12, p.30

¹⁶ Eastern Cape Department of Human Settlements, Annual Report 2012/13, p.101; "Province fails to spend nearly R 1billion" Daily Dispatch article by M. Zuzile published 7 November 2013

¹⁷ Ibid

Table 4: 2012/13 Planned Outputs vs Actual outputs achieved

Planned outputs	Actual outputs achieved	% of outputs achieved
16 726 housing units delivered	11 863 housing units delivered	70%
17 416 sites serviced	10 458 sites serviced	60%
5 700 houses rectified (post 94)	5 359 units rectified	94%
11 000 title deeds issued	2 641 title deeds issued	24%
974 social housing units delivered	475 social housing units delivered	48%

In order to improve grant activity performance, the Department needs to pay attention to the above mentioned problematic areas. Already second quarter expenditure results released by National Treasury show a worryingly low 37% expenditure of the 2013/14 R2.4 billion housing budget by mid-year.¹⁸

Analysis of irregular, unauthorized as well as fruitless and wasteful expenditure

Accounting officers are required by legislation to take effective steps to prevent irregular, unauthorised as well as fruitless and wasteful expenditure.¹⁹ Table 6 below shows a a drastic increase in irregular and fruitless and wasteful expenditure since 2009/10.

¹⁸ “Province fails to spend nearly 1 billion: Housing funds forfeited to national Treasury” Daily Dispatch M. Zuzile, 7 November 2013

¹⁹ Section 38 (1)(c)(ii) of the PFMA and Treasury Regulation 9.1.1.

Table 6: 3 year trend in unauthorized, irregular, fruitless & wasteful expenditure in Rands²⁰

Financial Year	Unauthorised Expenditure	Irregular Expenditure	Fruitless & Wasteful Expenditure
2009/10	59,796,000	967,000	159,000
2010/11		4,934,000	37,000
2011/12		7,292,000	46,000
2012/13	0	211,682,000	61,000
Total	59,796,000	224,875,000	303,000

In 2012/13, the Department incurred irregular expenditure of R211 million due to non-adherence to DoRA, PFMA and other Treasury Regulations relating to procurement processes.²¹ This is an increase of nearly 200% when compared to the total of R7.2 million incurred in irregular expenditure from the 2011/12 financial year.²² Fruitless and wasteful expenditure increased by 32% from R46 000 in 2011/12 to R 60 000.²³ On the other hand, the 2009/10 to 2011/12 unauthorised expenditure figures depict unauthorised expenditure that occurred as a result of transgressions in the 2008/09 financial year but which was only written off in 2012/13.²⁴ The Department must be commended for not further incurring unauthorised expenditure in the last three financial years but must be criticized for failing to recover those funds if officials were liable for its repayment.

According to the latest Auditor General Eastern Cape Provincial Report on PFMA compliance for the 2012/13 financial year there has been little or no improvement in reducing unauthorised, irregular as well as fruitless and wasteful expenditure.²⁵ With the exception of provincial unauthorized expenditure, the 2012/13 provincial irregular expenditure has increased by 24% from R 1.75 million in 2011/12 to R 2.18 million.²⁶ The Eastern Cape Province registered the largest percentage increase in Fruitless and wasteful expenditure from the previous financial year. According to the AG report, the province's fruitless and wasteful expenditure is up by 395% from R 159 million in 2011/12 to R 788 million lost to fruitless and wasteful expenditure by provincial departments.²⁷

²⁰ The 2009/10 -2011/12 unauthorised expenditure figures depict unauthorised expenditure that occurred as a result of transgressions in the 2008/09 financial year but was only written off in 2012/13. Eastern Cape Department of Human Settlements, Annual Report 2010/11, p.146 & p.154; Eastern Cape Department of Human Settlements, Annual Report, 2012/13p. 192 & p.198

²¹ Eastern Cape Department of Human Settlements, Annual Report 2012/13, p.162 & p.198

²² Ibid

²³ Ibid, p.198

²⁴ Ibid, p.192

²⁵ 2012/13 Auditor General PFMA Eastern Cape General Report 2012/13, p.30

²⁶ Ibid

²⁷ Ibid

The AG Report in respect of the Eastern Cape Department of Human Settlements indicates that irregular expenditure over the last three years was a result of non-compliance with supply chain management regulations.²⁸ The increase in fruitless and wasteful expenditure since 2009/10 is due to traffic fines and penalties incurred and not honoured by departmental officials driving official vehicles as well as over expenditure on cell phone and 3G card limits.²⁹ Continuous non-compliance with procurement processes has resulted in irregular expenditure of R 224 million in the last three years.³⁰ Furthermore departmental officials abusing official vehicles and 3G cards has resulted in fruitless and wasteful expenditure amounting to a total of R 300 000 over the last three years.³¹ The extent of irregular and wasteful expenditure is indicative of an environment where noncompliance with supply chain management regulations and abuse of official vehicles and equipment is becoming the norm and not the exception. The Accounting Officer by law is expected to take reasonable step to prevent such expenditure from re-occurring.³² Such action should include but should not be limited to effective monitoring and enforcement of applicable legislation and policies coupled with enforcement of consequences for those that deliberately or negligently flout applicable legislation.³³ Where officials are found to be abusing official vehicles, phones and data cards and not honoring payment of traffic fines they must face disciplinary action furthermore the Department is required by law to recover monies lost due to financial misconduct.³⁴

According to the Public Service Commission latest report on financial misconduct for the 2011/12 financial year revealed that cases of financial conduct are not being reported and furthermore public entities are not recovering monies lost to financial misconduct.³⁵ The Department is currently investigating the irregular as well as the fruitless and wasteful expenditure incurred in 2012/13.³⁶ Those charged with governance and oversight should ensure accountability is enforced and consequences are implemented.

Internal Controls

The Department's ability to curb incidents of financial misconduct is dependent on a sound system of internal control which enforces and monitors compliance with

²⁸ Eastern Cape Department of Human Settlements, Annual Report 2010/11, p.146 & p.154; Eastern Cape Department of Human Settlements Annual Report, 2012/13p. 192 & p.198

²⁹ Eastern Cape Department of Human Settlements Annual Report 2009/10, p.138; Eastern Cape Department of Human Settlements Annual Report 2011/12, p.148; Eastern Cape Department of Human Settlements Annual Report 2012/13, p.199

³⁰ See Table 6 of this document, p.9

³¹ Ibid

³² Section 38 (1)(c)(ii) of the PFMA and Treasury Regulation 9.1.1.

³³ Ibid

³⁴ Section 38(c)(i) of the PFMA15 read in conjunction with Treasury Regulations, Part 5, paragraph 12.5.116, requires accounting officers to take effective steps to collect all monies owing to the department

³⁵ Fact sheet on finalised cases of financial misconduct for the 2011/12 financial year, "The Public Service Commission", p.15

³⁶ Eastern Cape Department of Human Settlements 2012/13, p.165 & p.199

applicable legislation in financial, performance management, reporting and governance.³⁷ Both the Audit Committee and the Auditor General reviewed the effectiveness of the internal control systems within the Department. The Audit Committee is satisfied that the Department's internal control systems have functioned partially during the period under review.³⁸ The Committee highlights improvement in governance by the Department as a result of the appointment of a Chief Risk Officer and establishing Risk Committee³⁹ in response to recommendations made by the Audit Committee in 2011/12 to improve risk management processes within the Department.⁴⁰ The responsibility of the risk officer and the risk committee is to ensure regular risk assessments and that a risk strategy to address risks in areas such as information technology or fraud prevention are developed and implemented.⁴¹ According to the Internal Audit Unit within the Department, it has managed to operate optimally and address most of the key risks pertinent to the Department during the year despite staff and budget limitations.⁴² The Department needs to ensure that there is an adequately resourced internal audit unit for the optimum functioning of internal controls.

The Auditor General considered the overall effectiveness of internal controls in relation to leadership, financial and performance management and governance.⁴³ During the audit process the AG identified recurring internal control deficiencies, concluding that the internal audit unit and audit committee discharged their duties in terms of their mandates but lacked effectiveness in the following regard.⁴⁴

- Internal controls were not adequate to prevent irregular, fruitless and wasteful expenditure as well as ensure that all instances of non-compliance were identified and dealt with.
- Internal Controls failed to monitor the implementation of approved policies. One such example is the risk assessment strategy which was not properly implemented and monitored resulting in risks not being mitigated.
- Internal Controls did not adequately review financial statements as a result financial statements submitted for auditing were subject to amendments. The Department fortunately managed to amend the financial statements resulting in the financial statements receiving an unqualified audit opinion.
- Internal controls poorly updated records in year and did not review and reconcile supporting documentation with reported targets. Consequently reported performance was not supported by reliable documentation

³⁷ Public Finance Management Act of 1999; Section 38 (1) and Treasury Regulations 3.1.

³⁸ Eastern Cape Department of Human Settlements 2012/13, p.116

³⁹ Ibid, p.117

⁴⁰ Eastern Cape Department of Human Settlements 2011/12, p.88

⁴¹ General Report on Provincial Audit Outcomes: Eastern Cape 2011/12, p.73

⁴² Eastern Cape Department of Human Settlements 2012/13, p.116

⁴³ Eastern Cape Department of Human Settlements Annual Report 2012/13, p.164

⁴⁴ Ibid, p.164 & p.165

Based on the aforesaid it is apparent that the MEC failed to hold senior management accountable for the implementation of approved policies and strategies. The Accounting Officer and the Internal Audit Unit should on a regular basis closely monitor those responsible for implementing the approved policies and plans. Moreover, the Accounting Officer and the Internal Audit Unit must ensure that these policies are effective in achieving outcomes and improved audit outcomes.

Management was also not held accountable for accurate reporting and record keeping of actual achievements against planned objectives. Without sufficient and appropriate evidence, the reliability of the Departments report on performance is compromised. The Annual Report's Programme performance information highlights a worrisome trend of a number of formal branch performance review sessions cancellations due to reprioritization of activities or austerity measures.⁴⁵ It is important that branch performance sessions are held regularly to closely and accurately monitor and record implementation of planned objectives. According to the AG, "*staff [were] not understanding the applicable performance information reporting requirements and the importance thereof.*"⁴⁶ Branch performance review sessions are critical for performance management allowing for management to communicate and for staff to understand reporting requirements. The Accounting Officer and the internal control unit must frequently ensure that management is regularly and accurately completing financial and performance reports supported by reliable documentation.

The Accounting Officer, Internal Audit Unit, Audit Committee and the Legislature's human settlements portfolio committee must take clear steps to respond to the AGs concerns, especially the internal control deficiencies identified during the audit process.

Human Resource Management

An adequate and sufficient skilled human resource is a key driver of performance and audit outcomes. In the past, the Department has often cited a lack of capacity as one of the major contributors of poor performance.⁴⁷ The Department has been operating at a vacancy rate of 54% in the last three financial years. Human resource capacity has been a problem that has plagued the Department so it is encouraging to see the reduction in vacancy rate as a result of the Department finally recruiting much needed staff. According to the latest Annual Report, the Department has a total of 488 posts filled out

⁴⁵ Ibid, p.52, p.59, p.75, p.82, & p.88

⁴⁶ Ibid, p.165

⁴⁷ 2009 Housing Policy Speech delivered by MEC N. Mabandla on 18 June 2009; Eastern Cape Department of Housing, Annual Performance Plan 2008/09 to 2010/11, pp. 25, 42, 51 and 55.

of 562 posts.⁴⁸ The Department is now functioning at 74% capacity, drastically reducing the vacancy rate to 26% for the first time in over three years.⁴⁹ The Department has successfully come up with a strategy to recruit more staff. The 5% Operational Capital Budget (OPSCAP) within the conditional grant has been innovatively used to attract capacity within critical areas in supply chain and financial management for improved planning and implementation of projects.⁵⁰

It must also be noted, however, that although the number of staff increased in 2012/13, this did not necessarily result in improved and accelerated housing delivery. Improved performance will also depend on addressing other critical issues such as bulk infrastructure problems which can be addressed by introducing alternative building technologies. Other problematic areas include managing projects in difficult rural terrain and increased partnership and capacity at local level for improved planning and monitoring of projects. Furthermore, the HR challenge of maintaining the recently recruited staff remains given the high turnover of technically skilled staff.⁵¹

Other issues regarding Human Resource Management at an overall level – completion of performance and work plan agreements were not completed for the year under review.⁵² This was a result of dual function of the COO position with that of Chief Director of PMQA “resulting in prioritization of activities with a focus on delivery targets.”⁵³ Public employees are legally required to have performance agreements which must be assessed on a regular basis.⁵⁴ Performance agreements as well as work plan agreements should be prioritized. To focus on performance is just as important as focus on delivery of targets. Furthermore, a more appropriate performance indicator for such should not be “date of completion of performance and work plan agreements”⁵⁵ but “number of performance agreements completed.”

The Auditor General also raised concern regarding the management of overtime and other employee benefits. According to the AG “persons in charge at pay points did not always certify that the employees receiving payment were entitled thereto as required by T.R. 8.3.4.”⁵⁶ In addition, the cost of employees who took sick leave in the 2012/13

⁴⁸ Eastern Cape Department of Human Settlements Annual Report 2012/13, p.123

⁴⁹ Ibid.

⁵⁰ Ibid p.26

⁵¹ Ibid, p.126- 127

⁵² Eastern Cape Department of Human Settlements Annual Report 2012/13, p.50

⁵³ Ibid

⁵⁴ Chapter 4 of The Performance Management and Development System (PMDS) for senior managers was introduced in the Public Service in 2002 with the aim of improving the performance of all the members of the Senior Management Service (SMS). A key requirement for ensuring the effective functioning of the PMDS is that members of the SMS must conclude sound Performance Agreements (PAs).

⁵⁵ Eastern Cape Department of Human Settlements Annual Report 2012/13, p.50

⁵⁶ Ibid, p.163

financial year cost the Department an estimated R 2.3 million.⁵⁷ The Annual financial statements also show that leave entitlement cost the Department R 10 million which is inclusive of R 68 000 emanating from employees who were granted more leave than what they were entitled to.⁵⁸ It is imperative that the accounting officer together with the internal audit unit and human resource unit carefully monitor payout to employees as well as closely monitor the use of annual and sick leave.

Fraud and Corruption

Human Settlements Minister Connie September stated in a written parliamentary reply that more 2 000 civil servants countrywide had been implicated in defrauding the housing subsidy system.⁵⁹ MEC Sauls–August later revealed that of the 2 236 employees implicated 66% or 1 484 of these employees were in the Eastern Cape.⁶⁰ According to MEC Sauls – August, most of these cases took place between 1994 and 2004 and they are currently being investigated by the Special Investigations Unit (SIU).⁶¹ Whilst investigations by the SIU may lead to the partial recovery of funds paid out unlawfully to non-qualifying public servants, through civil recovery action initiated by the SIU, provincial Departments who have officials implicated in defrauding the housing subsidy system are the only parties that can legally institute disciplinary action against such officials. The Eastern Cape Department of Human Settlements is legally obliged by the PFMA and Prevention and Combating of Corrupt Activities Act to provide assistance to other provincial department so that they may institute and finalize disciplinary hearings against their own employees who are implicated in the alleged abuse of the housing subsidy system.

Given the extent of fraud in the last ten years, It is worrisome that a *Fraud Prevention Plan* has only recently been approved.⁶² The Departmental Fraud Prevention Plan was approved in the 4th quarter of the 2012/13 financial year (January 2013) with only elements of the plan in effect.⁶³ The AG was also critical of the Department's risk assessment strategy quoting it as "not effective" as well as "not properly implemented and subsequently monitored."⁶⁴ The current status of the Fraud Prevention Plan and the Risk Management Strategy is a cause for concern. A more effective risk strategy alongside the swift implementation fraud prevention plan should be prioritized as a matter of urgency.

⁵⁷ Ibid, p.134

⁵⁸ Ibid, p.196

⁵⁹ "2 236 public servants caught fiddling subsidy" by D. Williams, The Herald 8 October 2013

⁶⁰ "Bhisho takes fraud cake" by A. Nini and D. Williams, Daily Dispatch 8 October 2013

⁶¹ "Bhisho takes fraud cake" by A. Nini and D. Williams, Daily Dispatch 8 October 2013

⁶² Eastern Cape Department of Human Settlements Annual Report 2012/13, p.112

⁶³ Ibid

⁶⁴ Ibid, p.165

A lot of emphasis has been made on educating, teaching and raising awareness amongst employees regarding anti-corruption and whistle blowing regulations.⁶⁵ The anti-corruption awareness campaigns reached 269 officials in 2012/13 and the Department plans to increase roll out of the campaigns to communities and other Departments in 2013/14.⁶⁶

Whilst these campaigns are commendable and are a useful tool for promoting an ethical culture within the Department, such a strategy should not be implemented in isolation. A much more effective strategy would be for the Department to deal swiftly and decisively with officials found guilty of corruption. The Department has an unfortunate history of failing to: speedily complete investigations, discipline, lay criminal charges and retrieve monies lost to fraud.⁶⁷

The Department must however be commended for outlining practical steps and issuing clear guidelines when reporting or handling cases of fraud and corruption to officials.⁶⁸ Taking decisive action and reporting back on the outcomes of these fraud and corruption is the next step the Department needs to improve on.

The Customer Care and Presidential hotline sub-programme is an extremely important component of fighting fraud and corruption. The sub-programme engages in critical activities such as tending to customer complaints from the presidential hotline, conducting satisfaction surveys, implementing electronic case management system as well as implementing the customer care policy. This sub-programme failed to achieve targets due to budget constraints.

Minimising conflict of interest is another effective manner in reducing fraud and corruption. In 2012/13, all senior management members formally declared their financial interests declarations to the office of the MEC for review.⁶⁹ However disclosure forms for officials level 12 and below, just under 50% submitted their financial interests declarations.⁷⁰ It is important that the all employees are vetted for effective risk management and governance.

⁶⁵ Ibid, p.112

⁶⁶ Ibid

⁶⁷ In 2009, erstwhile Human Settlements MEC Mabandla signed a payback agreement with 319 Eastern Cape administrators who admitted to defrauding the Department of its housing subsidies to the tune of R 4.7 million. Employees found guilty of fraud due to misrepresentation was given the option of a once off payment or payment over 12 months or 5 years. "Bhisho housing fraudsters make payback bargain" by P.Cull, The Herald 2 December 2009

⁶⁸ Eastern Cape Department of Human Settlements Annual Report 2012/13, p.112

⁶⁹ Eastern Cape Department of Human Settlements Annual Report 2012/13, p.113

⁷⁰ Ibid