

*Report on the findings identified during a performance audit of the approval and allocation of housing subsidies at provincial housing departments*



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# REPORT

OF THE

**AUDITOR-GENERAL**

ON THE

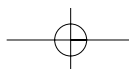
**FINDINGS IDENTIFIED DURING A PERFORMANCE AUDIT OF  
THE APPROVAL AND ALLOCATION OF HOUSING SUBSIDIES  
AT PROVINCIAL HOUSING DEPARTMENTS**

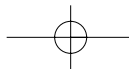
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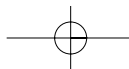
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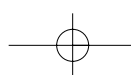
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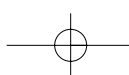




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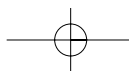
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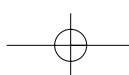


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## ABBREVIATIONS

Word or phrase	Description
BAS	Basic Accounting System
CAATs	Computer Assisted Audit Techniques
CSIR	Council for Scientific and Industrial Research
DoH	National Department of Housing
GEPF	Government Employee Pension Fund
Home Affairs	Department of Home Affairs
HSS	Housing Subsidy System
ID number	Identity number
JSC	Joint Steering Committee
NHSDB	National Housing Subsidy Database
PERSAL	Personnel and Salary System
PHDB	Provincial Housing Development Board
SITA	State Information and Technology Agency
UIF	Unemployment Insurance Fund





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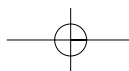
## **REPORT OF THE AUDITOR-GENERAL ON THE FINDINGS IDENTIFIED DURING A PERFORMANCE AUDIT OF THE APPROVAL AND ALLOCATION OF HOUSING SUBSIDIES AT PROVINCIAL HOUSING DEPARTMENTS**

### **1. PURPOSE AND CONTENT OF THE REPORT**

- 1.1 The purpose of this report is to facilitate public accountability by bringing the summarised findings in respect of the performance audit of the approval and allocation of housing subsidies to the attention of Parliament. The content of the report is based mainly on the requirements of sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and Auditor-General Directive 1 of 2005, issued in terms of section 13 of the Public Audit Act.
- 1.2 An all-encompassing investigation was not conducted, nor would it have been practicable. However, sufficient audit work was performed to provide substantiating evidence for the findings set out herein. The findings documented in this report contain certain examples of deficient management measures and should not be regarded as comprehensive.
- 1.3 Separate reports on audits conducted at the nine provincial housing departments will be submitted to the respective provincial legislatures. Since most of the findings originated from deficient management measures that were generic throughout, it was decided to report on the summarised findings to Parliament as well. It is hoped that this report would assist the national and provincial housing departments in identifying subsidy applicants who should not have received a housing subsidy or should have received a reduced subsidy in accordance with the National Housing Code.
- 1.4 It is further hoped that this report will give rise to corrective steps, which should contribute constructively to the establishment and implementation of proper management measures, controls, processes and systems in the allocation of housing subsidies and, consequently, to improved value for money and service delivery.

### **2. BACKGROUND AND OVERVIEW**

- 2.1 On 31 March 2004 focus areas were approved for a transversal performance audit at all nine provincial housing departments, focusing on the application and approval process pertaining to housing subsidies.
- 2.2 The various housing subsidies and the qualification criteria are presented in the National Housing Code. The following subsidies are available to applicants:





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### **2.2.1 Individual subsidies**

*An individual subsidy provides qualifying beneficiaries with access to housing subsidies to acquire ownership of serviced stands and it allows the beneficiary to enter into house-building contracts, or to purchase existing improved residential properties which are not part of approved housing subsidy projects. This subsidy also helps qualifying beneficiaries who wish to increase their subsidies by accessing credit, as well as beneficiaries who do not qualify for credit.*

### **2.2.2 Project-linked subsidies**

*This housing subsidy enables a qualifying household to access a complete residential unit, which is developed within an approved project-linked housing subsidy project for ownership by the beneficiary.*

### **2.2.3 Consolidation subsidies**

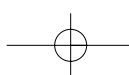
*This housing subsidy has been designed to afford previous beneficiaries of serviced stands, financed by the previous housing dispensation (including the Independent Development Trust's site and service schemes), the opportunity to acquire houses. A top-up subsidy is granted to beneficiaries with a household income not exceeding R1 500 per month.*

### **2.2.4 Institutional subsidies**

*The institutional subsidy is available to qualifying institutions to enable them to create affordable housing stock for persons who qualify for housing subsidies. This housing subsidy provides assistance to qualifying beneficiaries whose monthly income may not exceed R3 500. The subsidy is paid to approved institutions to provide subsidised housing on deed of sale, rental or rent to buy options, on condition that the beneficiaries may not be compelled to pay the full purchase price and take transfer within the first four years of receipt of the subsidy. Institutions must also invest capital from their own resources in the projects.*

### **2.2.5 Relocation assistance**

*Relocation assistance provides an alternative option to defaulting borrowers who were three months in arrears on 31 August 1997, and where the option of rehabilitating these mortgage loans is not affordable. This alternative provides an opportunity to obtain affordable housing with the assistance of the housing subsidy. A person who is eligible for relocation assistance is required to enter into a relocation agreement so as to relocate to affordable housing.*



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## 2.2.6 Discount Benefit Scheme

*The Discount Benefit Scheme promotes home ownership among tenants of state-financed rental stock, including formal housing and serviced sites. In terms of this scheme, tenants receive a maximum discount of up to R7 500 on the selling price of the property. Where the discount amount equals or exceeds the purchase price or loan balance, the property is transferred free of any further capital charges. The purpose of the discount benefit scheme is to assist tenants to acquire state-financed rental housing, existing sales debtors to settle the balance on properties acquired from the public sector, and debtors that obtained housing loans to settle balances on such loans. It is a discount on the selling price or balance owing by the beneficiary. Application must be made to the authority which lets (or has sold or issued a loan) the property. The scheme applies only to state-financed property which was first occupied before 1 July 1993 and to units or stands contracted for by 30 June 1993, if allocated to individuals by 15 March 1994. The discount benefit is for an amount not exceeding R7 500, with household income not taken into consideration.*

## 2.2.7 Rural subsidies

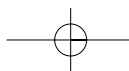
*This housing subsidy is available to beneficiaries who only enjoy functional tenure rights to the land they occupy. This land belongs to the state and is governed by traditional authorities. The subsidies are only available on a project basis and beneficiaries are supported by implementing agents. Beneficiaries also have the right to decide on whether to use their subsidies for service provision, building of houses or a combination thereof.*

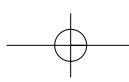
## 2.2.8 The People's Housing Process

*The People's Housing Process aims to support households who wish to enhance their housing subsidies by building or organising the building of their own homes. This process is a method of accessing the project-linked, project-linked consolidation, institutional or rural subsidies as well as technical and other forms of assistance in the house-building process.*

## 2.2.9 Homeowner allowance

*The "homeowner allowance" is an enhancement of the housing subsidy scheme. This subsidy instrument allows the owners of unsubsidised residential properties access to government assistance. This subsidy may be used for acquiring building materials and labour, building a house or completing an existing superstructure, or to purchase a complete top structure package. The subsidy came into effect on 1 April 2001.*



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**2.3** *The National Housing Code also sets out the qualification criteria that applicants must adhere to, to qualify for the subsidies as described in paragraphs 2.2.1 to 2.2.9. A summary of the qualification criteria is provided hereafter.*

**2.3.1 General rules as per the National Housing Code**

- (a) *The general rules of the housing subsidy scheme apply to all the subsidy mechanisms except the discount benefit scheme (refer to paragraph 2.2.6 for the rules pertaining to this subsidy), and address eligibility criteria, the value of the subsidy and the manner in which the subsidy may be used.*
- (b) *In some instances exceptions to these general rules exist. There are also specific rules that apply to each subsidy mechanism.*

**2.3.2 Persons eligible for the subsidy****(a) Married**

*The applicant must be married (in terms of civil law or in terms of a customary union) or co-habit habitually with any other person, or have proven financial dependants. A spouse includes any partner with whom a prospective beneficiary under the scheme habitually co-habits.*

**(b) Resident**

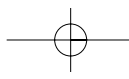
*The applicant must lawfully reside in South Africa, i.e. he/she must be a citizen of the Republic of South Africa or in possession of a permanent residence permit.*

**(c) Competent to contract**

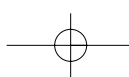
*The applicant must be legally competent to contract, meaning, be over 21 years of age or married or divorced, and of sound mind.*

**(d) Monthly household income**

*The gross monthly income of the applicant's household should not exceed R3 500. A prospective beneficiary will be required to submit adequate proof of income and, in the case of income received through self-employment, must sign an affidavit stating the amount earned. For the purpose of assessing whether any particular person is entitled to receive a housing subsidy under this scheme, the income of his/her spouse (if any) is added to that person's income, and "income" includes:*







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- *Basic salary and/or wages.*
- *Any allowances paid on a regular, monthly basis as part of an employment contract.*
- *Any loan interest subsidy, or other remuneration payable regularly on a monthly basis to the individual (and/or to his/her spouse) by his/her employer.*
- *Any financial obligations met on behalf of the individual (or his/her spouse) by his/her employer on a regular monthly basis.*
- *Any commission payable to the individual (and/or to his/her spouse) on a monthly basis (an average of the most recent 12 months will be determined to assess eligibility).*
- *Income received through self-employment.*
- *Any retirement or disability benefits received on a regular (monthly) basis.*

**(e) Not yet benefited from government funding**

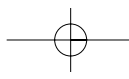
*Neither the applicant nor his/her spouse may previously have derived benefits from the housing subsidy scheme, or any other state-funded or assisted housing subsidy scheme, which conferred benefits of ownership, leasehold or deed of grant, or the right to convert the title obtained to ownership, leasehold or deed of grant, with the exception of the consolidation subsidy and relocation grant. A person who received only a vacant serviced site under the previous dispensation on the basis of ownership, leasehold or deed of grant, however, qualifies for a consolidation subsidy. This exclusion criterion is also not applicable to persons who qualify for relocation assistance or disabled persons. In the event of a divorce, the terms of the divorce order will determine a beneficiary's eligibility.*

**(f) First-time property owner**

*He/she is acquiring property for the first time, except in the case of a consolidation subsidy and relocation assistance. This criterion does not apply to disabled persons.*

**2.4 The value of the subsidy**

- 2.4.1 The following table shows the subsidy amount for which households of the different income categories were eligible, depending on the subsidy mechanism and the period under review:

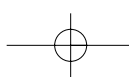




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Category and income class	Subsidy amount						
	April 1994 (R)	April 1995 (R)	Feb. 1998 (R)	April 1999 (R)	April 2002 (R)	April 2003 (R)	April 2004 (R)
<b>1. Project-linked, individual and rural subsidies</b>							
RO – R800	12 500	15 000	15 000	16 000	20 300	23 100	25 800
R801 – R1 500	12 500	12 500	15 000	16 000	20 300	23 100	25 800
R1 501 – R2 500	9 500	9 500	9 500	10 000	12 700	14 200	15 700
R2 501 – R3 500	5 000	5 000	5 000	5 500	7 000	7 800	8 600
<b>2. Consolidation subsidies</b>							
RO – R800 (aged, disabled, indigent)	–	–	–	–	13 400	15 000	16 581
RO – R1 500	7 500	7 500	8 000	8 500	10 900	12 521	14 102
<b>3. Institutional</b>							
RO – R3 500	12 500	15 000	15 000	16 000	20 300	23 100	25 800

- 2.4.2 The subsidy amount may be increased by an amount not exceeding 15 per cent to compensate for abnormal development costs arising from locational, geotechnical or topographical conditions.
- 2.4.3 In addition, an increased amount may be awarded to a household where a member of that household is disabled. The PHDB decides on whether an increase will be allowed.
- 2.5 No specific policy could be obtained from the DoH regarding the administration of subsidy applications pertaining to deceased applicants.
- 2.6 Once a housing subsidy application has been captured on the HSS, the application is sent for the following electronic searches that are conducted overnight:
- 2.6.1 The application is compared to the population register to ensure the validity of applicant and spouse ID numbers, and that applicants and/or spouses are not deceased.
- 2.6.2 The application is compared to the NHSDB to ensure that neither the applicant nor his/her spouse had previously benefited from government housing assistance.
- 2.6.3 The application is compared to the Registrar of Deeds to ensure that neither the applicant nor his/her spouse had previously owned a property.



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- 2.7 The results of the searches assist subsidy administrators in the approval of subsidies. The HSS does not enforce the denial or resubmission of applications in cases where the searches were failed, but allows certain users to override the search result by changing the application status to continue with the administration process.

## **2.8 Approved subsidies and beneficiaries**

- 2.8.1 The DoH defines approved subsidies and approved beneficiaries as follows:

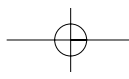
### **(a) Approved subsidy**

The number of approved subsidies is represented by the number of subsidies within the housing projects approved by the provincial housing departments. When the project is approved, subsidies are not allocated to specific beneficiaries as the projects will only commence once funding is made available for that specific project.

### **(b) Approved beneficiaries**

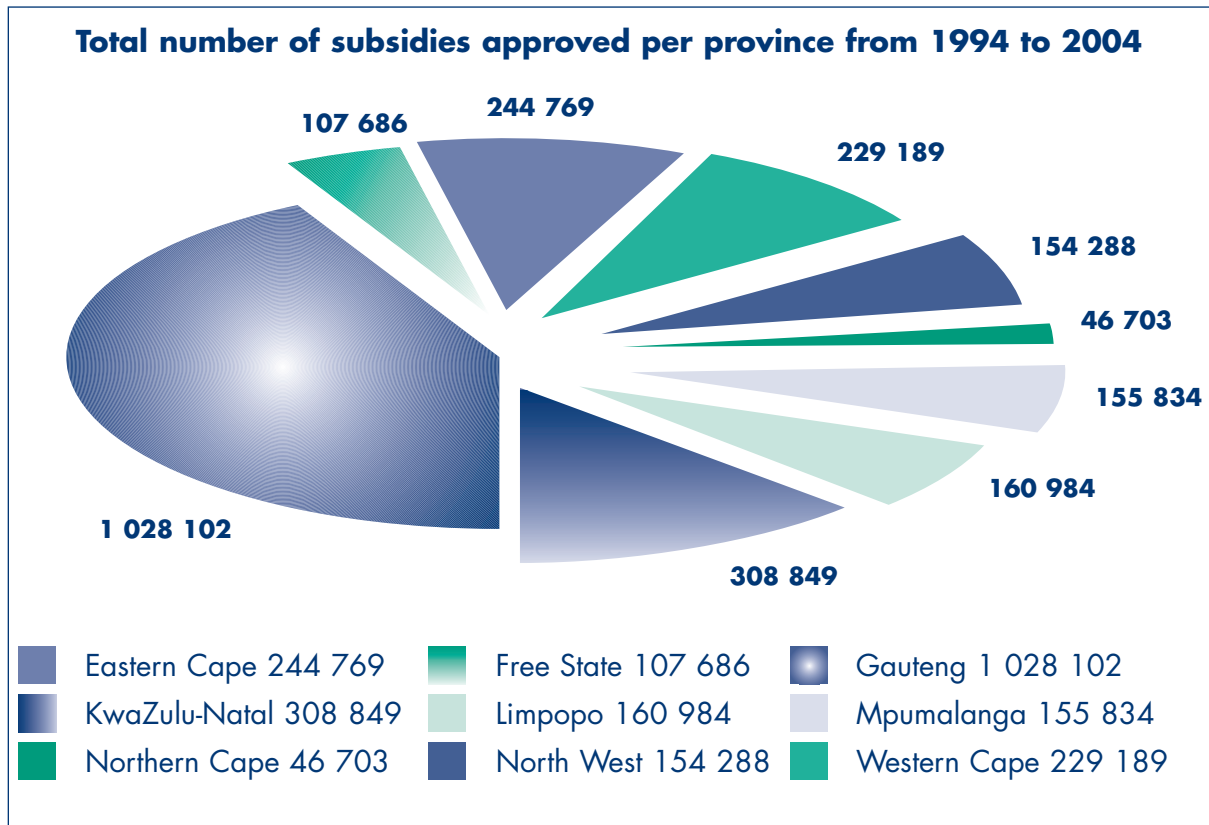
The number of approved beneficiaries reflects specific beneficiaries for whom a subsidy has been approved. Beneficiaries are only identified after funding was made available for an approved housing project and the project has commenced.

- 2.8.2 According to the DoH, a total of 167 162 subsidies were approved by provincial housing departments during the 2003-04 financial year, bringing the total number of subsidies approved by the departments since the inception of the housing subsidy programme to 2 436 404. It must be noted that approvals in any year will result in houses being completed in subsequent years as projects can take between 18 and 24 months to reach completion. The figure and table below provide a breakdown, both per province and per subsidy type, of the number of subsidy approvals to date:





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Source: DoH annual report 2003-04 financial year

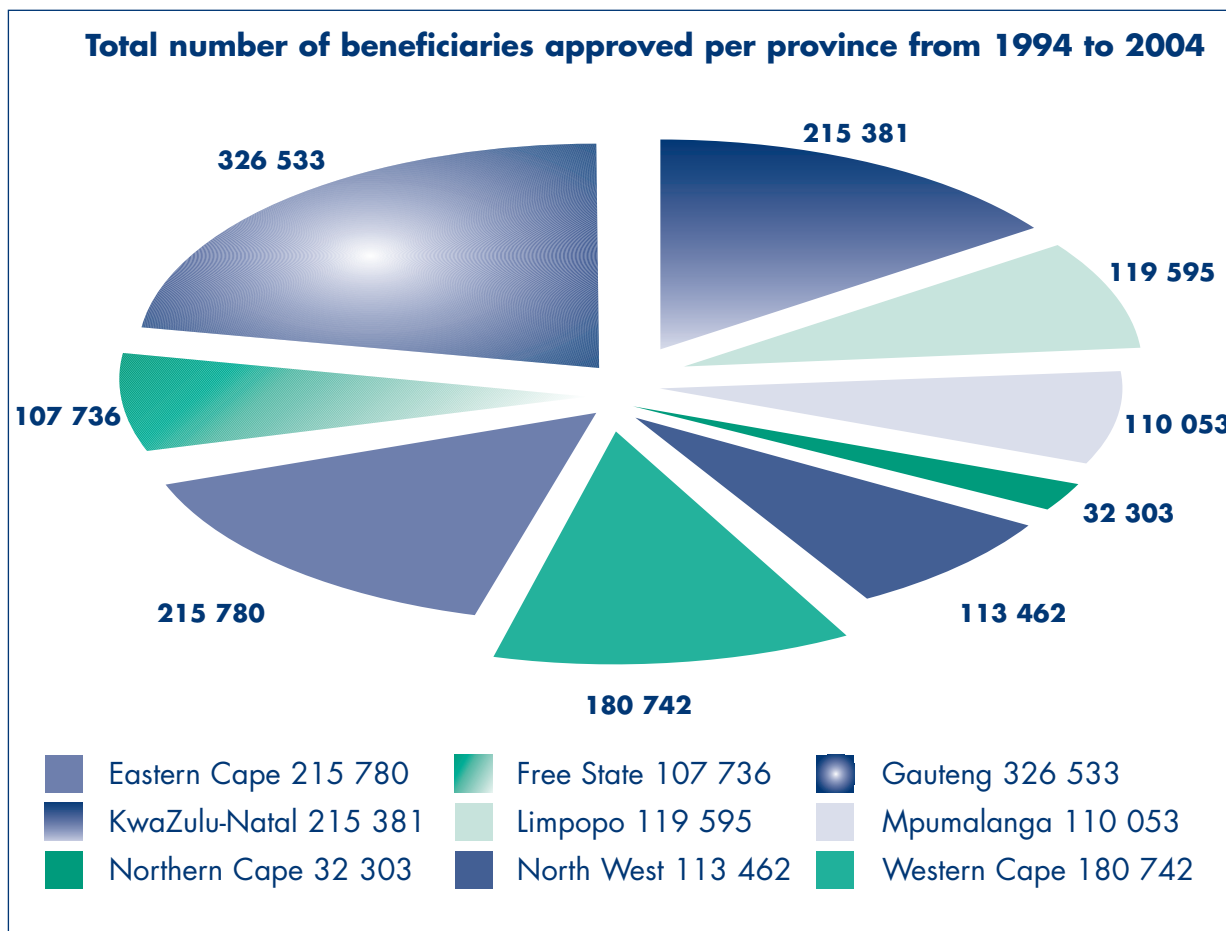
Number of subsidies approved per province from 1994 to 2004 per subsidy type							
Province	Number						Total
	Project-linked	Consolidation	Institutional	Individual	Rural	Hostel redevelopment	
Eastern Cape	201 051	9 305	5 710	27 653	1 050	0	244 769
Free State	79 920	8 127	1 300	15 364	2 459	516	107 686
Gauteng	709 352	84 161	19 105	52 639	563	162 282	1 028 102
KwaZulu-Natal	234 574	28 477	21 197	14 353	10 248	0	308 849
Limpopo	91 425	3 252	0	4 348	61 606	353	160 984
Mpumalanga	85 615	46 046	5 450	16 362	1 476	885	155 834
Northern Cape	37 631	384	1 000	7 688	0	0	46 703
North West	118 624	7 326	1 154	8 419	17 492	1 273	154 288
Western Cape	157 984	48 343	6 998	10 998	0	4 866	229 189
<b>Total</b>	<b>1 716 176</b>	<b>235 421</b>	<b>61 914</b>	<b>157 824</b>	<b>94 894</b>	<b>170 175</b>	<b>2 436 404</b>

Source: DoH annual report 2003-04 financial year



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2.8.3 The number of beneficiaries approved for the 2003-04 financial year was 191 515 and the total number of subsidies approved since 1994, for specific individuals, is 1 421 585. Fifty-eight per cent of the total number of subsidies set aside for housing development were allocated to specific beneficiaries as compared to the number of subsidies represented by approved projects. Of the total number of 1 421 585 subsidies approved to specific beneficiaries, 50,86 per cent have been awarded to female-headed households. Details of the approvals per province are set out below:

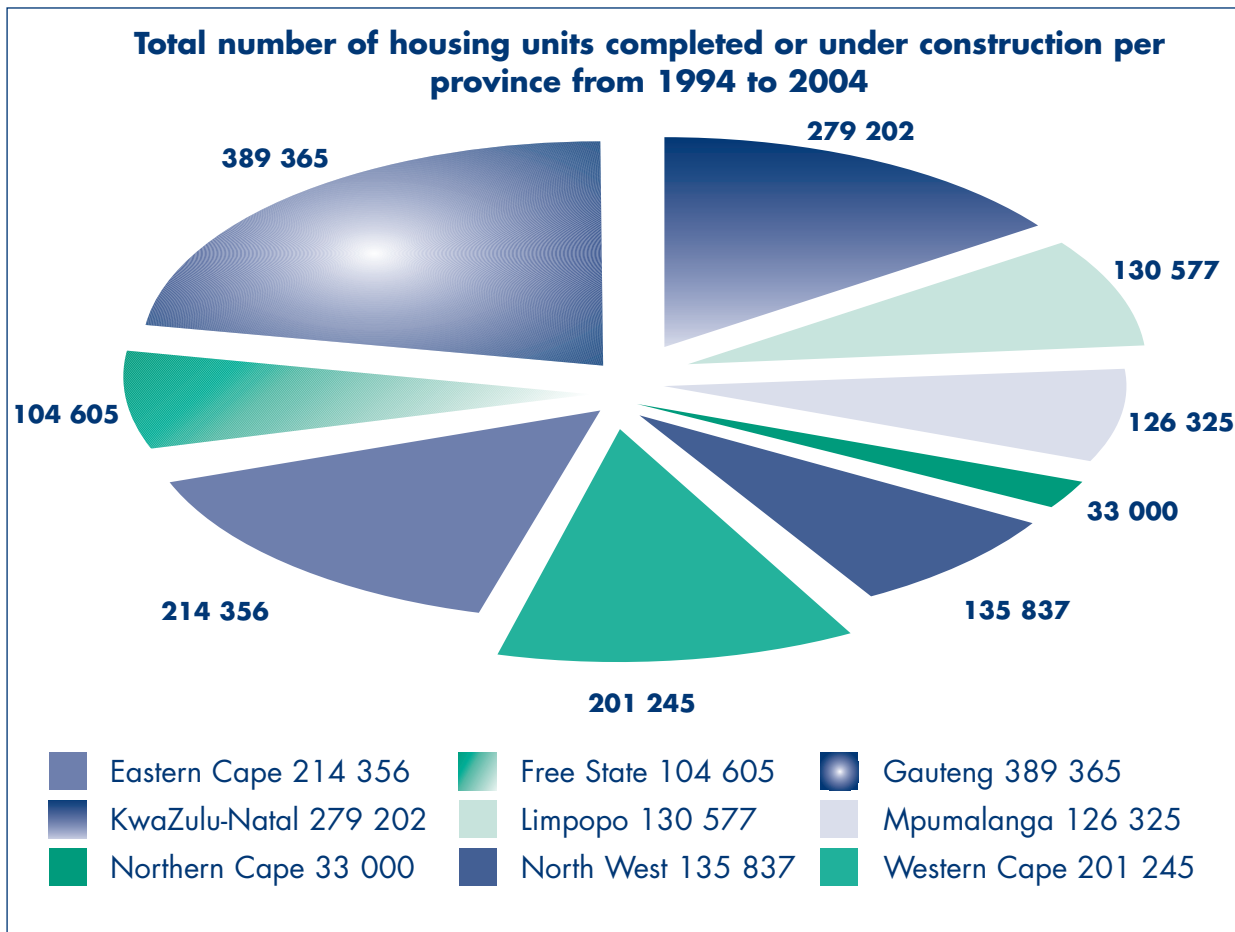


Source: DoH annual report 2003-04 financial year

2.8.4 During the 2003-04 financial year, 193 615 housing units were completed or were under construction. Since 1994 the total number of housing units completed or under construction was 1 614 512. Details of the delivery in the various provinces are set out in the figure on the next page:



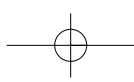
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Source: DoH annual report 2003-04 financial year

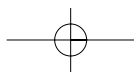
### 3. SCOPE OF THE REVIEW AND LIMITATIONS

- 3.1 The audit was conducted in accordance with the Guideline for the planning, execution, reporting and follow-up of performance audits conducted in the public sector.
- 3.2 Audit procedures applied during the performance audit stemmed mainly from the comparison of the HSS, as at March 2004, with various databases. The comparisons were made by making use of CAATs to analyse and interrogate data to create exception reports. The following two databases were compared with the HSS to create the exception reports:



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- 3.2.1 The Persal payroll data for July 2003
- 3.2.2 The Home Affairs database of deceased individuals as at May 2003
- 3.3 The exception reports included the following:
  - 3.3.1 Subsidy approvals to government employees whose earnings/salaries were in excess of the housing subsidy threshold (category 1).
  - 3.3.2 Subsidy approvals after the applicants' date of death according to Home Affairs (category 2).
  - 3.3.3 Approval of more than one subsidy to a specific applicant or his/her spouse (category 3).
  - 3.3.4 Subsidy approvals to applicants under the age of 21 (category 4).
  - 3.3.5 Subsidy approvals to applicants with invalid ID numbers (category 5).
  - 3.3.6 Duplicate subsidy approvals for a specific property (category 6).
  - 3.3.7 Subsidies awarded to individuals receiving monthly remuneration from the GEPP in excess of the subsidy threshold (category 7).
  - 3.3.8 Manual overrides of the HSS in the approval of housing subsidies.
- 3.4 The period under review was from January 1995 to March 2004, unless otherwise stated.
- 3.5 The Auditor-General did not verify the information on pay slips obtained from the SITA or the current employment status of the applicants selected for testing.
- 3.6 The subsidy application forms could not always be supplied by the provincial housing departments and therefore not all the envisaged audit procedures could be performed.
- 3.7 The information presented in this report was extracted from the HSS as well as other databases. The Auditor-General did not verify the information contained in the databases for correctness, completeness and accuracy, and consequently no opinion can be expressed on the integrity of the information thus extracted.





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- 3.8 The provincial housing departments could not provide the Auditor-General with all the supporting documentation indicating payments made with regard to approved subsidies. Therefore the Auditor-General could not verify all the subsidy payments.
- 3.9 The electronic search process (refer to paragraph 2.6) was implemented on the HSS at the end of 1998. Before this search process was implemented, each provincial housing department had to search the ID numbers of applicants against Aktex (the deed search web). Therefore there was no record of deed searches done on the HSS for subsidy applications before the end of 1998. When the HSS was implemented, the provincial housing departments transferred the data indicating the latest status of the application on the old system onto the HSS. The Auditor-General could therefore not determine whether the applications that had been imported from the old system before the end of 1998 had actually been sent for searches as there was no indication of the status "verified and sent for searches" on the HSS.

## 4. EXECUTIVE SUMMARY

- 4.1 The following table contains the types of tests conducted, the number of subsidy applications per exception report, the results of audit testing and the monetary value of applications where irregularities were identified:

Category	Findings according to the exception reports and audit tests	Number of applications listed on exception reports	Number of applications tested	Results of audit testing (percentage of the tested applications where irregularities were identified)	Monetary value of applications where irregularities were identified (Note 1) (R) '000	Reference to the detailed findings paragraph
1.	Subsidy approvals to government employees earning salaries in excess of the housing subsidy threshold	7 353	2 359	85%	93 751	5.1
2.	Subsidy approval after the applicant's date of death	5 335	1 404	91%	76 024	5.2
3.	Approval of more than one subsidy to a specific applicant:					5.3
	• Duplicate subsidy approvals for the same applicant	1 618	614	88%	21 358	5.3.1
	• Duplicate subsidy approvals for the same household	1 981	395	99%	29 418	5.3.2





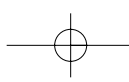
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Category	Findings according to the exception reports and audit tests	Number of applications listed on exception reports	Number of applications tested	Results of audit testing (percentage of the tested applications where irregularities were identified)	Monetary value of applications where irregularities were identified (Note 1) (R) '000	Reference to the detailed findings paragraph
4.	Subsidy approvals to applicants under the age of 21	6 708	(Note 2)		100 620	5.4
5.	Subsidies awarded to individuals receiving monthly remuneration from the government employee pension fund	111	(Note 2)		1 665	5.5
6.	Subsidy approvals to applicants with invalid ID numbers	4 471	(Note 2)			5.6
7.	Duplicate subsidy approvals for a specific property	25 849	(Note 2)			5.7
<b>Total</b>		<b>53 426</b>	<b>4 772</b>		<b>322 836</b>	

**NOTE 1:** The potential amount in subsidies awarded incorrectly was calculated on an average subsidy of R15 000 per applicant.

**NOTE 2:** These exception reports were forwarded to the relevant provincial housing departments for follow-up and the departments were requested to report the outcome of such investigations to the Auditor-General.

- 4.2 The audits in the Eastern Cape, KwaZulu-Natal and North West provincial housing departments have not yet been completed. However, the number of exceptions for these provinces was included in the table above as the outcome of the audits in other provinces indicated that a high percentage of subsidies were approved for applicants who did not qualify for a housing subsidy.
- 4.3 The following functional limitations of the HSS were identified during the performance audit:
- 4.3.1 The HSS system failed to detect that applicants were deceased at the time that the subsidy application was approved.
- 4.3.2 The HSS should detect duplicate applications that have already been captured by other provincial housing departments. Unfortunately, the HSS is designed in such a way that it only detects approved applications which were loaded onto the NHSDb.



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It does not show applications that have been captured and not yet approved by another provincial department.

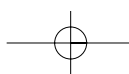
- 4.3.3 In certain cases subsidy applications were approved by the relevant approval authorities but the HSS failed to automatically change the status history of these applications to "approved".
- 4.3.4 The HSS failed to identify applications where the applicants were younger than 21 years.
- 4.3.5 The HSS did not detect invalid ID numbers that were captured and processed on the system.
- 4.4 The following shortcomings were identified with regard to the administration of subsidy applications:
- 4.4.1 The provincial housing departments did not have adequate management measures to ensure the safekeeping of completed subsidy application forms.
- 4.4.2 Subsidy application forms were not always verified for correctness and completeness by users and system administrators.
- 4.4.3 Users captured incorrect information on the HSS from the application forms.
- 4.4.4 Officials manipulated the HSS without proper verification of the electronic search results. Therefore, subsidies were awarded to applicants who did not qualify for a housing subsidy.
- 4.5 Applicants made misrepresentations and supplied outdated information to the provincial housing departments on their subsidy application forms.

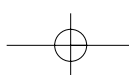
## **5. FINDINGS AND RESPONSES FROM PROVINCIAL HOUSING DEPARTMENTS AS WELL AS THE NATIONAL DEPARTMENT OF HOUSING**

### **5.1 Subsidy approvals to government employees earning salaries in excess of the housing subsidy threshold**

#### **5.1.1 Findings:**

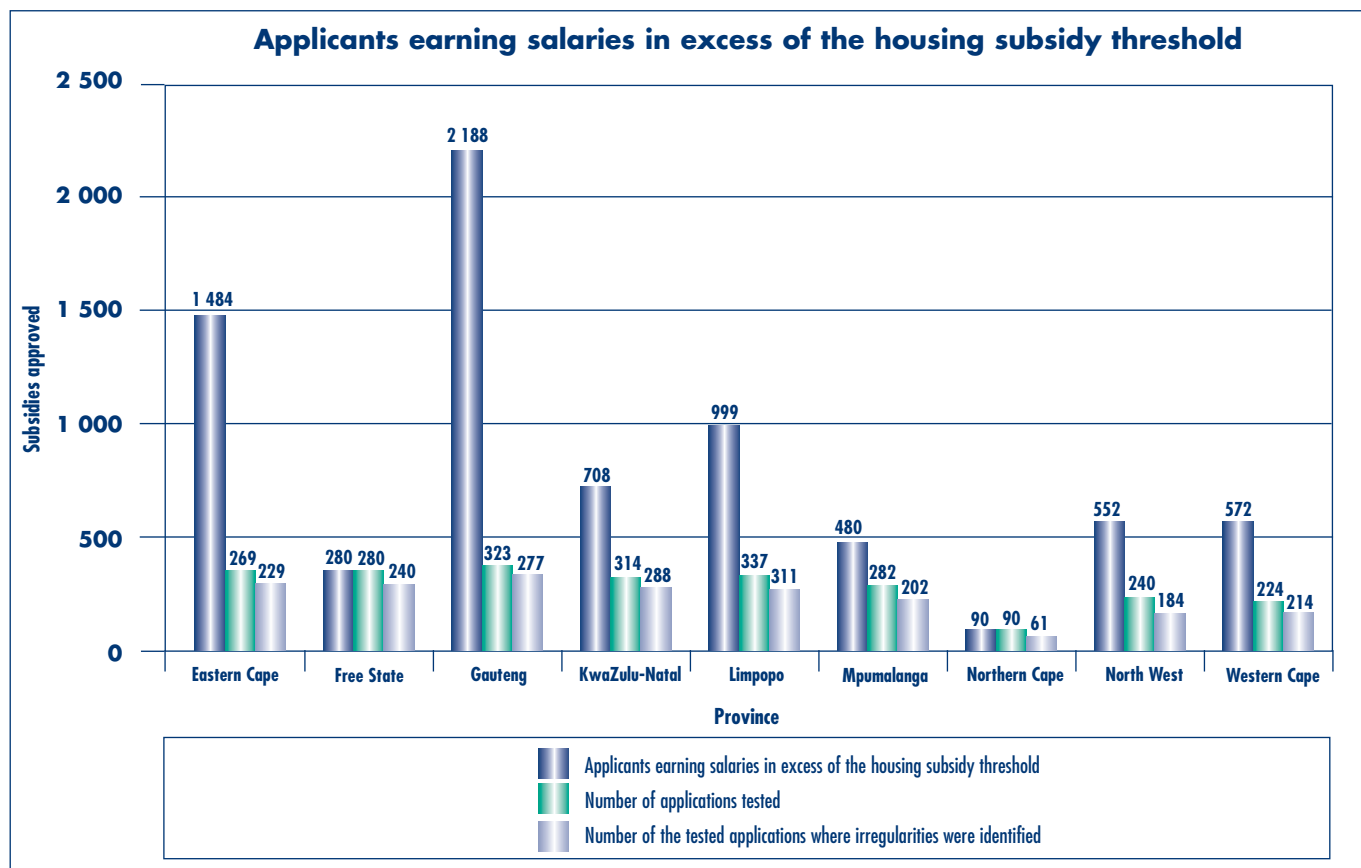
The housing applicant data on the HSS was compared to the consolidated Persal payroll data to identify instances of subsidy approvals to government employees who earned more than R42 000 per year as at July 2003 and were employed by





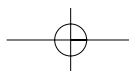
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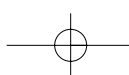
government prior to the submission of their applications. An exception report indicated 7 353 applicants in this regard. These applicants should have received either a reduced subsidy or no subsidy at all as their income was in excess of the R42 000 annual threshold for qualifying beneficiaries. The following figures give a breakdown of these beneficiaries per province:



5.1.2 The reasons for subsidies awarded to applicants who earned an income in excess of the housing subsidy threshold are set out below:

- (a) Subsidy application forms were not always verified by officials for correctness and completeness. Furthermore, outdated pay slips were accepted as proof of income and in certain instances the income declared by applicants was not captured correctly on the HSS. Subsidies were therefore awarded to applicants who did not qualify for the subsidy amounts awarded and approved.
- (b) Various instances were identified where government employees gave false affidavits on the subsidy application forms by not declaring that they received a salary from government institutions. Taking into account the actual income of the applicant and his/her spouse, the applicants should either have received a reduced subsidy or no subsidy at all.





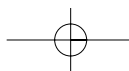
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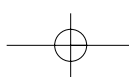
- (c) In various instances applicants gave false affidavits on the subsidy application form by not declaring their spouse's income on the subsidy application forms. The applicant's spouse was a government employee at the time when the applicant submitted the subsidy application form. Taking into account the actual income of both the applicant and the spouse, the applicants should have received reduced subsidies or no subsidy at all.

5.1.3 Applicants employed by the government prior to the date of the subsidy application reflected on the provincial housing subsidy database declared their income incorrectly as per the HSS database. As the original subsidy application forms were not provided, it could not be determined whether the applicants declared any income on the subsidy application forms. If the information was correctly captured on the HSS, the possibility existed that these applicants did not provide an accurate representation of income on the subsidy application forms.

**Response from the provincial housing departments:**

- (a) The Auditor-General's recommendation that the DoH be requested to link the HSS with Persal has been forwarded to the coordinator of the HSS steering committee at the DoH. Any enhancements to the HSS must go through the steering committee, where all the other provincial administrations are represented, because the HSS is used by all the provincial housing departments and all enhancements or changes must be agreed upon before being implemented. The DoH is currently testing an interface between the HSS and the BAS, as requested by some of the provincial administrations and approved by the steering committee.
- (b) In terms of the labour relations policy and procedures, disciplinary measures will be taken against those officials who are found to have manipulated the capturing of applicant information which resulted in those applicants either qualifying for a subsidy when they should not have qualified or receiving a higher subsidy than they qualify for.
- (c) It is not possible for the provincial housing departments to detect misrepresentations made by applicants on their income affidavits. It is assumed that such irregularities exist at all provincial housing departments. The DoH will be informed of the shortcomings in this regard and they will be requested to come up with a solution which would be applied nationally.
- (d) Provincial housing departments have embarked on measures such as interviews with applicants and verifying their employment status with the employers of applicants to ensure that adequate proof is submitted by applicants when submitting subsidy application forms.



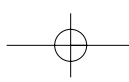


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- (e) Provincial housing departments will engage in continuous training to ensure that the information is captured correctly on the HSS and that proper controls are in place.
- (f) Provincial housing departments are in the process of sorting the names of government employees according to department and, once this is completed, individual departments will be contacted to consider taking legal action against applicants who declared their income incorrectly. This will be done after consultation with the DoH.
- (g) Provincial housing departments, in consultation with the DoH, will consider the viability of reallocating properties allocated to individuals who did not qualify for a housing subsidy.

**Response from the national Department of Housing:**

- (a) It seems that of the 1,4 million beneficiaries, only 3,6 per cent of transactions were identified to be exceptions.
- (b) Based on a request from provincial housing departments, the process is under way to engage the National Treasury in a process that will ensure that applications captured on the HSS are searched against the Persal databases on a regular basis. During initial discussions with the National Treasury, the meeting identified the possibility of providing a digital list of all approved beneficiaries from the NHSDB to National Treasury for searches against the Persal databases. The details of a structured process will be provided to provincial housing departments for implementation. The result of the search against the Persal databases will be stored on a central server at the DoH.
- (c) The interface between the BAS and the HSS is currently in a test phase and the first phase functionality was demonstrated at the Management Information Task Team meeting on 5 October 2005. The next step is to arrange a meeting with all the role players to gain approval for the interface between the BAS and the HSS as well as the processes.
- (d) In addition, a submission was prepared and delivered to the Director-General of the Department of Labour in September 2005 which was intended to enable the HSS to search against the UIF database.



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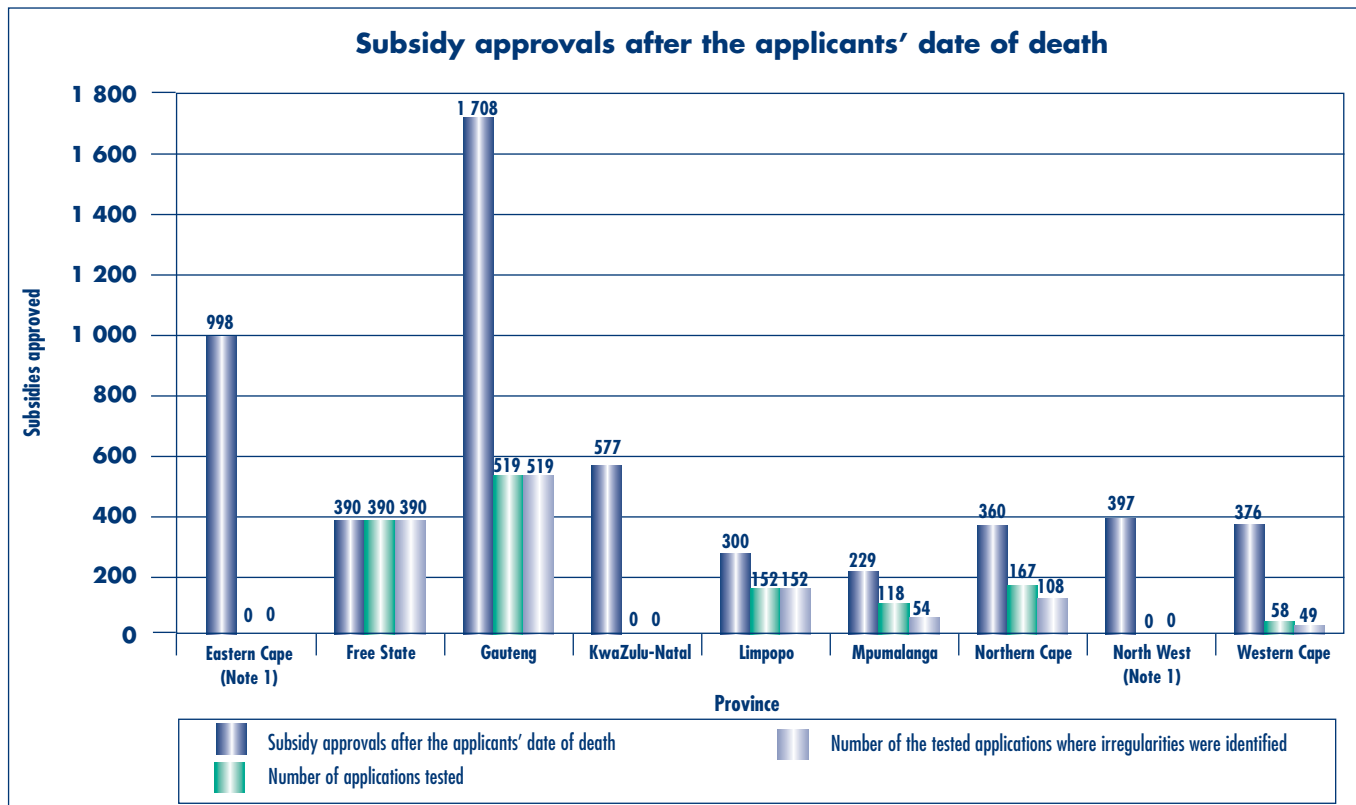
## Response from the Auditor-General:

The number of instances identified represents only 3,6 per cent of the 1,4 million beneficiaries. However, the exception report only focused on government employees earning salaries in excess of R42 000 and not on the entire working population.

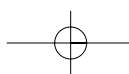
### 5.2 Subsidy approvals after the applicants' date of death

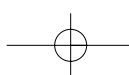
#### 5.2.1 Findings:

The housing database of approved applicants was compared to the Home Affairs database of deceased persons to identify instances of subsidy approvals by the prescribed approval authority after the applicant's date of death. An exception report was created indicating that 5 335 applicants died before the prescribed approval authority had approved the subsidies according to the HSS status history reports. Therefore, most of these beneficiaries did not qualify for a subsidy, as they died before the prescribed approval authority had approved their subsidy application. The following figures give a breakdown of these applicants per province:



**Note 1:** The audits in the Eastern Cape, KwaZulu-Natal and North West Provinces have not yet been completed.





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5.2.2 The reasons why subsidies were awarded to applicants who died before the prescribed approval authority had approved their subsidy application are as follows:

- (a) A number of the provincial housing departments indicated that no clear policy existed with regard to the administration of subsidy applications after an applicant had died.
- (b) In some instances there was a material time delay between the date on which the applicant signed the subsidy application form (where the application forms could be obtained) or the date of receiving the application, as indicated on the HSS, and the date on which the prescribed approval authority approved the applicant's subsidy. During this time delay, applicants died and the provincial department was not aware of the situation.
- (c) In various instances applications were sent for the electronic search process and failed the search. The reason on the HSS was indicated as "Invalid ID" and not "Deceased". This resulted in the system administrators overriding the search result when the ID number was found to be valid.

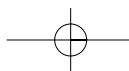
5.2.3 Instances of documented applicant actions on subsidy application forms after the date of death were identified. According to the death records at Home Affairs, these applicants were dead at that time, which meant this could be indicative of fraudulent actions.

5.2.4 Properties were registered in the names of individuals other than the original applicants or spouse reflected on the HSS after the applicant had died. However, as the original subsidy application forms could not be supplied by the provincial housing departments, the existence/non-existence of a relationship with the deceased applicant could not be determined.

5.2.5 In various instances, properties were registered in the name of the applicant before the prescribed approval authority had approved the applicant's subsidy application. Once a property has been registered in an applicant's name, the provincial housing departments might not be able to reallocate the property at a later stage if the prescribed approval authority denies the application. Therefore the registration of properties before subsidy approval is in contradiction of the National Housing Code and could nullify the prescribed approval process.

#### **Response from the provincial housing departments:**

- (a) The HSS is linked to the population database, which enables it to pick up deceased applicants through the search process prior to approval. The HSS was not in place from day one of the implementation of the housing projects.





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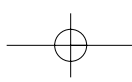
There were applications that were manually recorded between 1996 and 1999. This data was loaded onto the HSS during 2000 (when the HSS was introduced) after the approval, construction and payment of the subsidies in order for the provincial housing departments to have a record of those subsidies and payments.

- (b) The NHC stipulates that if the beneficiary dies after the approval of his/her subsidy, such approval forms part of his/her estate, which means whoever is appointed the executor will liaise with the family dependants who have a first right in this regard. If these dependants are minors, an elderly relative becomes their guardian.
- (c) Provincial housing departments are of the opinion that subsidy approval after the applicants' date of death is the result of the failure of the HSS to detect that the applicant was deceased at the time the application was approved. The matter will be discussed with the service provider and the DoH to ensure that proper checks are done by the HSS before approval is granted.

### **Response from the national Department of Housing:**

- (a) It is important to take into account the date differences between the different processes, namely:
  - (i) Updating of the population register with the deceased's information and date of death and capturing the information on the population register;
  - (ii) Date on which application form was received at the provincial housing departments;
  - (iii) Date of capturing on the HSS and referred for searches against population register;
  - (iv) Date of approval for applicant to receive a subsidy; and
  - (v) Transfer of property to an approved beneficiary.
- (b) The search results from the population register always indicate firstly that an ID is invalid, and thereafter the reason for it, which in this case is that the person is deceased according to the date on the population register. Based on the date provided on the search results, provincial housing departments are required to make decisions as to whether the beneficiary died before or after the subsidy approval date.
- (c) It is also not clear within what time frame the specific cases transpired because the CSIR initially developed and implemented the HSS in only three of the nine provinces. The remaining provinces used their own systems and only later





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converted to the HSS, which also required data conversion to suit the HSS data structure. This invariably resulted in a number of data discrepancies.

- (d) Validation checks according to the requirements of the NHC are being done by the HSS, for example data field checks on ID numbers and searches against the Deeds, Population and NHSDb databases. The discrepancies that have been noted could therefore be due to the initial stages of the HSS and the conversion of foreign data from a number of other systems.

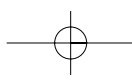
### **Response from the Auditor-General:**

The HSS data that was used in identifying deceased applicants included subsidy approvals for the period April 1994 to March 2004. As a result, some of the cases listed on the exception report could be accounted for by the fact that the HSS control measures were not yet implemented at the time of subsidy approval. It should, however, be noted that 2 523 of the 5 335 subsidies listed on the exception report had approval dates on or after 1 January 2000 (as per the information listed on the HSS), by which time the HSS had been implemented in most of the provinces.

## **5.3 Approval of more than one housing subsidy for a specific applicant or spouse**

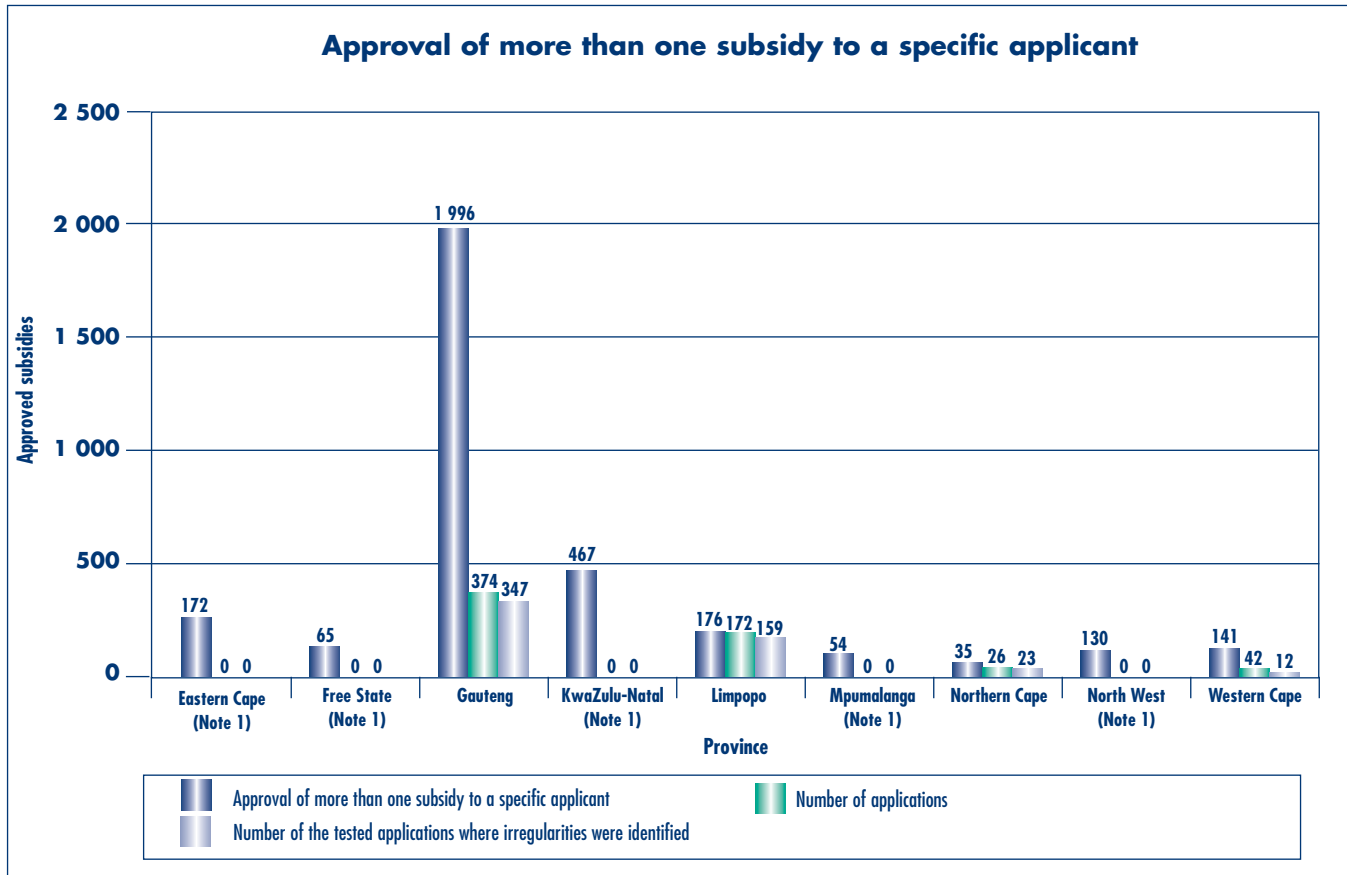
### **5.3.1 Findings:**

As per the qualification criteria of the National Housing Code, an applicant may only qualify for government assistance if neither the applicant nor his/her spouse had previously benefited from government housing assistance. The HSS database of approved applicants was scrutinised to identify instances where multiple subsidies were approved for a specific beneficiary. An exception report was created that indicated 1 618 instances where more than one subsidy was approved for the same applicant. The following figures give a breakdown of these applicants per province (it should be noted that the provincial breakdown is based on the 3 236 individual legs of the duplicate approvals, and that there are instances where the duplicate approvals extend over more than one province):





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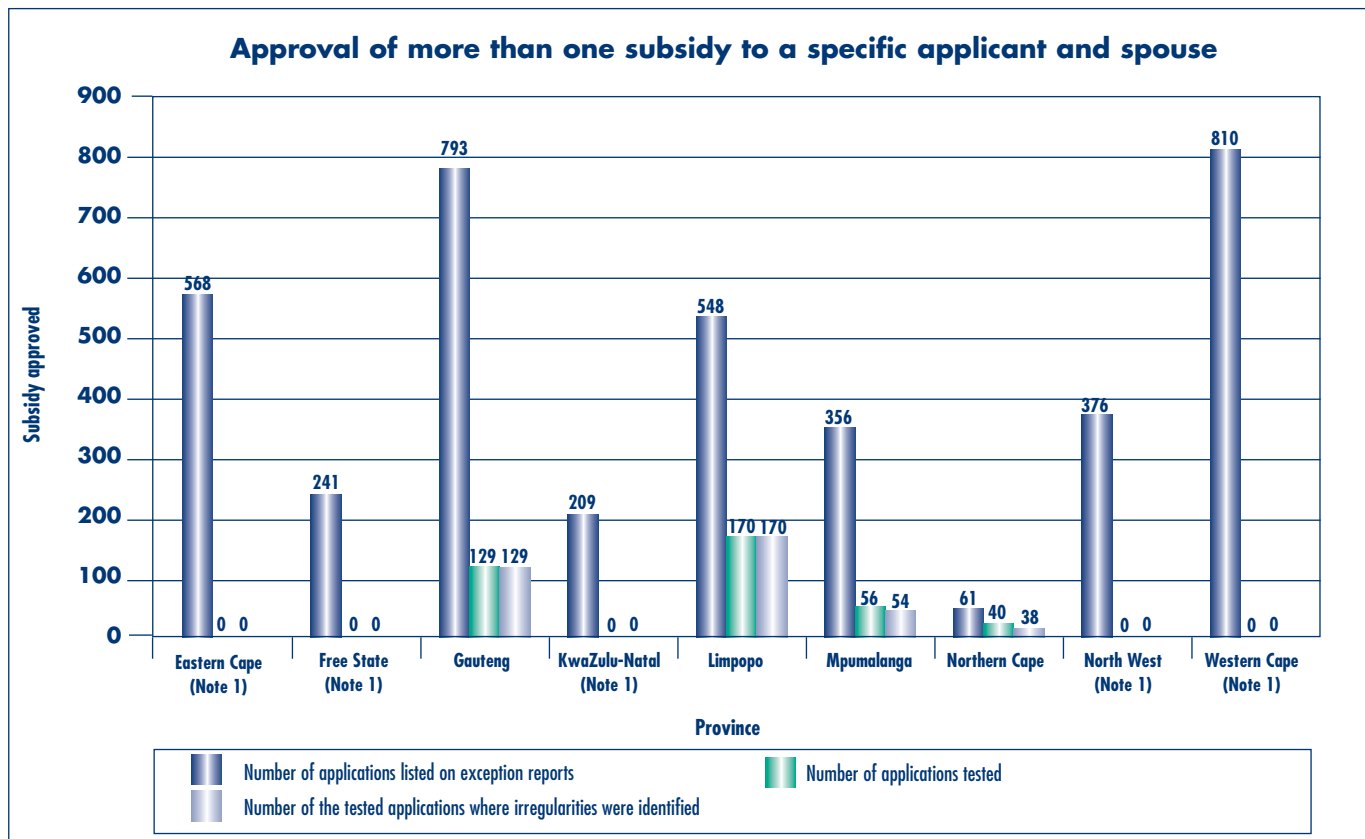


**Note 1:** The audits have not yet been completed in the Eastern Cape, Free State, KwaZulu-Natal, Mpumalanga and North West Provinces.

5.3.2 The HSS was scrutinised to identify instances where a housing subsidy was approved for both an applicant and his/her spouse. An exception report was created that indicated 1 981 instances where more than one subsidy was approved for the same household (an applicant and his/her spouse). The following figures give a breakdown of these beneficiaries per province (it should be noted that the provincial breakdown is based on the 3 962 individual legs of the duplicate approvals, and that there are instances where the duplicate approvals extend over more than one province):



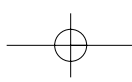
AUDITOR - GENERAL



**Note 1:** The audits have not yet been completed in the Eastern Cape, Free State, KwaZulu-Natal, North West and Western Cape Provinces.

5.3.3 In various instances two subsidies were approved for the same applicant and/or his/her spouse either by the same provincial department or by more than one provincial department. From the application status history on the HSS the following instances, which could have resulted in the approval of more than one subsidy for a specific applicant and/or his/her spouse, were identified:

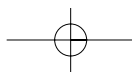
- (a) Subsidy applications were submitted by applicants who passed the electronic search process and were approved on the HSS. However, the same applicant and/or his/her spouse submitted another subsidy application to either the same provincial department or another provincial administration and the HSS failed to detect the duplicate application. Therefore, these applications passed the electronic search process on the HSS, which resulted in two subsidies being approved for the same applicant or household.
- (b) Subsidy applications were submitted to the electronic search process and failed the search. However, the HSS was apparently overridden by a user or administrator and therefore a second subsidy was approved for the same applicant or household.

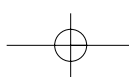
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- (c) Two subsidy applications were approved for the same applicant within a short period of time and the electronic search process would not have been able to identify applicants who submitted two subsidy applications as the NHSDB would not have been updated with the approved subsidies at the time that the second subsidy applications were sent for searches.
- (d) Applicants applied for a housing subsidy that was verified and passed by the electronic search process. However, due to the long delay between the date on which the application was sent for searches and the date on which the subsidy was approved on the HSS, the same applicant submitted another application that passed the electronic search process, as there was no indication on the HSS that a subsidy was approved for the applicant. Therefore two subsidies were approved for the same applicant.
- (e) Two subsidy applications were approved for the same applicant and, according to the HSS status history, neither application was subjected to the electronic search process. The reason for the approval of more than one subsidy for a specific applicant could therefore not be determined.
- (f) In certain instances applicants for whom subsidies had already been approved according to the HSS applied for a second subsidy and did not declare on the "affidavit by applicant" that they or their spouses had previously received financial assistance from the government to acquire a residential property.

**Response from the provincial housing departments:**

- (a) The majority of the findings relate to the deficiencies of the HSS and the old system. The electronic search module was not available on the old system, which was used until the end of 1998, and therefore no searches could be conducted during that period. Furthermore, the system was unable to distinguish between applicants with the 13-digit ID numbers of the former TBVC states and those with the RSA 13-digit bar-coded ID numbers.
- (b) There are other cases where an approved applicant and his/her spouse were not formally married but just living together. When they separate and the other spouse applies for his/her house, the application would be declined through the search process and the applicant will then provide an affidavit to the effect that he/she no longer lives with the approved beneficiary. On that basis the HSS is overridden and the application is allowed to go through. This affidavit must now be filed with the application form, which might not have been done in the identified cases.



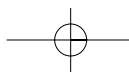


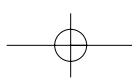
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- (c) The fact that the same applicant submitted applications at more than one provincial housing department and that all applications were approved was a problem for the HSS. At provincial level it was not easy to detect that a second application had also been approved by another provincial housing department. This anomaly will be brought to the attention of the DoH and the service provider.
- (d) The provincial HSS does not identify an applicant who submitted a second application at another provincial housing department although one would expect the HSS to detect duplicate applications that had already been captured by another provincial housing department. The HSS is unfortunately designed in such a way that it can only detect an application which is approved and loaded on the NHSDB. This matter will be discussed with the DoH.
- (e) It has also been observed that other overrides were caused by a lack of thorough verification by staff. In certain instances this was due to the fact that at the inception of the HSS, it was not linked to Home Affairs. This function was later added as an enhancement to the HSS. This has been brought to the attention of staff at provincial housing departments to avoid a repeat of the problem. Staff members at a more senior level are now responsible for overrides.
- (f) In those instances where subsidies were approved for an applicant and his/her dependants, provincial housing departments indicated that these were cases where one man has two spouses. However, the HSS did not detect these transactions. This matter will also be discussed with the DoH, especially in cases where it has policy implications, for example if a man is married to two wives, both of whom qualify for a subsidy, and they reflect the same person as a spouse.

**Response from the national Department of Housing:**

- (a) Based on the rules of the relocation assistance programme, a beneficiary may qualify for a new housing subsidy to enable the family to relocate to right-sized property so that the bank can repossess and sell the original property to mitigate its losses. It is unclear whether these beneficiaries were included or excluded from the above-mentioned exceptions. If a beneficiary qualifies for a relocation subsidy, the application form submitted is recaptured on the HSS.
- (b) Previously it was not a requirement that the HSS had to perform a cross-check between the applicant and spouse information, including identity numbers, but the HSS was subsequently enhanced to ensure that cross-checks are now done at a provincial level.

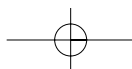


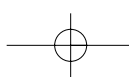
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- (c) The policy does not prescribe that a beneficiary can only apply once, but merely that he/she can only benefit once. Therefore the system checks through the searches before approval against the NHSDB whether or not the beneficiary has benefited before. In certain cases, for example consolidation and relocation subsidies, the beneficiary should/could have benefited before.
- (d) The HSS is decentralised and there is a database per province. On a daily basis the information on newly approved beneficiaries, and the information of previously approved beneficiaries whose details were changed, are extracted and transferred to the mainframe at SITA. This information is then available for the upload process to the NHSDB. The end result of the upload process is a download file per province where the status of the approved beneficiaries is provided to the provincial HSS database. If a beneficiary was approved in one province and the upload file contains that same beneficiary from another province, the download file will contain a message, stating that this application was revoked by the NHSDB. Based on the above, a beneficiary can be approved in two provinces but the feedback to the last province indicates that the approval was revoked by the NHSDB.
- (e) Since 1998, the search results from Population, Deeds and NHSDB were available on the HSS. It must also be noted that the deeds search is done as follows:
- (i) First against the birth date, initials and surname and, if this was matched to a deeds record, the application will fail the deeds search;
  - (ii) Secondly, against the first 10 digits of the ID number; and
  - (iii) Thirdly, against the 13 digits of the ID number.
- (f) Validation checks according to the requirements of the Housing Code are done by the HSS in respect of data field checks on ID numbers and searches against the Deeds, Population and NHSDB databases. As indicated previously, the discrepancies that have been noted are attributed to historical factors such as the conversion of foreign data from a number of other systems and the fact that the historical status of beneficiaries was not always available and that the decision was made to accept the status of the beneficiary as indicated on the original systems.

**Response from the Auditor-General:**

- (a) The HSS data that was used for audit purposes in identifying duplicate subsidy approvals included subsidies for the period April 1994 to March 2004 and therefore some of the cases listed on the exception reports could be accounted for by the fact that the HSS control measures were not yet implemented at the





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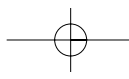
time of subsidy approval. However, it should be noted that 520 of the 1 618 duplicate subsidies awarded to specific individuals were approved on or after 1 January 2000 (as per the information listed on the HSS), by which time the HSS had already been implemented in most of the provinces. Similarly with regard to the duplicate subsidies awarded to a specific applicant and his/her spouse, 1 178 of the 1 981 duplicate subsidies were approved on or after 1 January 2000.

- (b) The majority of the subsidies included in the exception reports were project-linked subsidies. In this regard, of the duplicate subsidies awarded to a specific individual, 1 420 of the 1 618 cases pertained to duplicate project-linked subsidies and, with regard to duplicate subsidies awarded to a specific applicant and his/her spouse, 1 670 of the 1 981 cases pertained to duplicate project-linked subsidies.

#### **5.4 Subsidy approvals to applicants under the age of 21**

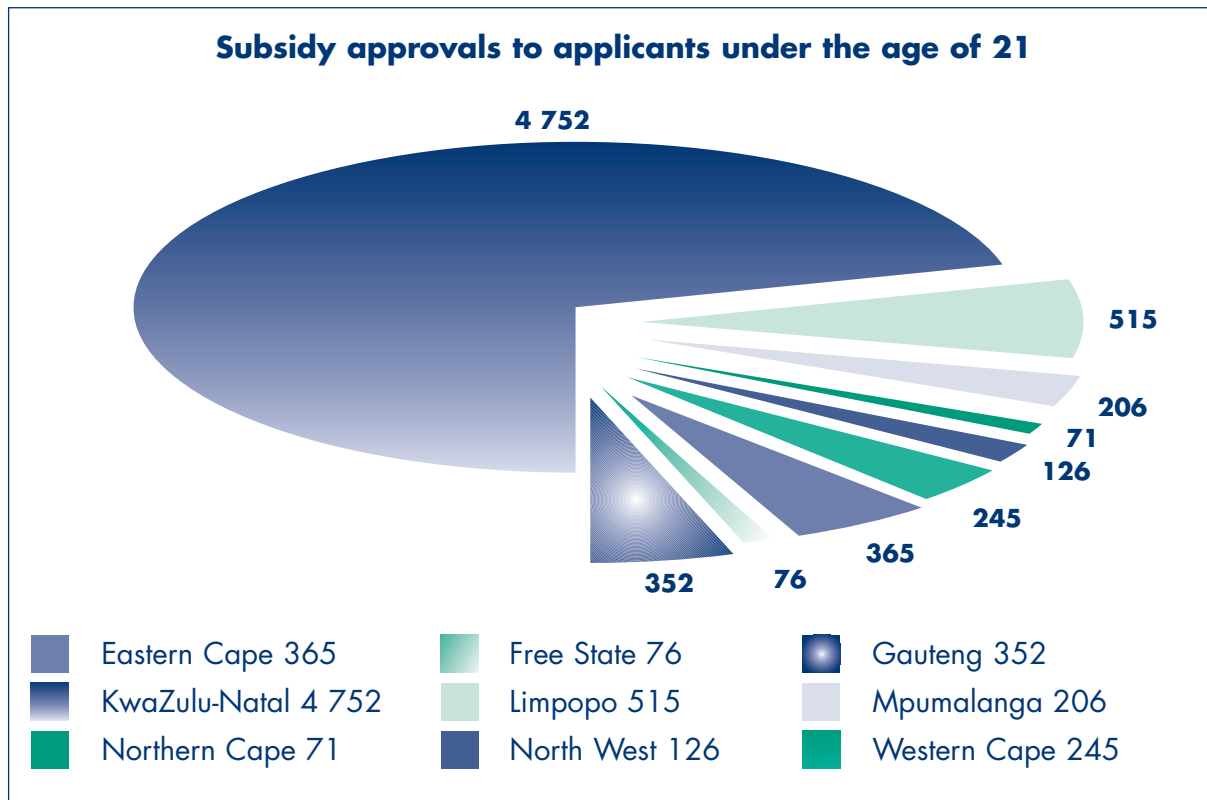
##### **Finding:**

The NHC stipulates that the applicant must be legally competent to contract and must therefore be over 21 years of age or married or divorced, and of sound mind, in order to qualify for a housing subsidy. The housing applicant data was scrutinised to identify instances of subsidy approval to beneficiaries who, on the date of approval, were under the age of 21. Beneficiaries' ID numbers were used to determine their age. An exception was created indicating 6 708 potential instances where subsidies were approved for individuals under the age of 21. A limited number of transactions were tested by the Auditor-General and the preliminary results indicated that the exception report is valid. These exception reports were forwarded to the provincial housing departments for follow-up and the provincial housing departments were requested to report the outcome of such investigation to the Auditor-General. Although the national and provincial housing departments responded in this regard, the outcomes of the individual cases investigated had not been submitted to the Auditor-General at the time this report was compiled. The following figures give a breakdown of these beneficiaries per province:





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#### Response from the provincial housing departments:

- (a) In the majority of cases, the applicants were about to turn 21. There were instances where the applicants were far younger than 21, which should have been detected by the HSS.
- (b) Applications that were processed and approved after the year 2000 should have been picked up by the HSS as officials are prevented from capturing any further data after the ID number, and the system cannot be overridden. It is therefore difficult to explain how this could have happened as the system is programmed to prevent the processing of such applications.
- (c) The provincial housing departments will engage with the service provider of the HSS through the DoH to improve on the HSS. It would also form part of the request for the enhancement of the mechanisms of the HSS.

#### Response from the national Department of Housing:

- (a) It was noted that the ID number was used to calculate the age of a beneficiary and not the birth date as captured on the HSS. Problems could be experienced when using the ID number to calculate as it is not Y2K compliant and does not





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make provision for century, for example ID numbers that start with 05 could refer to either 1905 or 2005.

- (b) The HSS makes use of the birth date and during the application verification process will change the status of the application to "Decline under the age of 21". It must also be noted that an applicant with the status "married" and "under the age of 21" could qualify for a subsidy based on the rules of the Housing Code, which are aligned with the common law provisions of competency to contract.
- (c) The HSS also verifies the ID number based on the formula provided by the Population Register (Home Affairs) and warns the capturer that it is an invalid ID. No formula was available to verify validity of former TBVC ID numbers, and ID number checking was removed from the HSS until the Population Register was introduced in 1998 to perform searches on the HSS.
- (d) It must be noted that only three of the provincial housing departments used the HSS before 2000 and that the other six provinces started to use the HSS at different intervals, whereas the KwaZulu-Natal provincial housing department only started to use the HSS at the end of 2002.

### **Response from the Auditor-General:**

- (a) The ID number was used to calculate the ages of applicants because the birth date field was not always completed on the HSS. Furthermore, in some instances the information listed in the HSS birth date field did not agree with the birth dates contained in the first six characters of the applicant's ID number, in spite of the specific ID numbers being valid 13-digit RSA ID numbers. The fact that ID numbers are not Y2K compliant does not have a material impact on the audit findings. Of the 6 708 cases listed on the exception report, only 72 cases indicated ID numbers beginning with the ranges "85" to "99", and it is unlikely that ID numbers outside these ranges would be affected by the Y2K-compliance issue. ID numbers beginning with the ranges "00" to "05" were excluded from the exception report.
- (b) The HSS data that was used for audit purposes in identifying applicants under the age of 21 included subsidies for the period April 1994 to March 2004 and therefore some of the cases listed in the exception report could be accounted for by the fact that the HSS control measures were not yet implemented at the time of subsidy approval. However, it should be noted that 1 258 of the 6 708 cases listed on the exception report were approved on or after 1 January 2000 (as per the information listed on the HSS), by which time the HSS had already been implemented in most of the provinces.

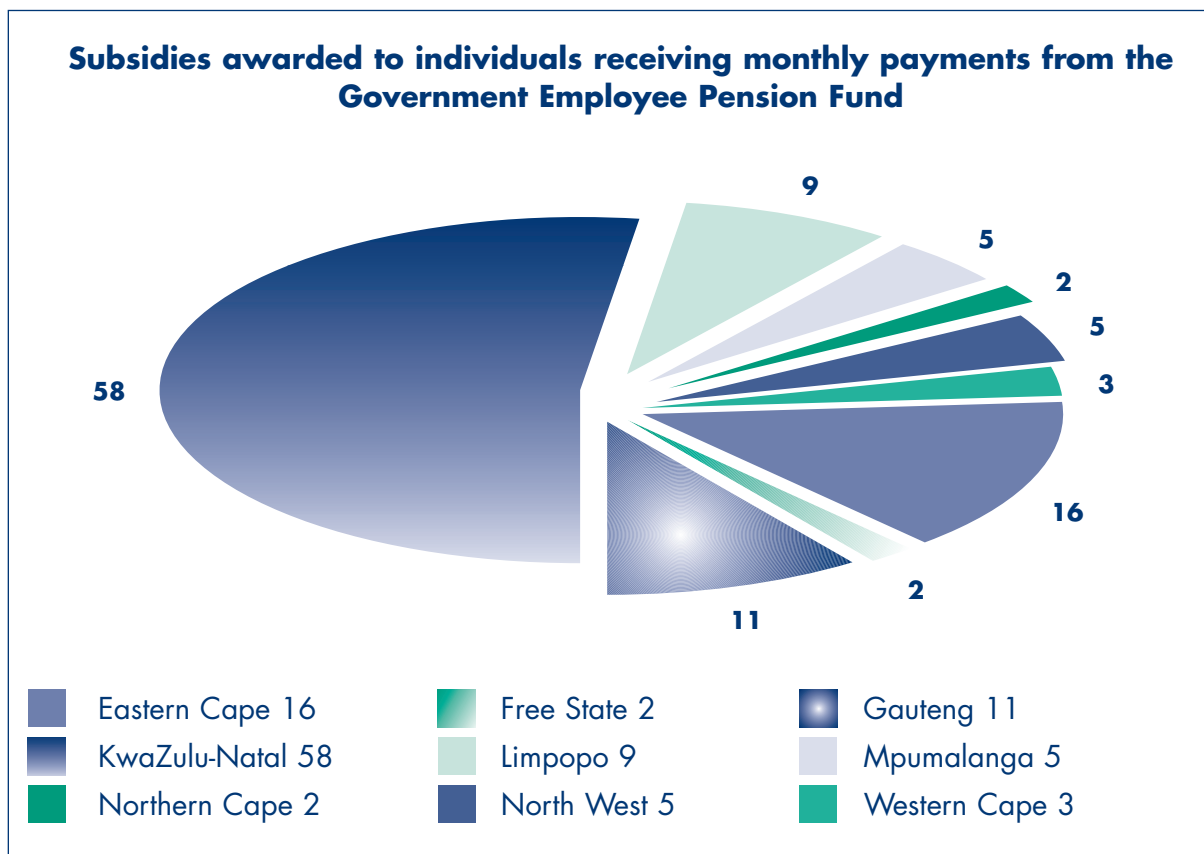


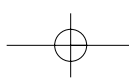
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## 5.5 Subsidies awarded to individuals receiving monthly payments from the Government Employee Pension Fund

### Finding:

The housing applicant data was compared to the GEPF payment data for the period April 2002 to July 2003 to identify instances of subsidy approvals to households receiving amounts from the GERF in excess of the subsidy threshold. A total of 111 potential instances were identified. These exception reports were forwarded to the provincial housing departments for follow-up and the provincial housing departments were requested to report the outcome of such investigation to the Auditor-General. Although the national and provincial housing departments responded in this regard, the outcomes of the individual cases investigated had not been submitted to the Auditor-General at the time this report was compiled. The following figures give a breakdown of these beneficiaries per province:





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**Response from the provincial housing departments:**

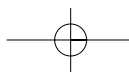
- (a) Some applicants might not have disclosed that they were receiving income from the GEPF. The limitation faced by provincial housing departments was that the HSS was not interfaced with the GEPF to detect this kind of information.
- (b) The matter pertaining to the interfacing of the HSS with other government systems has already been discussed at various meetings. It is hoped that the DoH will implement these requests.

**Response from the national Department of Housing:**

This has not been requested previously or communicated to the HSS team but the necessary steps would be taken to engage with the custodians of the GEPF database.

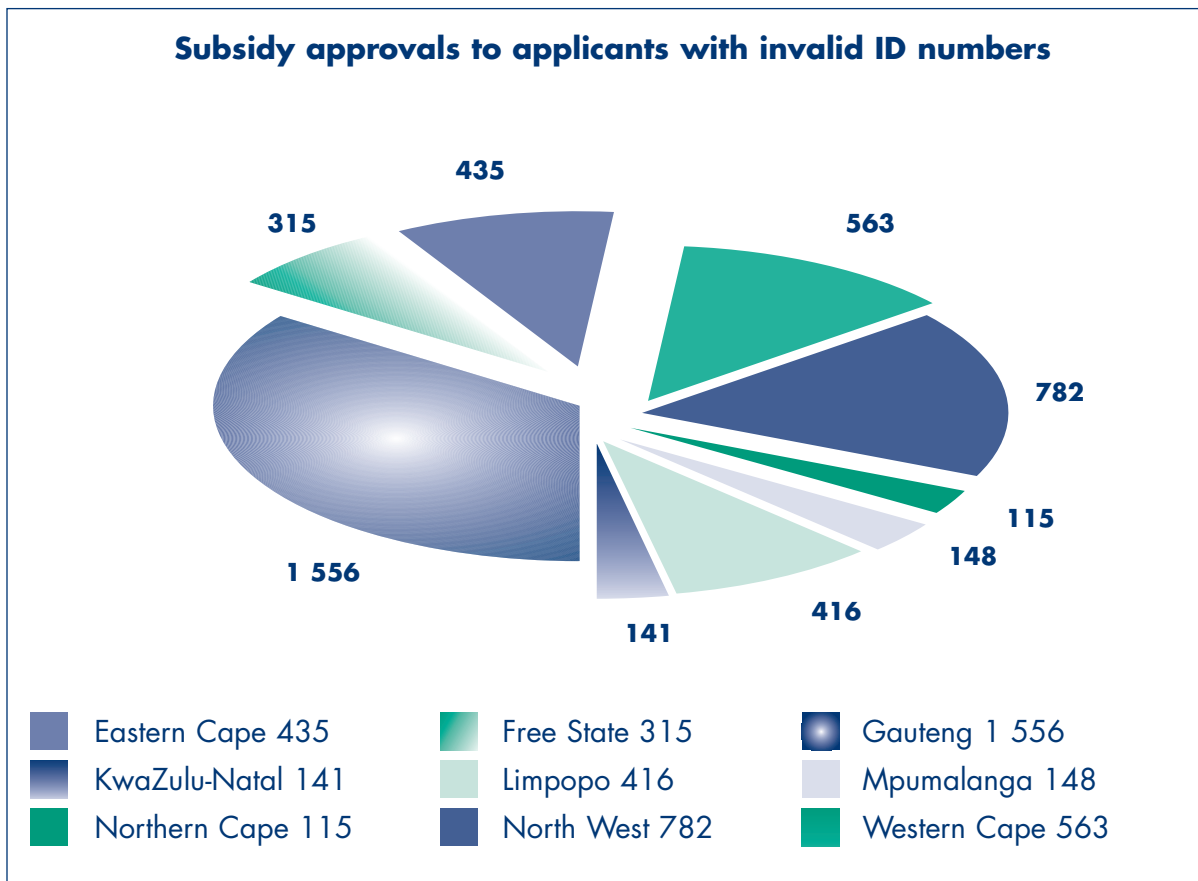
**5.6 Subsidy approvals to applicants with invalid ID numbers****Finding:**

The housing applicant data was scrutinised to determine instances of subsidy approval to beneficiaries with invalid ID numbers as per the ID formula check. This exception report was compiled as a risk existed that housing subsidies were approved for fictitious applicants with invalid ID numbers or no ID numbers at all. A total of 4 471 potential instances were identified. These exception reports were forwarded to the provincial housing departments for follow-up and the provincial housing departments were requested to report the outcome of such investigation to the Auditor-General. Although the national and provincial housing departments responded in this regard, the outcomes of the individual cases investigated had not been submitted to the Auditor-General at the time this report was compiled. The following figures give a breakdown of these applicants per province:





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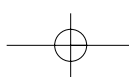


#### Response from the provincial housing departments:

- (a) The HSS was not in place from day one of the implementation of the housing projects. There are applications that were manually recorded between 1996 and 1999. This data was loaded onto the HSS during the year 2000 (when the HSS was introduced) after the approval, construction and payment of the subsidies in order for the department to have a record of those subsidies and payments. During the loading process a lot of errors were made.
- (b) All invalid ID numbers will be referred to the service providers to follow up.

#### Response from the national Department of Housing:

- (a) It is not clear from the findings whether ID numbers from the previous TBVC states and permanent residence permit numbers were excluded from the audit process.
- (c) The HSS does not allow invalid ID numbers. Upon entering such ID numbers the system will indicate that they are incorrect and remove them from the field. The user then has to recapture the correct ID number. This ID number is then



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verified against Home Affairs during the search process. If found not to be a valid ID number, the search result will reflect "Invalid ID" or currently "Searches Declined" with the reason given by Home Affairs, for example "Not found" or "Deceased, with details".

- (c) It must also be noted that it has only been a requirement since 1998 to have a valid 13-digit ID number and it is not clearly stated in which years the approvals had taken place.
- (d) The discrepancies that have been noted could be attributed to historical factors such as the conversion of foreign data from a number of other systems and the fact that the status history of beneficiaries was not always available and that the decision was made to accept the status of the beneficiary as is.

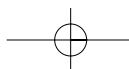
#### **Response from the Auditor-General:**

The HSS data used in identifying applicants with invalid ID numbers included subsidies for the period April 1994 to March 2004. The Auditor-General therefore agrees that some of the cases listed in the exception report could be accounted for by the fact that the HSS control measures were not yet implemented at the time of subsidy approval, or the fact that former TBVC state ID numbers were captured on the HSS. However, it should be noted that 570 of the 4 471 cases listed in the exception report were approved on or after 1 January 2000 (as per the information listed on the HSS), by which time the HSS had already been implemented in most of the provinces, and a valid 13-digit RSA ID number was required when applying for a housing subsidy. Permanent residency permit numbers were excluded when compiling the exception report.

### **5.7 Duplicate subsidy approvals for a specific property**

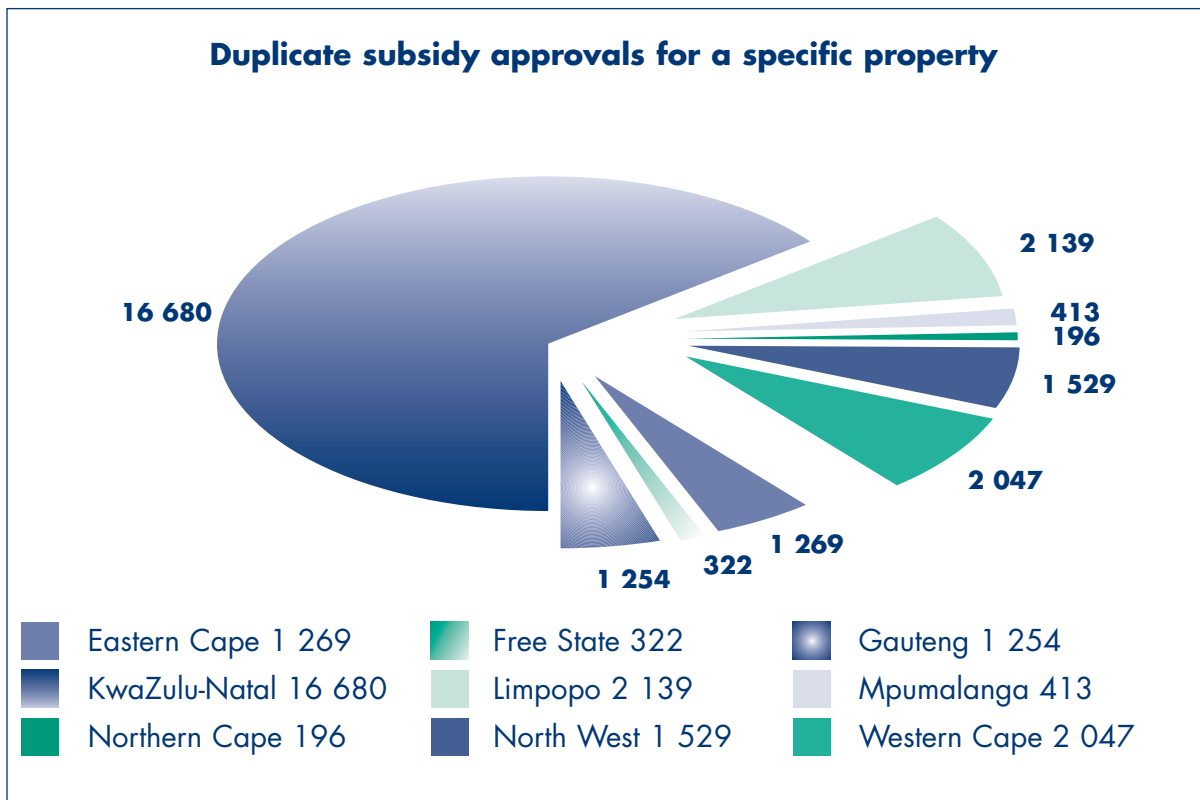
#### **Finding:**

The housing property data was scrutinised to identify instances where multiple subsidies were approved for a specific property. A total of 25 849 potential instances were identified where multiple subsidies were approved for a specific property. The duplicates were identified based on identical entries in the unique project and phase identifying number, site number in the said project, project description and province fields, respectively. The outcomes of the individual cases investigated were not available at the time this report was compiled. The following figures give a breakdown of multiple subsidies that were approved for a specific property per province:





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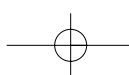


#### Response from the provincial housing departments:

- (a) It has been established that in the majority of cases, applicants were in different villages with similar site/stand numbers. This was mostly in cases where these villages were allocated to the same developer. This did not mean that duplicate subsidies were allocated to the same property.
- (b) The system notifies the capturer if the site number on the application has already been captured on the system. It also notifies the capturer in cases where he/she is changing an already captured applicant's stand number if such a stand number is already on the system and it gives the ID number and name of the person captured on that stand. An option to override an existing stand is also given by the system, where the reason for such an override is requested.

#### Response from the National Department of Housing:

Due to pressure on provincial housing departments, a process of using temporary stand numbers was implemented. Developers are to supply provincial housing departments with correct stand numbers throughout the project. Closure of projects should confirm that transfers have taken place and that no duplicate stands were used.



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**Response from the Auditor-General:**

The provincial housing departments should follow up all cases identified during the closure of projects to confirm that all transfers have taken place and that no duplicate stands were allocated.

**5.8 The administration of subsidy application forms****Finding:**

Adequate management measures were not in place at the provincial housing departments to ensure the safekeeping of subsidy application forms. In various instances the provincial housing departments could not always supply the subsidy application forms requested for audit purposes and therefore not all the envisaged audit procedures could be performed. As the completed subsidy application forms are the only physical documentation pertaining to the applicants' declaration, the failure to institute such measures could result in the creation of an environment that is conducive to the concealment of fraudulent activities.

**Response from the provincial housing departments:**

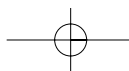
The officials tasked with filing the application forms will be reminded of the importance of these documents and the consequences relating to inaccurate filing methods that lead to forms being misfiled.

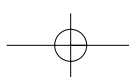
**Response from the national Department of Housing:**

The HSS has been enhanced to the effect that it can assist the administration by printing a digitised label to link the electronic information with the actual project file.

**5.9 Manual overrides of the Housing Subsidy System in the approval of housing subsidies****Findings:**

During the audits, a number of instances were identified where the system was apparently overridden in the approval process in order to pass the national searches. All users and administrators had the authority to override the provincial HSS. Therefore, in various instances subsidy applications that failed the national search process were approved without valid documented reasons.



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Various instances were identified where there was no indication on the HSS that approved subsidy applications were sent for searches before being approved by the prescribed approval authority.

**Response from the provincial housing departments:**

The information relating to manual overrides is available on the HSS. Every transaction that is performed against an application on the system is recorded and can be traced. Two field screens contain information on changes made. Due to a lack of capacity, all staff members were allowed rights to do manual overrides given the large number of overrides that are done on a daily basis.

**Response from the national Department of Housing:**

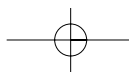
- (a) This functionality exists because there are occasions when search results need to be overridden. For example, the population search may indicate that a person is deceased but the person appears at the provincial office with a valid ID document. In such cases the HSS does allow search results to be overridden provided that an explanatory note is added. In general, the system requires the user to add notes for every status change. The HSS is structured in such a way that every user has a password and permissions, as approved by the provincial housing departments. Usually only certain identified provincial staff have access to the search module.
- (b) Status history for old applications (pre-2000) and provincial housing departments converting to the HSS at a later stage will not reflect full history details.

**Response from the Auditor-General:**

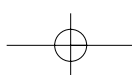
The status history for old applications before 1 January 2000 does not reflect the reasons documented for overrides as indicated by the DoH above. Furthermore, in certain instances where subsidies were approved after 1 January 2000, reasons were documented for overrides but were not always valid.

**5.10 Approved housing subsidies not listed on the National Housing Subsidy Database****Finding:**

A comparison between the provincial HSS data and the NHSDB indicated that a number of approved subsidy beneficiaries were not listed on the NHSDB. As the NHSDB is used to indicate whether a subsidy applicant had previously benefited







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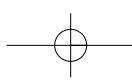
from government funding, a failure to ensure completeness of the NHSDB could render the national search process ineffective, and result in the allocation of multiple subsidies to specific individuals or households. A total of 14 163 approved housing subsidies were identified on the HSS for which the beneficiary details were not listed on the NHSDB.

### **Response from the national Department of Housing:**

This could be because of a time difference between the upload process to the NHSDB and the approval process on the HSS. The DoH is currently engaged in a process to align the NHSDB with new policy initiatives and one of the focus points is to increase the responsiveness to the upload process to the NHSDB.

## **6. RESPONSE FROM THE MINISTER OF HOUSING**

- 6.1 The proposed way forward, as suggested by the Minister of Housing in a letter dated 2 November 2005, is as follows:
- 6.1.1 A JSC consisting of officials from the DoH, provincial housing departments, SITA and the Auditor-General (as an observer) will be established as a matter of urgency. This JSC should be complemented with capacity from the DoH's units of Finance, Internal Audit and the Special Investigating Unit. Any additional expertise should be sourced as and when required, for example highly skilled information technology or information management entities from the private sector.
- 6.1.2 The purpose for the establishment of the JSC should be to:
- (a) Study and appraise the Auditor-General's report thoroughly.
  - (b) Interrogate the Auditor-General's report to confirm the correctness or otherwise of its findings.
  - (c) Consider policy aspects that need to be addressed.
  - (d) Consider the interface of the HSS with other government systems, for example Persal, UIF, etc.
  - (e) Undertake risk assessments of the entire HSS.
  - (f) Review the whole process of housing subsidy applications.
  - (g) Consider compulsory fields.
  - (h) Explore adequate and efficient separation of functions to obviate misuse.
  - (i) Consider the various levels of access for data capture, verification, amendments, overrides and approval.
  - (j) Consider the safekeeping and filing of application forms and adherence to the National Archives Act, 1996 (Act No. 36 of 1996).



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- (k) Ensure an access control system in each province.
- (l) Explore the possibility or otherwise of establishing a unit within the DoH to oversee the operation of the system on an exception basis.
- (m) Explore the alignment of the HSS with the BAS.

6.1.3 The following time frames for the JSC were recommended:

- (a) The JSC should meet on a weekly basis.
- (b) However, officials are to be deployed on a full-time basis on this specific task and should work continuously to ensure that the concerns are confirmed timeously and corrective action is taken.
- (c) The JSC must have the HSS reshaped before 31 January 2006 with an interim progress report to be submitted by 30 November 2005.

6.1.4 According to the Minister of Housing it is anticipated that the JSC would have the following outcomes:

- (a) Presentation of a comprehensive report to both the Minister and the Auditor-General on how the HSS is being/has been enhanced.
- (b) The report will reflect all modules removed or introduced and all fields removed or introduced.
- (c) It should also address security issues such as access and control thereof.
- (d) It should address how amendments/addenda to entries on beneficiary information are dealt with, with particular reference to fields that could have a one-off entry, for example an entry that cannot be amended or can only be amended at a higher level of access/authority.
- (e) Details of the future management system.
- (f) Specific engagement with the Special Investigating Unit to propose how non-qualifying beneficiaries who have illegally benefited from the subsidy scheme are to be dealt with.

## 7. APPRECIATION

The assistance rendered by the staff of the DoH as well as the various provincial housing departments during the audit is sincerely appreciated.

**S A Fakie**  
**Auditor-General**

**Pretoria**  
**January 2006**

