



ASSURING QUALITY HOMES



2013/2014 ANNUAL REPORT

Nelson Mandela (1918-2013)

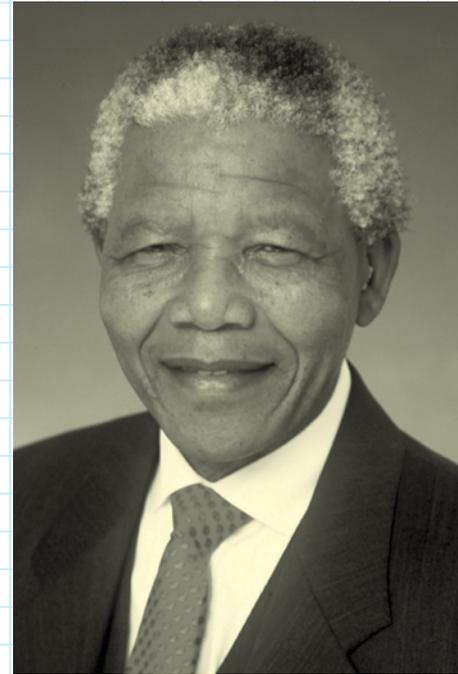
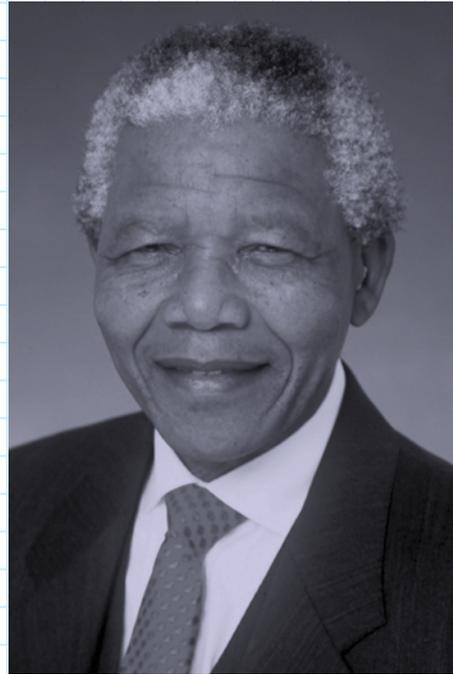
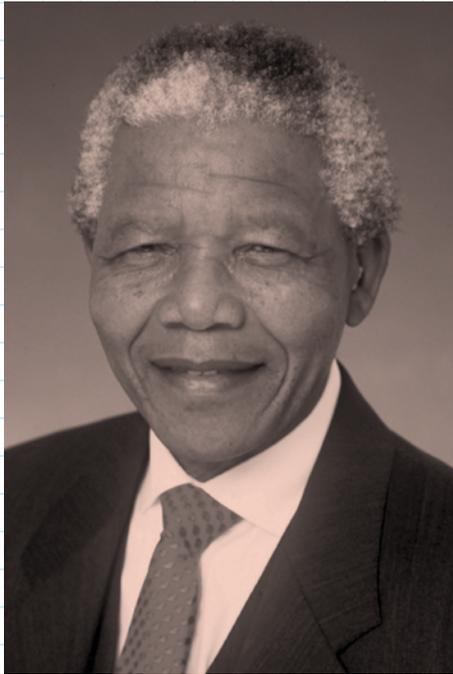
Solving housing problems through working together

The world can be divided into those countries where the nation is comfortably housed, and those where housing is part of a daily struggle for survival. Most countries in Africa, including South Africa, fall into the latter category. And this is a reflection of the challenges we face to ensure that our peoples do indeed enjoy a better life. Our approach to housing in South Africa, as in other parts of Africa, embodies the principle that the government has an important role to play.

But it recognises too that government cannot solve the problem on its own. We fully endorse the need for a full and meaningful partnership of government, the private sector and homeless communities. The very specific challenge that Africa faces is that of poverty; quite simply, most of our people are too poor for a pure market solution to the housing problem.

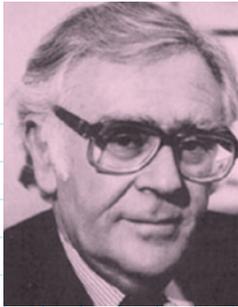
President in office, Nelson Mandela, at the closing ceremony of the United Nations Habitat I African Housing Ministers' Conference, World Trade Centre, Johannesburg, 18 October 1995





"Freedom would be meaningless without security in the home and in the streets."

Housing Ministers since 1994



Joe Slovo
Housing – 1994-1995

Broadening Access to Housing Finance through Legislative Means

Ultimately, it will be up to the major banks and lending institutions to come in to the new South Africa and to play their full and responsible part in helping to solve what is one of the most fundamental problems facing this country – housing. I'm hopeful that this is going to be a voluntary process within a short space of time, and we are working on the creation of institutions like the mortgage indemnity scheme to assist the banks in making the transition to greater accessibility.

But should it turn out that this reluctance on their part becomes a permanent feature, then we are going to have to look for other ways to encourage banks to open their doors to the lower end of the market – if necessary through legislation.

Minister of Housing in office, Joe Slovo, at the opening ceremony of the Community Bank, Benoni, 23 July 1994



Sankie Mthembu-Mahanyele
Housing – 1995-2003

Overcoming the Legacy of Racial-spatial Engineering

South Africa's cities and towns are dysfunctional and this is a result of political engineering that has led to social disorder and disruption. Apartheid legislation regulating Group Areas, Community Redevelopment, and Rent Control have had a devastating effect on the viability of our inner cities. The removal of people forcibly from areas declared "white" exacerbated the problem by tearing families apart and dislocating kin and kith. There is no doubt that the legacy left by apartheid, social planning not only altered the urban landscape but led to the creation of little oases of affluence amidst pockets of despair and want. We inherited 192 000 serviced sites where poor people were forced to use what they could to construct houses. The fact that poor people are not bankable and creditworthy compounded the problem and led to the mushrooming of informal settlements, the breeding ground of disease and other social ills.

Media briefing by the Minister of Housing in office, Sankie Mthembu-Mahanyele, Cape Town, 10 February 2000



Brigitte Mabandla
Housing – 2003-2004

Housing Delivery

Over the past nine years we have seen the construction of almost 1,5 million housing units. We also saw the transfer of 400 000 old municipal houses into the ownership of their longstanding tenants. We have therefore seen many, many homeless and tenants become home owners.

That means that this government of the people has ensured the creation of secure homes with tenure, clean water, good sanitation, and electricity for at least eight million South Africans. We have indeed embarked on a great project of renewal, of hope and of building a better future for all South Africans.

This is a very significant achievement, because it says that we have in the past nine years provided assistance with decent formal housing to a very significant number of people indeed. Our current backlog is estimated at 2,3 million households still requiring assistance. The 330 000 further subsidies already approved indicate that there is more housing in the pipeline for at least another 1,3 million people.

Minister of Housing in office, Brigitte Mabandla, on tabling her Department's Budget Vote, Cape Town, 19 May 2003



Lindiwe Sisulu
Housing - 2004-2009

Breaking from the Past

As government, we have articulated our concerns over informal settlements. These are growing at an alarming rate and this government has indicated its intention to moving towards a shack-free society. The difference now is that we are not dealing with intent; we will now be operational.

I challenge all to come on board in a concrete way. You have the opportunity to do something to make a difference where you live or in somebody's life... Housing is an area where the steep inequalities of our country are immediately visible... Together, therefore, let us break new ground in housing delivery!

Minister of Housing in office, Lindiwe Sisulu, on tabling her Department's Budget Vote, National Assembly, Cape Town, 10 June 2004



Tokyo Sexwale
Human Settlements - 2009-2012

SA Government Passed 3-million Housing Mark

The government has passed the 3-million mark in providing free housing and housing opportunities in South Africa since 1994, the majority of beneficiaries being from the poorest parts of society.

Delivering his Department's Budget Vote in Parliament in Cape Town, Sexwale said the focus of the government's housing delivery programme remained the poorest of the poor, many of whom were in and around informal settlements.

"At this stage the following message must be clear: our government does not build slums, imikhukhu, amatyotyombe!" Sexwale said.

However, he warned that the policy of providing grants that enabled the poor to get free housing was unsustainable in the long term.

"Strictly speaking, this is more of a welfare programme approach than a lasting housing policy, as this programme is driven by the triple evils of unemployment, poverty and inequity.

"For as long as this is the case, so long shall this programme remain, because we as the government are committed to the poor and shall not abandon them."

Human Settlements Minister, Tokyo Sexwale, on tabling his Department's Budget Vote, National Assembly, Cape Town, 23 May 2013



Connie September
Human Settlements - 2013-2014

One Learner One Estate Agency Programme

The vision of the Department of Human Settlements is to ensure and carry out the constitutional mandate which guarantees houses for all. Everyone has a right to have access to adequate housing and the State must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.

Most importantly for us it is to drive the deracialisation of residential areas in South Africa. We achieve deracialisation through the provision of housing subsidies to the poorest of the poor; providing people in the GAP market with guarantees to buy homes in the areas of their choice through Banks; making sure that Banks do not unfairly discriminate against certain categories of our citizenry through their lending practices; and regulating the entire housing and human settlements sector.

Statement by the Minister of Human Settlements, Connie September, on the occasion of the launch of the One Learner One Estate Agency Programme, Park Hyatt Hotel, Rosebank, 24 April 2014

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Overview

WHO WE ARE

The National Home Builders Registration Council (NHBRC) was established in 1998 in terms of the Housing Consumers Protection Measures Act, 1998 (Act No 95 of 1998) (as amended), hereafter referred to as the Act, and is mandated to protect the interests of housing consumers and to regulate the home building industry.

OUR VISION

To be a world-class home builders' warranty organisation that ensures the delivery of sustainable quality homes.

OUR MISSION

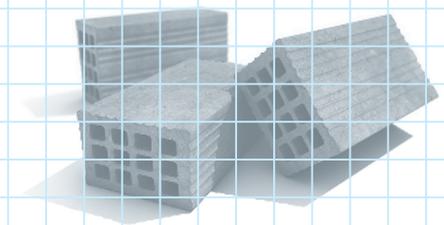
To protect the housing consumer and to regulate the home building environment by promoting innovative home building technologies, setting home building standards and improving the capabilities of home builders.

OUR VALUES

- Customer service excellence
- Good corporate governance
- Research and innovation
- Commitment and moral integrity
- Technical excellence

OUR STRATEGY

- To improve visibility and accessibility in the market, while enhancing interaction with our stakeholders
- To position the NHBRC as a leader in knowledge creation and technical and technological building solutions, through strategic partnerships
- To provide diversified services and products in line with changing building requirements and needs



Chairperson's Report

The 2013/2014 financial year was the second year of the term of office of the current Council which was appointed by the Minister with effect from 1 May 2012. This was the year in which the Council strived to ensure that the entity is fully functional in terms of leadership at top management structure which was plagued by vacancies in the previous financial year. The appointment of the CEO in March 2013 was followed by the filling of other executive positions in the months that followed.



Advocate BM Madumise

The Council is delighted to report that all the vacant positions which existed when Council took over the reigns had since been filled, with the exception of the Chief Financial Officer position which became vacant from 1 January 2014 due to the expiry of the five-year contract of the former CFO. Council is hopeful that this position will be filled soon for a full complement of the executive team in the 2014/2015 financial year.

The Council has during the period under review, also established a Centre for Research and Housing Innovation as another division of the entity, which was informed by the lessons learned from our engagement with the build environment associations and our counterparts internationally. This division's main objective and focus is on technical and economic research and housing innovation technologies for transformation in the build environment through the use of alternative building technologies in the housing sector.

During the period under review, the NHBRC continued to rally behind consumer protection as its main mandate, and in this regard, the Council endorsed the new inspectorate model which looks at capacitating the NHBRC inspectorate function to ensure that this core business and risk mitigating function remains an internal function within the organisation with limited outsourcing in times of sudden growth in the construction industry. This function had been capacitated with about 145 internal inspectors who will conduct inspections of all houses under construction to ensure that quality

is not compromised by our registered builders.

The other project which the Council continued to monitor its implementation during the year under review and the subsequent termination of the contract with the service provider, was the implementation of the SAP ERP System as initiated by the former Council. The project was marred by a number of challenges during the implementation, which ultimately resulted in the termination of the contract with the implementing agent in December 2013. The Council immediately started with the procurement process of appointing a new service provider which process will be finalised in the first quarter of the new financial year regarding the revival project for completion of the implementation of the SAP ERP System by the end of the next financial year (2014/2015).

The Council is also delighted to report that NHBRC has during the year under review, secured a home of its own by purchasing a Grade A building for its Head Office and the Gauteng Provincial Office situated at No 5 Leeuwkop Road, Sunninghill. The new NHBRC home is easily accessible for our stakeholders, from the major routes in Johannesburg. The purchase of this building will see NHBRC making some significant savings from the rental costs.

Governance

The NHBRC regards the principles of sound corporate governance as an imperative in obtaining and retaining the trust of stakeholders, and the overarching objective of performance with integrity.

These principles are also vital in securing respect from key stakeholders, including customers, suppliers, government, employees and home owners.

During the period under review, the Council played its governance role as required by PFMA, 1999 by ensuring that the organisation's internal control systems are in place and monitoring that they remain relevant, effective, efficient and transparent to deliver on the strategic objectives and to mitigate against the risks that threaten the sustainability of the organisation. The Council also ensured reviews and development of policies to ensure a proper governance framework in the execution of business decisions and operational activities.

The Council continued to provide support to established Sub-committees and also received advice from them in the form of recommendations regarding the activities which are delegated by the Council to the Committees under their Terms of Reference. These Committees also continued to provide meaningful advice and recommendations to the Council on all matters which are reserved for the latter to make decisions to ensure that the Council decisions are well informed and rational at all times. The Sub-committees further continued to monitor business activities which fall within their delegated authority and to provide guidance to management to ensure that any internal control gaps were identified and action plans developed and implemented for organisational compliance with laws and to avoid audit findings.

The NHBRC regards the principles of sound corporate governance as an imperative in obtaining and retaining the trust of stakeholders, and the overarching objective of performance with integrity.

Relationship between the Council and Executive Management

The Council continued its monitoring role to ensure that the management team of the NHBRC continues to deliver on the strategic objectives of the organisation through quarterly reporting on the achievement of operational targets.

The good relationship and interaction maintained between the Council and the management team resulted in the achievement of the majority of the operational targets as reported in this Annual Report. The separation of strategic and operational responsibilities ensured that the Council remained the controlling body with oversight responsibilities to monitor management operational activities for the benefit of the organisation and all its stakeholders who look at the organisation for quality service delivery and protection in terms of its statutory mandate.

Representation at International Associations

The NHBRC continued to engage international associations and other regulatory bodies for lessons to improve on our delivery of the mandate as per the Act. Meetings and workshops were held with the International Housing Association (IHA) of which NHBRC is a member, for discussions on green buildings and transformation of the build environment towards the use of alternative building technologies. Meetings were also held with the International Housing and Home Warranty Association (IHHWA) of which the NHBRC is a

member and deputy chair of the association in preparation for the 2014 IHHWA Conference to be held in Vancouver, Canada in September 2014.

The NHBRC has, in collaboration with the Departments of Human Settlements and Cooperative Governance and Traditional Affairs, participated in the preparations for the UN Habitat World Urban Forum 7 Conference which was scheduled for 5-11 April 2014 in Medellin, Columbia. This forum looks at issues facing the world today in the area of human settlements, including rapid urbanisation and its impact on cities, communities, economies, climate change and policies. The forum is regarded as the World's Premier Conference on Cities and provides a good platform in terms of transformation of human settlements into sustainable cities.

Corporate Social Responsibility Initiatives

During the period under review, the Council initiated two Golf Day events in Johannesburg and Cape Town respectively with a view to raise funds and sponsorships to build houses through the use of alternative building technologies for donation to a few destitute beneficiaries. The Council is grateful to report that the two Golf Day events were able to raise around R850 000.00 in funds and sponsorships from a few developers for which six houses were constructed in four provinces and donated to six destitute beneficiaries. The Council intends to continue on this path as a means to help government in the delivery of basic services to the



majority of our citizens who remain without a proper roof after 20 years of democracy.

The NHBRC has also, through an initiative by the Chairperson, established the 20/20 Women Empowerment Programme which is aimed at empowering women in construction to become entrepreneurs of their businesses through a leadership programme developed in partnership with GIBS and the City Press Media. This programme was established in recognition of our 20 years of democracy and is looking at empowering at least 20 women in construction as a start in the next financial year, with leadership and entrepreneurial skills to ensure sustainability of their businesses and therefore, continued membership of the NHBRC as registered builders.

Advocate BM Madumise
Chairperson

Members of Council

The NHBRC is directed and controlled by the Council which is appointed by the Minister in terms of section 4 of the Act. The Council is appointed for a period determined by the Minister, but not exceeding three years at a time. The current Council was appointed by the Minister effective from 1 May 2012 and its term of office will come to an end on 30 April 2015.



Advocate BM Madumise

BProc (Wits), LLB (Wits), MBA (Bond University), Graduate Diploma in International Trade Law (Wits), LLM (Wits)



Ms D Maja

BJuris (University of Limpopo), LLB (University of Limpopo)



Mr S Loonat

BSc (Quantity Surveying), BCom (Unisa), PRQS, PMAQS



Ms B Nzo

BSc (Honours Quantity Surveying) (Nelson Mandela Metropolitan University) PrQS PMAQS



Ms Z Vazi

BCom (Accounting), Higher Diploma Accounting, MBA (Cass Business School)



Mr I Kotscoane

Advanced Certificate in Local Government Management (Birmingham University), Postgraduate Diploma (Governance and Political Transformation) (UFS)



Mr P Hlahane

BJuris, LLB (University of North West), LLM (UP), Advanced Diploma in Labour Law (UJ)



Ms X Daku

BProc (Unitra), LLM (UWC), MDP (University of Stellenbosch), Diploma in Legal Practice (UCT), Human Resource Management and Training (Varsity College)



Mr S Ngwenya

BCom (Honours) (Business Economics) (Unisa)



Mr M Markgraaf

Higher Diploma in Education, Training and Development (UCT), Building Construction Management (Peninsula Technikon), NT1 And NT2 (Bricklaying), Apprenticeship in Bricklaying



Mr G Manack

Certificate in Government IT Management (Wits), Executive Programme (Duke University), MSc Public Policy and Management (University of London)



Mr A Potwana

BJuris (University of Transkei), Project Management (UP), LLB (University of Transkei)



Ms B Madikizela

BCom (Accounting), BCom (Honours Accounting) CTA, CA(SA)

Chief Executive Officer's Report

It has been a year since I joined the NHBRC as the Chief Executive Officer. During this time the valuable insights from employees, builders and key stakeholders has resulted in a myriad of plans to optimise how the NHBRC services builders, consumers and government.



Mongezi Mnyani

I have come to know the key internal issues and operational stumbling blocks and can comfortably report on the strategic initiatives we have put in place to address these.

For a long protracted period, the NHBRC was without a full executive team. During the period under review, we have managed to fill the vacant executive positions and have capacitated key operational positions, both within business units and across provinces. My visits to provincial offices was an opportunity to engage directly with NHBRC employees and it became evident to me that to inspire and inculcate a culture of excellence, we need a complete overhaul of our human capital approach, policies and procedures. The sustainability of a compliant home building industry is dependent on an empowered NHBRC workforce.

Legal, Compliance and Enforcement

One of the critical functions of the NHBRC is to ensure universal compliance to the regulations and home building standards. We have made great strides in creating awareness of the builders' Code of Conduct and have geared up capacity in the enforcement arm of the NHBRC. I cannot stress the importance of quality in building enough; the ethos behind our legal, compliance and

enforcement activity is the delivery of quality to home owners. Where possible, we take action. In the period under review, we have suspended a total of 202 builders and have taken 335 matters through the NHBRC Disciplinary Process. However, ours is not a stick and carrot approach, it is cooperative. We endeavour to work hand-in-hand with builders for the benefit of the industry as a whole.

Performance of the Organisation

I am pleased to report that the financial year has witnessed an increase in the registration of new home builders and renewals of existing home builders. Residential building activity remains under pressure, yet despite this, the marginal improvement in building activity is supported by demand for housing, urbanisation and changing lifestyles. In the year under review, the NHBRC has seen a 7% increase in home builder registrations and a 19% increase in home builder renewals.

Enrolments in the non-subsidy sector increased by 9% to 48 879. Enrolments in the subsidy sector are not at the desired levels and we are working with various housing institutions to ensure that projects are enrolled in time. Late enrolments by home builders have declined by 9% to 1 743. There is a dedicated effort to reduce the number of

late enrolments as they pose a risk to the NHBRC Warranty Fund and a risk to the security of families residing in unenrolled homes. A reduction in late enrolments will be indicative of improved home builder compliance to the Act.

Inspections are at the core of the mandate of the NHBRC. For the period under review, we initiated a substantial recruitment drive for inspectors in all nine provinces. This will mitigate the risk to the Warranty Fund and make us more visible on the ground, especially in project developments. A lot will be demanded and expected from the newly formed Inspectorate Division; I appreciate that it is not an easy task to fulfil as the demand for housing is high and every house requires a minimum number of inspections. The NHBRC conducted a total of 451 324 inspections in both the subsidy and non-subsidy sectors.

Training

The NHBRC began the process of implementing a new training strategy. I am assured by it, as it was created following consultation with a broad number of stakeholders. Our training strategies entail the achievement of value (job enhancing) training interventions rather than numbers and, in addition, the implementation of inspection-driven training where training addresses a practice

1992-1994

The National Housing Forum formulates South Africa's new housing policy

1994

The Reconstruction and Development Programme (RDP) is adopted

1994

- The RDP subsidy replaced all previous government programmes
- National Housing Accord is signed

1994 – December

- The Housing White Paper is promulgated



1995 – August

National Home Builders Registration Council (Pty) Ltd is established

1996

The Constitution of the Republic of South Africa is finalised. Section 26 states that everyone has the right to have "access to adequate housing"

1997

The Housing Act (Act No 107 of 1997) replaces all previous housing legislation

Home builder training is critical to the NHBRC and is our responsibility as required by the Housing Consumers Protection Measures Act (Act No 95 of 1998).

deficiency need. Home builder training is critical to the NHBRC and is our responsibility as required by the Housing Consumers Protection Measures Act (Act No 95 of 1998).

Within the home build environment, every stakeholder has an exclusive mandate. In the year under review, our stakeholder engagements focused on creating understanding amongst all key role players on the role of the NHBRC. These engagements have strategically positioned us as key players in the home building value chain.

Lastly, I would like to thank the Council for their guidance and support. There is a diversity of skills within the Council which we can fortunately leverage on. Our implementation plans have been executed with the blessings and approval of the Council.

2013 marked a turning point in the history of the NHBRC, a change in direction towards greater regulatory efficiency and visibility.



Mongezi Mnyani
Chief Executive Officer



1998

The subsidy amount of R12 500 provided to the R801 to R1 500 income category is increased to R15 000

1999

- Introduction of the minimum norms and standards
- Increase in the quantum of the subsidy
- NHBRC Awards

2000

Introduction of the National Housing Code



2002

National Home Builders Registration Council mandate extended to include houses built with a subsidy

2003

- Increase in the quantum of the subsidy, including a variation for people with visual disabilities
- Procurement compliant regime

2004

- Introduction of "Breaking New Ground"
- Informal settlement upgrading



2005

Application of the NHBRC warranty scheme to the housing subsidy scheme financed houses

2007

Eric Molobi Housing Innovation Hub in Shoshanguve, Pretoria

Executive Committee

The NHBRC Executive Committee is a top management committee responsible for making decisions on strategic operational matters which are reserved for management in terms of the Delegation of Authority Policy. The Committee is constituted by all executive managers, with the Chief Executive Officer as the Chairperson of the Committee.



Mongezi Mnyani



Thandiwe Ngqobe



Songezo Boo



Werner Bellingan



Keolebogile Modise

During the year under review, the Committee comprised of the following members:

Table 1: Position and highest qualification of Executive Committee (EXCO) members

	Position	Names	Qualifications
1	Chief Executive Officer	Mr Mongezi Mnyani	BA (Honours), Strategic Development and Leadership Course
2	Chief Operations Officer	Ms Thandiwe Ngqobe	BCom, Postgraduate Diploma in Management
3	Acting Chief Financial Officer	Mr Songezo Boo	BCom (Hons), CA(SA)
4	Executive Manager: Business Services	Werner Bellingan	BEng (Civil), PrEng, MBA, PMP
5	Executive Manager: Corporate Services	Ms Keolebogile Modise	BSc

3* The Contract of the Chief Financial Officer, Courteney Thorp, came to an end on 31 December 2013 after a period of five years and it was not renewed.

2008

- National Upgrading Support Programme (NUSP) starts
- Developed "Breaking New Ground" housing typologies

2009

- Relocated Gauteng Provincial Customer Service Centre to Woodmead
- Revised Housing Code published

2010

Open days held in the Eastern Cape, Gauteng, KZN and the Western Cape to educate consumers and builders on the NHBRC and its objectives

2010

Outcome 8 commits the National Department of Human Settlements to upgrade 400 000 households living in informal settlements over the next four years

2011

In partnership with National Department of Human Settlements, hosted the 12th International Housing and Home Warranty Conference (IHHWC) on African soil

2012

Representation on the board of International Housing and Home Warranty Association (IHHWA) as Deputy Chairperson of the Association

2013

Commencement of testing materials at Eric Molobi Innovation Hub



Table 2: Managers who hold different portfolios within the NHBRC are as follows:

	Position	Names	Qualifications
1	Strategy and Performance Information Manager	Dr Awelani Malada	PhD (Industrial and Systems Engineering)
2	Communications Manager	Ms Wanda Lubelwana	BA (Honours) Economics
3	Stakeholder Manager	Ms Jackie Mfeka	BA (Honours) Communication Science
4	Chief Audit Executive	Mr Joseph Mutungama	Postgraduate Diploma Business Admin, ACIS, CIA, CFSA, CFE, C-RISC
5	Risk Manager	Mr Godfrey Chooka	Bachelor Accounting (Zambia)
6	Company Secretary	Mr Jacob Makgolane	BJuris, LLB
7	Acting Technical Manager	Mr Xolo Mduke	BEng (Civil) RAU/UJ
8	Training Manager	Mr Matthews Magwaza	Matric
9	Quality Assurance	Mr Mona Molepo	Diploma Financial Banking (Wits Technikon)
10	Legal Compliance and Enforcement	Ms Julia Motapola	BProc, LLB, LLM
11	Human Capital	Ms Tilly Naidoo	Bachelor of Psychology and Physiology
12	Business Management Solutions	Mr Johannes Swart	MSc (Information Systems)
13	Finance and Fund	Mr Songezo Booie	BCom (Hons) CA(SA)
14	Supply Chain	Ms Tshiwela Madzaga	BA (Honours)
15	Advisor: Special Projects	Dr Jeffrey Mahachi	PhD Civil Engineering, PrEng
16	Project Support Unit	Mr Thihangwi Mudau	BTech Project Management (University of Tshwane), NDip (Arch) Wits, Postgraduate Housing Policy & Development (Wits)

12 Mr Johannes Swart's service was terminated in December 2013.

8 Mr Matthews Magwaza resigned from the NHBRC in October 2013.

Table 3: Regional and Provincial Managers for the NHBRC:

	Position	Names	Qualifications
1	Regional Manager Inland	Ms T Moshoeu	BCom (Accounting), BCom (Hons) Economics, Diploma in Business Studies, MSc (Business Studies)
2	Regional Manager Coastal	Mr C Makapela	BSc (Civil Eng), B Eng (Hons) (Geotechnical Engineering)
3	Manager Eastern Cape	Ms N Nqogo	Bachelor of Social Science (UCT); Bachelor of Social Science Honours (Developmental Studies) (Rhodes University)
4	Manager Free State and Northern Cape	Mr C Slabber	Certificate CT 1113/176/75, T3 (Draughtsman) (Germiston)
5	Manager Gauteng	Ms N Mehale	BA (Transport Economics), MBL
6	Manager KwaZulu-Natal	Mr G Olckers	BCom, Project Management, MDP (University of Natal)
7	Manager Limpopo	Ms N Chavalala	BA Administration (University of the North), Executive Development Programme (Unisa)
8	Manager Mpumalanga	Mr M Ngubane	BCom (University of Natal) (Durban), MDP (Unisa) SBL
9	Manager North West	Mr S Ntsizwane	BProc, LLB (University of Durban Westville), MSc (Urban Housing Management) (IHS, Netherlands & Lund University Sweden), Executive Development Programme (Unisa)
10	Manager Western Cape	Mr S Janser	National Diploma in Building Surveying (CPUT), National Diploma in Datametrics (Unisa), BCom (Unisa), Executive Development Programme (Unisa), BA (Hons) Business Management (Sunderland), MBA (Bradford)

Financial Highlights

We resolve, by 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers...

(Clause 19 of Goal 7, Target 11)

United Nations Millennium Declaration,
General Assembly Resolution 55/2,
8 September 2000.



Financial Highlights

Figure 1: Premium Earned – R'million

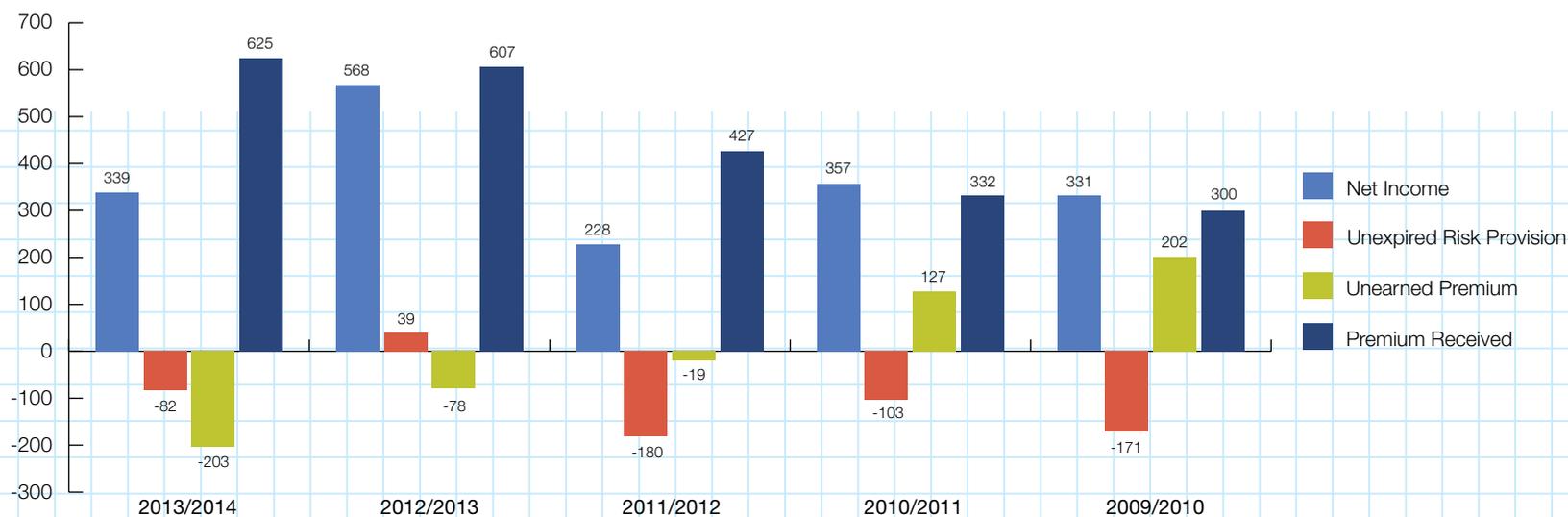
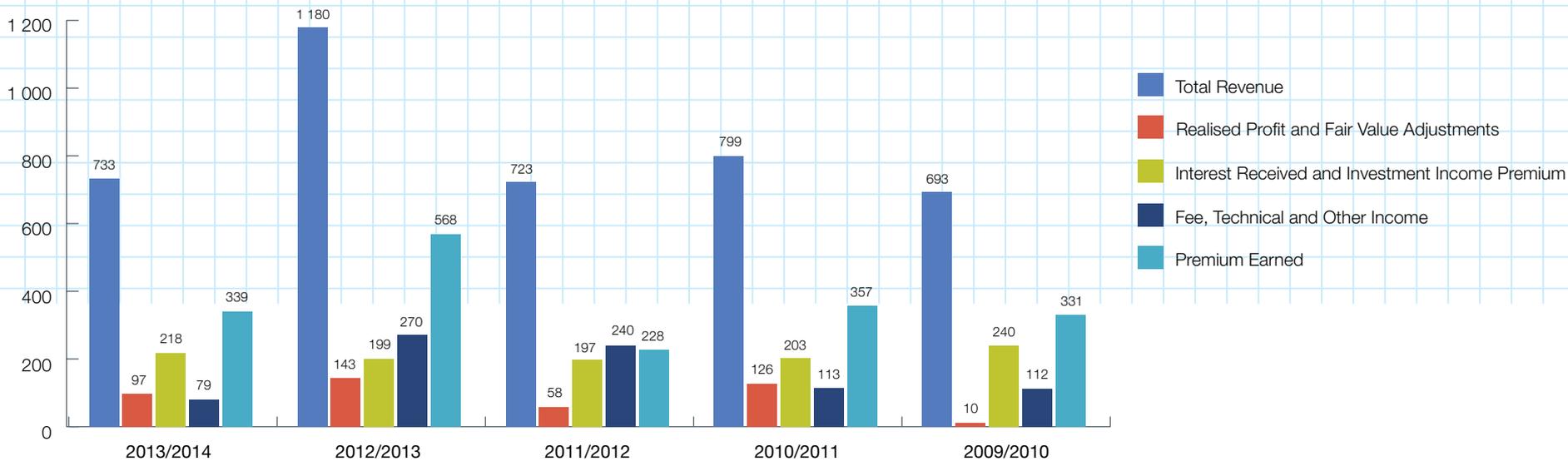


Figure 2: Total Revenue – R'million



Financial Highlights continued

Figure 3: Technical Provision – R'million

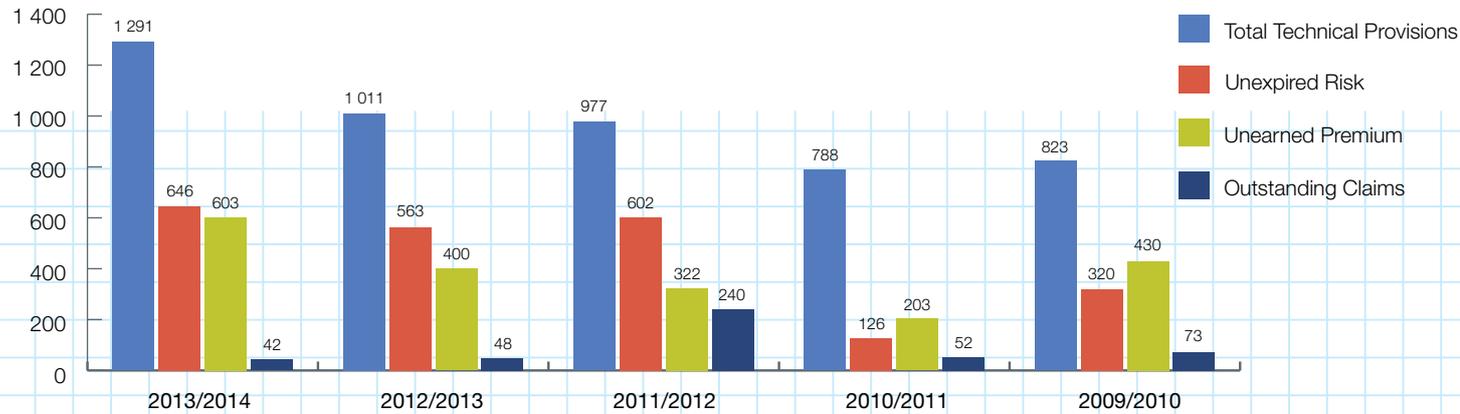


Figure 4: Insurance Claims Paid and Loss Adjustment Expenditure Trend – R'million

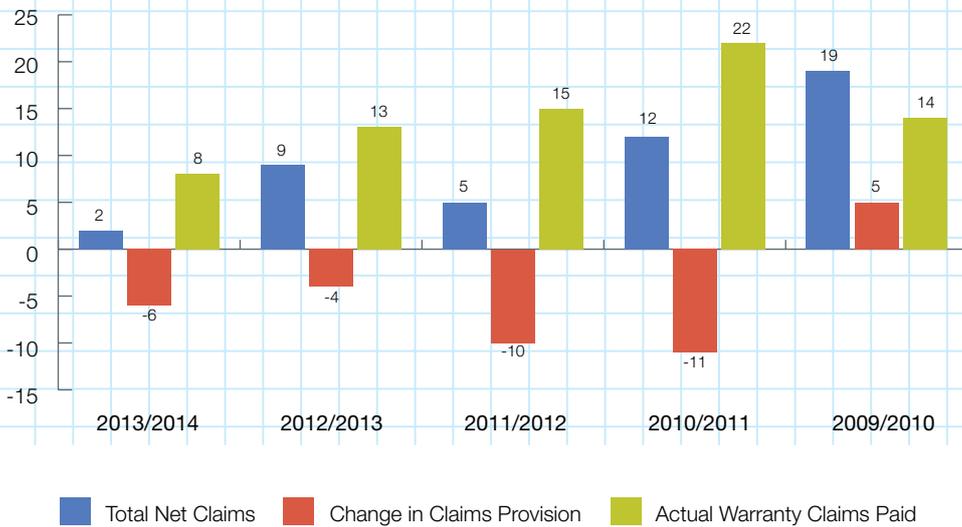
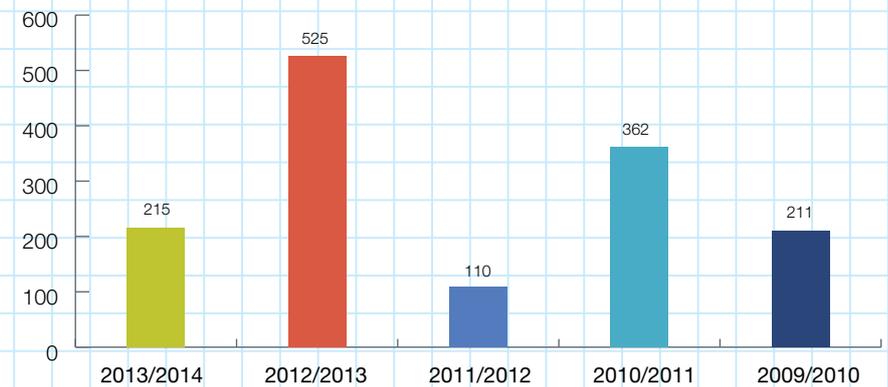


Figure 5: Surplus for the year – R'million



Five-year financial summary

OVERVIEW

The trend in the construction of residential buildings over the past financial year improved, as evidenced by the number of homes enrolled by the NHBRC, increasing by 9.4% compared to the previous financial year in the non-subsidy segment, with a resultant increase of 2.9% (R18 million) in premium income written before actuarial adjustments.

Indications are that the housing outlook for the construction of new homes has emerged from the recession with real growth in homes constructed in the segment for flats and townhouses in the market price band below R1 million, with low growth evident in the segment of larger homes.

The residential property market in 2014 is expected to be influenced by macro-economic and household sector-related factors. The residential property market is impacted by economic and confidence factors affecting home owners and prospective home buyers during times of rising inflation, high debt to income ratios and poor credit risk. These factors restrict the affordability of housing and the accessibility to mortgage finance.

Future demand for and supply of new homes will be driven by developments with regards to the economy in general, but specifically by trends in respect of:

- Growth in real gross domestic product, which will impact levels of employment in the economy;
- Average consumer price inflation affecting spending power;
- Interest rate stability in 2014;
- Household debt management;
- Consumer risk profiles; and
- The affordability of property and the accessibility of mortgage finance.

In the subsidy market, the total growth in homes enrolled under project enrolments, home enrolments and consolidated projects decreased by 22% compared to the previous financial year.

Summarised Annual Operational Performance for the Year ended 31 March 2014

The surplus for the financial year is reported at R215 million (2013: R525 million) which is R310 million lower than that of the previous financial year.

Significant movement between the two financial periods is mainly attributable to:

- Increase in premium earned by 2.9%; and
- Realised profit on sale of financial assets decreased by 32%.

RESULTS FOR THE YEAR

Revenue

Revenue from enrolments (premiums written) decreased by R229 million (2013: R568 million) to R339 million. The increase in the provision for unearned premium of R203 million (2013: R78 million) was reduced by the change in the unexpired risk provision amounting to R82.2 million (2013: R39.1 million). Insurance premiums are recognised over the period of the policy commensurate with the expected incidence of risk from the date of occupation of the home.

Non-subsidy enrolment value increased by 19% and the subsidy enrolment of homes decreased by 20%. The decrease in subsidy home enrolments is primarily due to the roll-over of projects approved in the prior year, which are now entering the construction phase, whilst the increase in non-

subsidy premiums written is attributable to the increase in the number of homes enrolled, compared to the previous financial year.

Fee revenue declined from R47 million to R31 million (34%), which was mainly attributable to the decrease in subsidy project enrolments by 50% (R17 million) compared to the previous financial year. Fee revenue includes annual registration fees, annual renewal fees, late enrolment fees, builder manual fees, subsidy project enrolments and document sales.

Technical services revenue represents rectification and forensic technical service fees earned in the subsidy market. The realisation of fees is mainly due to contracts rolled over from the previous financial year (KwaZulu-Natal and the Eastern Cape). The fee income was totally consumed by the increase in the technical services expenditure.

Income earned from investments at R218 million increased year-on-year by R19 million. Interest of R6.3 million was earned on working capital.

Fair Value on Financial Instruments

The application of GRAP 104, which was adopted by the NHBRC is still in place. The effect of this statement is that the fair value gain or loss on financial instruments is now recognised in the Statement of Financial Performance as opposed to the Statement of Changes in Net Assets due to investment being reclassified from "Available for sale" to "Carried at fair value".

Inspections and Operating Expenditure

Operating expenditure is incurred to reduce the risk of claims against the warranty reserve.

Five-year financial summary continued

The outsourced inspection costs increased from R56.8 million to R62.9 million in the current financial year. The inspection model was enhanced during the year under review with emphasis being placed on the employment of inspectors and quality assessors. The additional costs incurred by insourcing are evident in the increase in expenditure incurred under Administrative expenditure.

Administrative Expenditure

The business support expenditure of R416.7 million (2013: R343.8 million) (21%), includes general inflation and the increase in the number of "in-house" inspectors and business service costs to sustain business growth and improve service delivery to all stakeholders.

Asset Management Services

The asset management service fees are paid to fund managers, consultants and administrators based on the market value of investment funds under management at each month-end. The fees are calculated on a sliding scale.

Emerging Contractor Reserve

The emerging contractor training reserve was established to develop programmes to assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building in terms of section 3(h) of the Housing Consumers Protection Measures Act (Act No 95 of 1998). The emerging contractor reserve has been established, with Ministerial approval, to develop programmes targeted at the empowerment of emerging home builders registered with the NHBRC, which will enable learners to be able to start and manage their own

construction contracting businesses. The Council utilised R8.6 million (2013: R2.3 million) for home builder training in the current financial year.

SOLVENCY OF THE WARRANTY FUND

Claims against the Warranty Fund

The outstanding claims provision consists of both the "notified outstanding claims provision" and the "incurred but not reported claims provision". The notified outstanding claims provision is the portion of outstanding claims provision that relates to the claims that were reported before the financial year-end, which were not settled at that date. The "incurred but not reported claims provision" relates to claims that were neither reported, nor settled at the financial year-end.

During the current year the NHBRC settled warranty claims amounting to R8.3 million (2013: R12.6 million). The outstanding claims provision decreased by R5.9 million (2013: R3.7 million), reducing the insurance claims and loss adjustment expense to R2.3 million (2013: R8.9 million).

Unexpired Risk Provision

The unexpired risk provision estimates the cost of insurance claims, related expenses and deferred acquisition costs, which exceed the unearned insurance premiums, after taking account of future investment income which will arise during the unexpired terms of policies in force at the balance sheet date.

In calculating the estimated cost of future insurance claims, actuarial and statistical projections of the frequency and severity of future insurance claims events are used to project ultimate settlement

costs. The unexpired risk, which arises primarily in the subsidy housing market, is to ensure that this market is independently solvent. The provision increased from R563.3 million to R645.7 million, thereby reducing insurance premium revenue earned for the year by R82 million (2013: R39.1 million).

The results of the independent actuarial valuation indicate that the NHBRC, as a whole, including both subsidy and non-subsidy houses, is solvent and in a sound financial position as at 31 March 2014 when valued on a run-off basis. The actuarial liabilities are 343% (2013: 393%) funded and the actuarial surplus is 243% (2013: 293%) of provisions. The solvency position (surplus as a percentage of provisions) has increased since the last valuation due to an increase in the valuation of assets that exceeds the increase in the value of provisions.

Investments

Our investment mandate concentrates on the preservation of capital so as to ensure that the NHBRC remains financially sound to meet housing consumer claims as they arise.

The total investment, at market value, increased from R3.9 billion to R4.4 billion during the financial year. The fair value adjustment, at year-end of R97.2 million (2013: R143.1 million) is taken to the Statement of Financial Performance in terms of GRAP 104.

Cash Flow

The cash flow inflow from operating activities increased from R82 million to R259 million in the current financial year.

The National Home Builders Registration Council (NHBRC) must remain sustainable in order to ensure that it continues to carry out its statutory duties, as stipulated in the Housing Consumers Protection Measures Act, 1998 (Act No 95 of 1998). Residential building activities are expected to continue to reflect conditions in the economy, household finances, consumer confidence and factors impacting the market for new and existing housing. These factors will be reflected in the demand and supply of new housing. The NHBRC adhered to the Act, the Public Finance Management Act (PFMA) and the principles related to integrated sustainability reporting as stipulated by the King III Report when it implemented its strategies and operations in the period under review.

Economic Sustainability

The NHBRC is a self-sustaining organisation that depends on the provisions of the Act and its ability to build up reserve funds. The main aim of the NHBRC as a warranty scheme is to ensure its ability to meet its claims liabilities. The NHBRC Warranty Fund, which was evaluated on a run-off basis by independent actuaries, was found to be both solvent and in a sound financial position as at 31 March 2014.

The NHBRC implemented stringent expenditure controls and reviewed contracts to ensure sustainable savings despite adverse trading conditions. One of the main focus areas of the NHBRC for the 2013/2014 financial year was to increase and improve organisational efficiency and effectiveness.



The NHBRC is a **self-sustaining organisation** that depends on the provisions of the Act and its ability to build up reserve funds. The main aim of the NHBRC as a warranty scheme is to ensure its ability to meet its claims liabilities.

Sustainability Report

An aerial photograph of a construction site. In the center, a large yellow concrete mixer is being used. A man in a striped shirt is pouring water from a white bucket into the mixer. To the right, another man in a white shirt is working with a blue barrel, connected to the mixer by a yellow hose. A young child in a green shirt and red pants stands near a large blue tub filled with water. The ground is dirt and concrete, with shadows cast by the workers and equipment.

The NHBRC through its technical section ensures that any housing product used in the provision of homes for housing consumers **meets the National Building Regulations requirements.**

SUSTAINABILITY REPORTING

The National Home Builders Registration Council (NHBRC) must remain sustainable in order to ensure that it continues to carry out its statutory duties as stipulated in the Housing Consumers Protection Measures Act, 1998 (Act No.95 of 1998). The NHBRC is also governed by activities that take place in the construction industry market. Residential building activities are expected to continue to reflect conditions with regards to the economy, household finances, consumer confidence and factors impacting the market for new and existing housing, which will show up in the demand and supply of new housing. The NHBRC adhered to the Act, the Public Finance Management Act (PFMA) and the principles related to integrated sustainability reporting as stipulated by the King III Report when it implemented its strategies and operations in the reporting financial year.

Economic Sustainability

The NHBRC is a self-sustaining organisation that depends on the provision of the Housing Consumers Protection Measures Act, 1998 (Act No 95 of 1998) and its ability to build up reserve funds. The main aim of the NHBRC as a warranty scheme is to ensure its ability to meet its claims liabilities. The NHBRC Warranty Fund, which was valued on a run-off basis by independent actuaries, was found to be both solvent and in a sound financial position as at 31 March 2014.

Financial Performance

Table 4: Financial performance summary 2011-2014

	2014	2013	2012	2011
Surplus for the year (Rm)	215	525	110	362
Return on equity	6%	17%	7.3%	14%
Total assets (Rm)	4.761	4.237	3.844	3.570
Total reserves (Rm)	3.295	3.080	2.608	2.454
Total technical liabilities (Rm)	1.291	1.011	977	788

The NHBRC implemented stringent expenditure controls and reviewed contracts to ensure sustainable savings due to adverse trading conditions. One of the main focuses of the NHBRC for the 2013/2014 financial year was to increase and improve organisational efficiency and effectiveness.

Environmental Sustainability

The Industry Advisory Committee advises the Council on all matters relating to the operations of the home building industry, in addition to acting as a communication channel between the industry and the Council. Industry stakeholders are invitee members of this Committee. The NHBRC has also established technical infrastructure at the Eric Molobi Testing Centre to test building materials such as bricks and blocks. The NHBRC through its technical section ensures that any housing product used in the provision of homes for housing consumers meets the National

Building Regulations requirements. The NHBRC has a database of innovative technological housing products that satisfy the National Building Regulations. These products are assessed based on a number of criteria, including structural strength and stability, fire, thermal performance and durability.

The home building environment can be intrusive and pervasive to the environment in which it develops and expands. Each and every home built in an area under the jurisdiction of a local authority falls within the scope of the National Building Regulations and Building Standards Act, 1977 (Act No 103 of 1977) and its regulations, under the Department of Trade and Industry. The regulations include mandatory performance requirements to support the objectives of the Act, which aim to ensure the safety and health of persons living or working in any building. Guidance in the application of the regulations may be found in SANS 10400.

Centre for Research and Innovation

The NHBRC has established a Centre for Research and Innovation of which its main purpose is to put the NHBRC as a leader in knowledge creation regarding research and development. Through the Centre for Research and Innovation, the NHBRC has published and presented papers at international conferences in the 2013/2014 financial year. The Centre is also at the forefront with regards to promoting innovative building

technologies and alternate building technologies. Through the works of the Centre monies has been raised through golf tournaments and houses have been built using different innovative building technologies and were handed over to indigents in the Free State and Gauteng province.

People

The NHBRC has implemented an approved organisational structure that was approved by the Council and the National Department of Human Settlements, which is contained in the approved Annual Performance Plan 2013/2014. The CEO has filled up the position of the Chief Operating Officer to enable the smooth running of the organisation. The following executive positions have been filled, i.e. Business Services Executive Manager, Corporate Services Executive Manager. Since all the executive positions are filled, the NHBRC is able to deliver on its objectives fully and efficiently.

The NHBRC has implemented the newly approved inspectorate model, which will be used to manage the whole inspectorate process. The model has been very effective in the financial year 2013/2014 as is evident in the increased number of inspections that were witnessed in both the subsidy and the non-subsidy sector. The NHBRC is expected to inspect all the houses that are enrolled with it. The NHBRC uses the inspection of homes to mitigate the risk against the Warranty Fund.

The NHBRC is expected to inspect all the houses that are enrolled with it. **The NHBRC uses the inspection of homes to mitigate the risk against the Warranty Fund.**

In order to improve the operational efficiency of the organisation, the Corporate Services division visited all nine provinces inducting all employees on Human Capital policies that directly affect their daily living conditions. Employees were also inducted on the Strategy and Performance Management Policy from the Strategy and Performance Information Section. The policy focuses on strategy development and the monitoring and evaluation of the performance of the whole organisation.

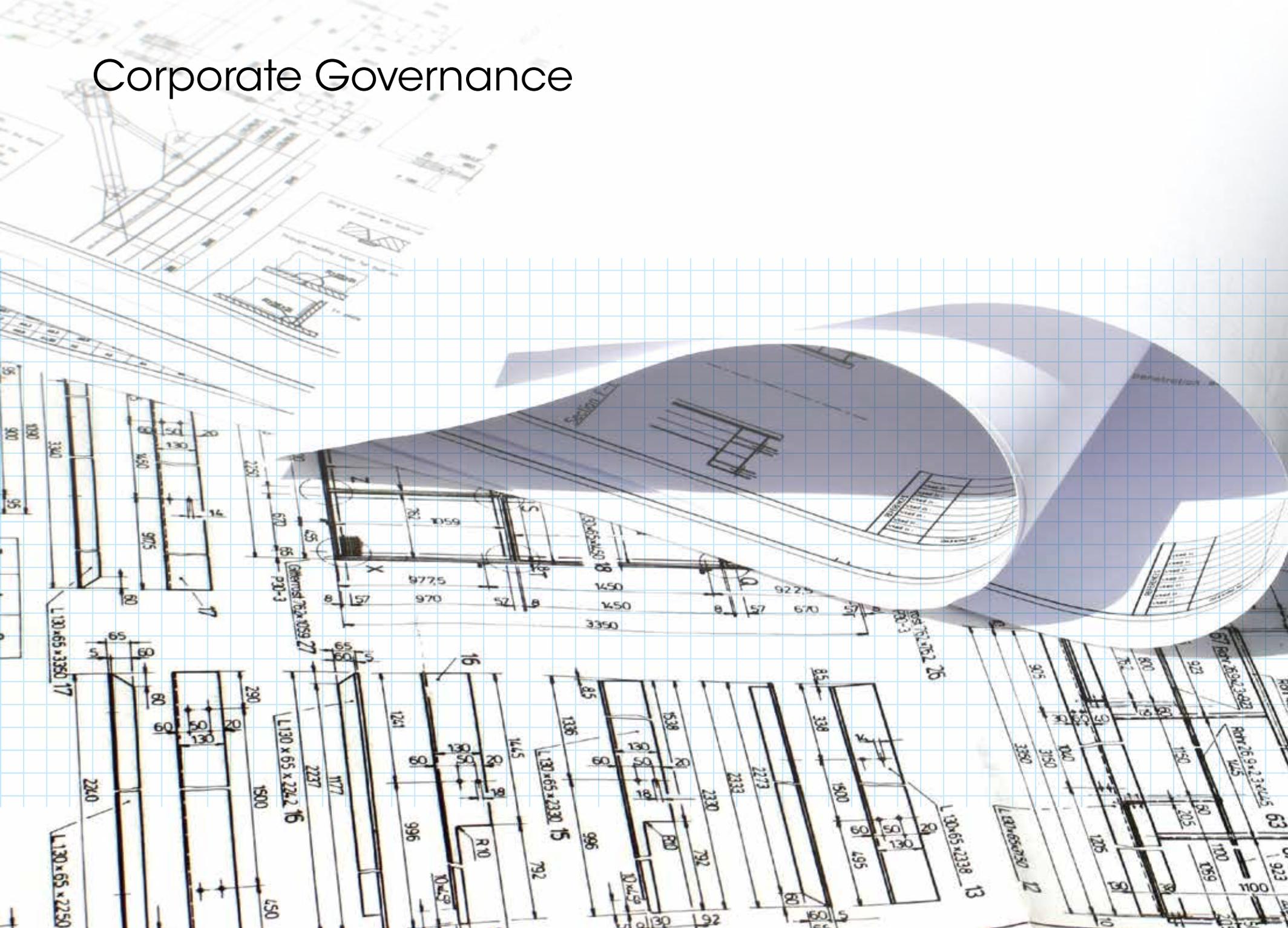
Governance and compliance

The NHBRC is required under the Act to comply with strict governance principles in line with the provisions of the Public Finance Management Act, 1999 (Act No 1 of 1999). The NHBRC has, through its Council Charter, endorsed the King III Code of Good Practice. It continued to ensure that its corporate governance structures and practices

were aligned with the principles of the Code and best practice for public entities falling within Schedule 3(A) of the Public Finance Management Act, 1999 (Act No 1 of 1999).

The current Council has brought with it a mix of different skills and abilities. The NHBRC is expected to benefit from all the experience and insight of Council members in the discharge of their duties of strategic oversight and control of the organisation. With the available wealth of knowledge and experience, the NHBRC can move to the next level to ensure maximum maturity. The result will be demonstrated by the effective and efficient delivery of its final Valuable Final Products as mandated by the Housing Consumers Protection Measures Act, 1998 (Act No 95 of 1998).

Corporate Governance



Corporate Governance continued

Composition of the Council

In terms of section 4 of the Act, the Minister is empowered to appoint a minimum of seven and a maximum of 15 Council members for a period determined by the Minister, but not exceeding three years at a time. The Minister appointed 12 Council members as listed under Table 1 above effective from 1 May 2012, including the Chairperson, Adv BM Madumise.

THE NHBRC COUNCIL

Mandate of the Council

The NHBRC derives its mandate from the Act. The broad mandate is outlined under section 3 of the Act as follows:

- To represent the interests of housing consumers by providing warranty protection against defined defects in new homes;
- To regulate the home building industry;
- To provide protection to housing consumers in respect of the failure of home builders to comply with their obligations in terms of the Act;
- To establish and promote ethical and technical standards in the home building industry;
- To improve structural quality in the interests of housing consumers and the home building industry;
- To promote housing consumer rights and to provide housing consumer information;
- To communicate with and assist home builders to register in terms of the Act; and
- To assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building.

Council Meetings

In line with good governance principles as espoused by the King III Report on Good Corporate Governance, the PFMA and the Council Charter, the Council is required to hold at least four quarterly meetings in each financial year in order to exercise proper oversight and accountability in relation to the activities of the NHBRC. Table 7 below illustrates the meetings that were held in the year under review and each member's attendance of those meetings.

Table 5: Council meetings and attendance in the year under review

Council Meetings											
Member Name	Capacity	30 April 2013	29 May 2013	12 July 2014	31 July 2013	29 August 2013	03 October 2013	30 October 2013	12 Dec 2013	30 Jan 2014	Total per member
Adv Brenda Madumise	Chairperson	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Ms Mabusha Maja	Member	✓	✓	✓	✓	✓	–	✓	✓	✓	8
Mr Sibusiso Ngwenya	Member	✓	✓	–	✓	–	✓	✓	✓	✓	7
Mr Goolam Manack	Member	✓	✓	✓	✓	–	✓	✓	✓	✓	8
Mr Shaoyb Loonat	Member	✓	✓	✓	✓	✓	✓	✓	✓	–	8
Mr Paul Hlahane	Member	✓	✓	✓	✓	✓	✓	–	✓	✓	8
Mr Itumeleng Kotsoane	Member	✓	–	✓	✓	✓	✓	✓	✓	–	7
Ms Zimbini Vazi	Member	✓	✓	✓	✓	✓	✓	–	✓	✓	8
Ms Xoliswa Daku	Member	✓	–	–	✓	–	✓	✓	–	✓	5
Ms Busisiwe Nzo	Member	–	✓	✓	–	–	✓	–	–	–	3
Mr Matthys Markgraaf	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Mr Andisa Potwana	Member	–	✓	–	✓	✓	✓	–	–	–	4
Ms Boniswa Madikizela*	Member	–	–	–	–	–	–	✓	✓	–	2
13	Total members	10	10	9	11	8	11	9	10	8	

* Appointed on 1 September 2013

Council Committees

The NHBRC Council is supported by eight sub-committees, established in terms of section 5 of the Housing Consumers Protection Measures Act, 1998 (Act No 95 of 1998). Each Committee operates under terms of reference approved by the Council. The following Committees were constituted by the Council in May 2012:

Fund Advisory and Finance Committee

The Fund Advisory and Finance Committee is responsible for advising the Council on the prudent management of its funds. The Committee makes recommendations to the Council regarding the setting of fees, procedures and policies for approval by the Council, as well as on all matters relating to the management of risk to the warranty fund, and the administration of its fund or any other Council fund. The committee regularly reviews the management financial reports before submission to the Council for approval, recommends the budget for approval by the Council and advises the Council on all other financial matters. The Committee is constituted by the following members:

Table 6: Members of the Committee

Name	Position
Ms Zimbini Vazi	Chairperson of Committee and member of Council
Mr Goolam Manack	Council member
Mr Sibusiso Ngwenya	Council member
Mr Zola Fihlani	(Independent non-Council member).
Ms B Madikizela	Council member

Registration Committee

The Registration Committee is responsible for advising the Council on all matters relating to the registration and renewal of registration, suspension and deregistration of home builders under the Act, monitoring the registration and deregistration of home builders, and also to recommend appropriate policies and procedures to the Council for approval. The Committee also assesses owner-builder applications received under section 29 of the Act, and determines whether home builders qualify in terms of the Act for exemption from enrolment of their own homes. The Committee is constituted by the following members:

Table 7: Members of the Committee

Name	Position
Ms M Maja	Chairperson of Committee and member of Council
Ms Zimbini Vazi	Council member
Mr Paul Hlahane	Council member
Mr Andisa Potwana	Council member
Mr Mathhys Markgraaf	Council member
Ms Xoliswa Daku	Council member

Audit and Risk Management Committee

The Audit and Risk Management Committee is responsible for assisting the Council by reviewing the effectiveness of its systems of internal controls and risk management mitigation strategies; reviewing its financial policies and procedures; reviewing financial information reported to its stakeholders; and assessing the effectiveness of the internal and external audit functions. The Committee also ensures the maintenance and monitoring of the risk management framework.

The Committee further reviews the risk register and assessment reports, to ensure efficiency and effectiveness of the risk management strategy and plans. The Committee is constituted by the following members:

Table 8: Members of the Committee

Name	Position
Mr Zola Fihlani	Chairperson and independent non-Council member
Ms Rowanne Moodley	Independent non-Council member
Mr Goolam Manack	Council member
Mr Itumeleng Kotsoane	Council member
Ms B Madikizela	Council member
Ms Busisiwe Nzo	Council member

Technical Advisory and Claims Committee

The Technical Advisory and Claims Committee is responsible for evaluating remedial works claims submitted by provincial offices, and making recommendations to the Council on the appropriate manner in dealing with such claims. In addition, the Committee advises the NHBRC technical section with regards to all technical aspects of construction and innovation (both professional and technical), which may impact on the NHBRC's risk management process. The Committee is constituted by the following members:

Table 9: Members of the Committee

Name	Position
Mr Shaoyb Loonat	Chairperson of Committee and member of Council
Mr Itumeleng Kotsoane	Council member
Mr Paul Hlahane	Council member
Mr Mathhys Markgraaf	Council member

Corporate Governance continued

Disciplinary Hearings Committee (ad hoc sittings)

This Committee is responsible for presiding over cases of alleged contraventions of the Act by home builders, and imposing disciplinary sanctions where home builders are found guilty of contravening the Act. The Committee is constituted by a panel of legally qualified chairpersons and technical assessors who are all independent non-Council members appointed by the Council for the term of office of the Council.

Table 10: Panel members of the Committee

Name	DC Chairpersons
Mr Rashid Patel	Non-Council member
Mr Bangiso Mhlabeni	Non-Council member
Mr Indira Kooverjee	Non-Council member
Mr Aubrey Ngcobo	Non-Council member
Mr Mandla Mdludlu	Non-Council member
Mr Nolita Kose	Non-Council member
Mr Cornwell Dauds	Non-Council member
Mr Mmamule Chidi	Non-Council member
Mr Gugulethu Madlanga	Non-Council member
Mr Mzondi Molapo	Non-Council member
Mr Trevor Bailey	Non-Council member
Mr Mohamed Motala	Non-Council member
Mr James Matshekga	Non-Council member
Mr Vusumuzi Nkosi	Non-Council member

Name	DC Technical Advisors
Mr Rajendran Naidoo	Non-Council member
Mr Ishaq Ebrahim	Non-Council member
Mr Mzamani Peacemaker Hasane	Non-Council member
Mr Shuvan Ramhorry	Non-Council member
Mr Simon Mosotho Motau	Non-Council member
Mr Osman Narker	Non-Council member
Mr Nape Michael Moloto	Non-Council member
Mr Isak Stefanus Venter	Non-Council member
Mr Malejoane Solomon Thlabanelo	Non-Council member

Human Capital and Remuneration Committee

The Human Capital and Remuneration Committee advises the Council on employees' remuneration policies. This Committee also maintains a corporate overview of the Council's human capital policies such as employee sourcing, development, relations and rewards. The Committee is constituted by the following members:

Table 11: Members of the Committee

Name	Position
Adv Brenda Madumise	Chairperson
Ms Mabusha Maja	Council member
Mr Sibusiso Ngwenya	Council member
Ms Xoliswa Daku	Council member
Ms B Madikizela	Council member

Industry Advisory Committee

The Industry Advisory Committee is responsible for giving advice to the Council on all matters

relating to the operations of the home building industry, in addition to acting as a communication channel between the industry and the Council. Industry stakeholders are invitee members of this Committee. The Committee is constituted by the following members:

Table 12: Members of the Committee

Name	Position
Mr Itumeleng Kotsoane	Chairperson of Committee and member of Council
Ms Busisiwe Nzo	Council member
Ms Xoliswa Daku	Council member
Ms Mabusha Maja	Council member
Mr Mathys Markgraaf	Council member

Bid Adjudication Committee

The Bid Adjudication Committee adjudicates and awards tenders in line with the NHBRC procurement policy, Delegation of Authority Policy and relevant legislation, including the Preferential Procurement Policy Framework Act, (Act No 5 of 2000) and its related regulations, and the Broad-Based Black Economic Empowerment Act, (Act No 53 of 2003), amongst others. The Committee is constituted by the following members:

Table 13: Members of the Committee

Name	Position
Mr Paul Hlahane	Chairperson of Committee and member of Council
Mr Itumeleng Kotsoane	Council member
Ms Xoliswa Daku	Council member
Mr Sibusiso Ngwenya	Council member
Mr S Loonat	Council member

Audit and Risk Management Report



The risk management process involves the **identification of the key risks facing the business** and the implementation of controls to mitigate the risks where possible.

Risk Management

The Council of the NHBRC is responsible for the total process of risk management and has established a process for identifying, evaluating and managing the significant risks faced by the NHBRC. The risk management process involves the identification of the key risks facing the business and the implementation of controls to mitigate the risks where possible.

Business Perspective

The NHBRC mandate as a regulator and insurance business faces significant challenges as it delivers on these. It is therefore, imperative that the organisation is a risk-aware entity to ensure that both significant risks and opportunities are identified and responded to in a manner which takes the business forward and ensures effective delivery to its key stakeholders.

To this end, the Risk Management section has a mammoth task to ensure that the risk management processes are robust and leading edge and that both the Council and Management are provided with valuable risk information to assist in overseeing and steering the business forward in these challenging and testing times.

The Risk Management team has therefore ensured that it has the people with the right skills and competencies, technologies and processes to ensure its effective delivery of Risk Management to the business.

Risk Management Plan 2013/2014

The objectives of the Risk Management section for the year were as follows:

- Embed risk management within the NHBRC.
- Leverage on technology to improve coverage and reporting
- Empower business to manage risks and provide useful and timely reporting to executive and Council.

- Become an active partner in new projects, initiatives and ensure that risk is an agenda item on such projects.
- Enhance and maintain a stable risk control environment by implementing vigorous information and physical security measures.

The section has responsibility for ensuring that risk in the following strategic areas are also identified and effectively managed to protect the NHBRC:

Safety, Health and Environmental Management (SHE)

The SHE system was enhanced and the Risk Management team has taken the lead in driving the organisation to full compliance

Business Continuity Management (BCM)

The impact the NHBRC has nationally and the vast numbers of stakeholders it serves, requires that its substantial investments in business systems and processes deliver as required. It can therefore not afford to have frequent and protracted systems downtime; to this end the business has invested in BCM as a key response to the risks around business continuity. This area is still work in progress but significant steps have been taken.

Security

Physical Security Management has also been improved. A Security Policy has been developed and is in the process of being approved. A two-year

plan has also been initiated to improve the Security of the NHBRC employees, assets and information system.

Risk Financing

The current financial year also saw analyses of insurance claims and losses and incidents on a quarterly basis.

Fraud Risk Management

This area is of strategic importance and over the year, the relevant governance processes to assist in the prevention, detection and reduction of fraud/corruption activities have been designed and approved.

NHBRC Critical Strategic Risks

The following have been identified as high strategic risks to the NHBRC:

- Depletion of Warranty Fund;
- Sub-standard service delivery;
- Technology failure;
- Third parties; and
- Unethical conduct by staff and third parties

Risk Management 2014 and beyond

The NHBRC has taken tangible steps to make the organisation a risk intelligent company. The key governance processes are in place to ensure that the business continues to mature in terms of Risk Management.

Internal Audit

The NHBRC has established an Internal Audit function in complying with the Treasury Regulations of the Public Finance Management Act, 1999 (Act No 1 of 1999). The purpose of the Internal Audit function is to continuously provide independent objective assurance and consulting services to all divisions and sections of the Council, to ensure adequate and effective systems, corporate governance, risk management and internal control.

The function is headed by a Chief Audit Executive, who reports functionally to the Council and administratively to the CEO. To enhance and ensure its independence and objectivity, the Internal Audit has invitee status to the following key strategic Committees:

- Council;
- All Council Committees;
- ERP Steering Committee;
- Executive Committee; and
- Risk Management Committee.

During the year under review, the Internal Audit function was fully operational and operated on a highly effective core internal team supported by co-sourced subject matter experts for complex areas such as:

- Investments;
- Engineering;
- Complex IT areas;
- Fraud prevention; and
- Insurance.

Key Business Developments

The Internal Audit had to deliver on its core services of Assurance and Advisory. The NHBRC is undergoing significant change and this requires that the Internal Audit re-strategises to ensure that we serve the NHBRC effectively.

Over and above the core Assurance service of Internal Audit, we also ensured that we partnered with business to provide them with independent and objective Advisory services in the following key

business activities which, strategically affect the NHBRC:

- ERP business-wide roll out;
- Data cleansing;
- Tendering governance processes; and
- Fraud prevention.

Internal Audit's responsibilities within the NHBRC have significantly changed from a strategy, resource and skills perspective. The NHBRC as key national player in the home regulatory area as well as being an insurer has forced the Internal Audit to ensure that our strategy for auditing is strategically aligned to the NHBRC.

Assurance

We have ensured that the Internal Audit has a global focus of the NHBRC governance, risk management and control environments. Our Annual Audit Plans, as a result, focus and provide Assurance and Advisory in the following key business areas:

- Strategic;
- Operational;
- Reporting;
- Compliance; and
- Information technology.

Key Focus Areas during the Financial Year

In order to ensure that the Internal Audit contributes to the achievement of the NHBRC objectives, it focused on core business processes and those areas/activities that are critical to the NHBRC. It is a business reality that change is the only

constant, and the Internal Audit is not immune to this phenomenon. The function is therefore always seeking opportunities to improve the quality of services to the NHBRC. To this end, we have identified the following:

- Leverage on technology to improve coverage on technology and review huge volumes of operational and financial data that resides in our systems;
- Improve quality of reporting through use of technology; and
- Provide near real-time service to business through adaptation of computerised assist audit techniques.

Due to emerging issues impacting nationally we have also increased our focus in the following areas:

- Ethics audits;
- Governance audits;
- Fraud/corruption prevention and detection; and
- Risk Management.

The Internal Audit undergoes external quality assurance reviews as mandated by the Institute of Internal Auditors. The last one was conducted in March 2012, which highlighted significant shortcomings, hence the restructuring that has occurred; the next one is scheduled for March 2015.

By being constantly aware of the ever-changing business environment and increased demands on management and Council to deliver on the Mandate, the Internal Audit is continuously reviewing its delivery process to ensure that it provides value add in a time- and cost-efficient manner.

Performance Report



OVERVIEW OF THE PERFORMANCE OF NHBRC

Table 14: Consolidated performance of Valuable Final Products

Valuable Final Products (VFP)	Year to date performance for 2012/2013				Year-to-date performance for 2013/2014			
	Performance	Target	Variance	% Variance	Performance	Target	Variance	% Variance
Registration of new home builders	2,935	3,332	-397	(12%)	3,175	2,974	201	7%
Renewal of registered home builders	11,558	11,431	127	1%	12,447	10,480	1,967	19%
Enrolment of homes	204,235	90,119	114,116	126%	168,319	250,394	82,063	(33%)
Late enrolment of homes	1,906	1,696	173	12%	1,743	1,001	-742	(74)
Inspections of homes	336,046	553,740	-217,694	(65%)	451,324	370,677	80,647	22%
Training of home builders	2050	3500	-1450	(41%)	1,369	3,500	2,131	(61%)
Training of youth	474	2,000	-1526	(76%)	934	2,000	-1,066	(53%)

Registration of new home builders

The NHBRC has registered a total of 3 175 home builders against a target of 2 974 for the year under review. Homebuilders have to register and renew their registration with the NHBRC if they are to be engaged in the activities of home building in the country.

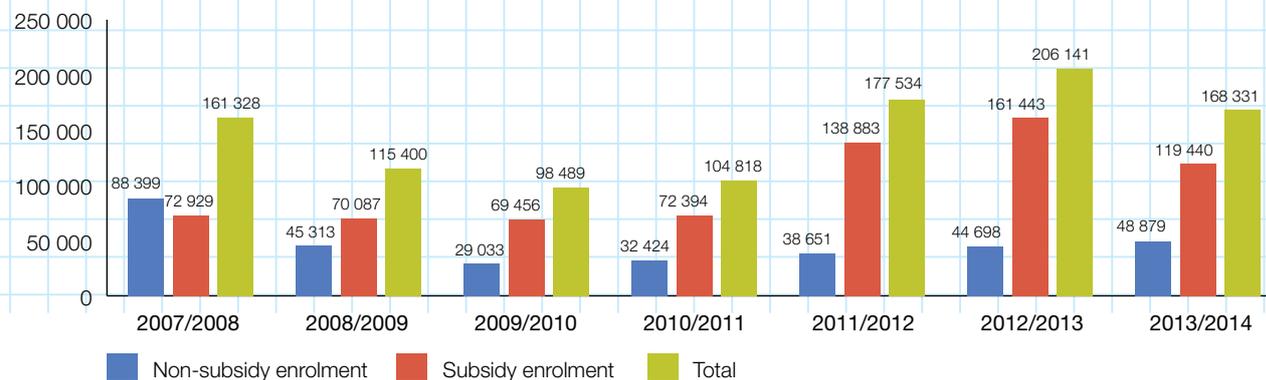
Enrolment and Late Enrolment of Homes

The NHBRC has enrolled a total of 168 319 homes for the subsidy and non-subsidy homes for the year under review. The consolidated performance for both the subsidy and non-subsidy performance indicates that it was under-achieved by 33%. A total of 48 879 homes were enrolled in the non-subsidy sector whereas a total of 119 440 homes were enrolled in the subsidy sector. The Act stipulates that homes should be enrolled with the NHBRC 15 days before construction begins. Failure to enrol the homes with the NHBRC is a contravention of the Act. The NHBRC discourages home builders from enrolling homes late because this poses a risk

to the Warranty Fund. The NHBRC had a total of 1 743 late enrolments for the year under review, but it should be emphasised that the aim of the NHBRC is to have zero late enrolments in any particular year.

The chart below indicates that the NHBRC has enrolled a total of 168 319 homes for both the subsidy and the non-subsidy homes for the year under review, which shows a decline of 33% from the previous financial year.

Figure 6: Total number of enrolments for subsidy and non-subsidy homes for the past seven years



Performance Report continued

Table 15: Enrolment categories in non-subsidy sector

Category	PA003	Sectional title	Speculative	TOTAL
0-500k	1,505	11,400	9,011	21,916
500k-R1m	867	9,261	4,492	14,620
R1m-R2m	421	2,960	4,541	7,922
R2m - R5m	186	327	3,267	3,780
>R5m	5	16	620	641
TOTAL	2,984	23,964	21,931	48,879

The table above indicates the number of enrolments in the non-subsidy per the rand value category. The enrolment is classified in four separate categories which are PA003, sectional title and speculative.

INSPECTIONS OF HOMES

The NHBRC has conducted a total of 451 324 inspections for both the subsidy and non-subsidy sector. A total of 221 107 non-subsidy inspections were conducted against a target of 160 377 for the year under review, whereas a total of 230 217 subsidy inspections were conducted against a target of 210 300 for the year under review. The NHBRC spends a lot of money on inspections of homes because it is used as a mitigating factor against the Warranty Fund. It should be noted that the NHBRC conducts a minimum of four inspections and a maximum of eight inspections depending on the complexity and nature of the houses for the non-subsidy sector. The NHBRC has a strategy of using one dedicated inspector for every 500 homes.

The chart below indicates that for the non-subsidy inspection there has been a decline of 10% from the performance of the previous year, whereas for the subsidy sector inspections the chart indicates that there has been an increase of 28%, which is aligned to the subsidy homes that were enrolled by the NHBRC.

Figure 7: Total number of inspections for non-subsidy and subsidy inspections for the past seven years



* The data for 2007/2008, 2008/2009 and 2009/2010 for inspection of homes in the non-subsidy sector is not readily available. It should be noted that the NHBRC has conducted inspections for three financial years.

BUSINESS SERVICES

The Business Services division consists of four sections which are the Technical section; Quality Assurance Section; Project Support Unit; and Customer Services Centres. The performance below covers the Business Services division and Corporate Service division.

Registration and renewal of home builders

Strategic context:

- Section 10(1) of the Act requires that all persons in the business of home building to be registered with the NHBRC, and all persons in the business of home building to renew their annual membership with the NHBRC. Registration is a process where applications for potential home builders are assessed. In this performance area, applicants who meet all requirements to be recognised as home builders are given a certificate. The certificate serves as a licence to trade as a home builder and it is renewable annually.

Key activities:

The evaluation of home builders' registrations and renewals is based on:

- The technical, construction and financial capabilities of the applicant;
- A non-refundable registration fee of R657.89 (payable to the NHBRC before registration); and
- An annual renewal fee of R526.32 (payable to the NHBRC each year) and an amount of R87.72 per set of two home builders' manuals.

Performance:

New home builders' registrations increased in the year under review by 8%, compared to the last financial year. Figure 1 shows the performance of new registrations and renewals over the last seven years. It indicates:

- The average number for seven years of active builders (renewals) – 11 488 per year;
- The average number for seven years of new entrants (registrations) – 3 354 per year; and
- The average total number of builders for seven years – 14 842 per year.

This decline in new registrations can be attributed to, amongst others:

- The economic recession;
- Lack of financial credibility; and
- Lack of technical competency.

Figure 2 represents the average annual percentage renewal by builders. The percentage renewal has steadily increased since 2006/2007. The average renewal over the last four years was 78%. This means that of all the active builders, the NHBRC expects 78% of them, on average, to renew their registration.

Figure 8: Registrations and renewals of non-subsidy home builders over the last seven years

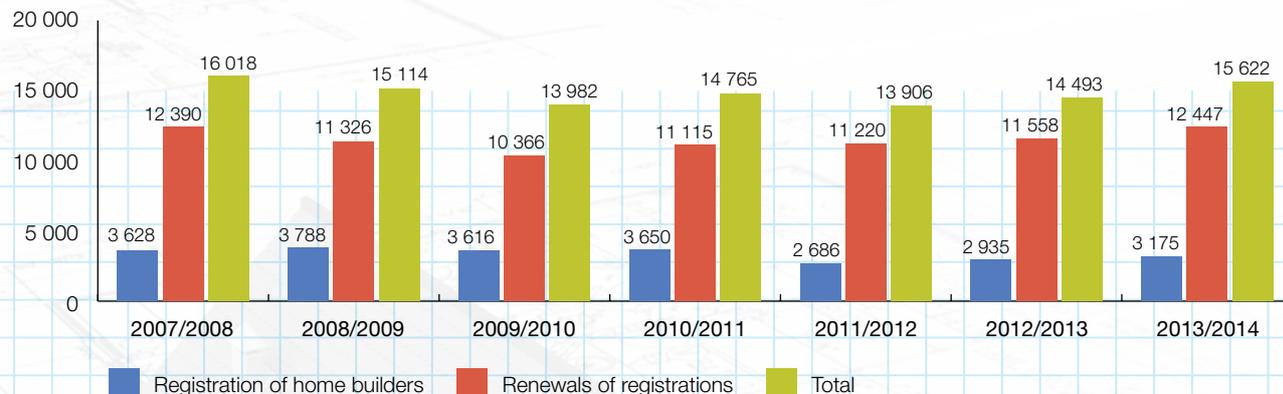
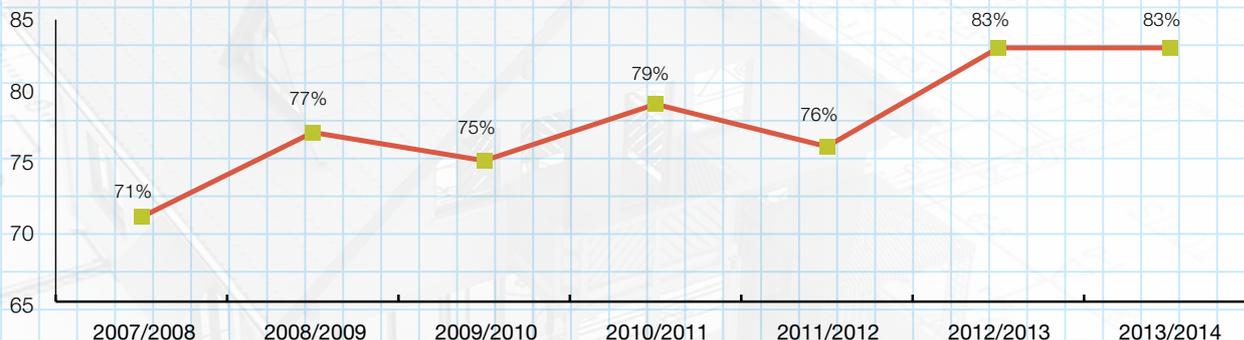


Figure 9: Average percentage renewal of registrations over the last seven years



Performance Report continued

Enrolment and late enrolment of homes

Strategic context:

- Section 14 of the Act requires that all new homes be enrolled with the Council 15 days prior to construction, and allows for late home enrolments provided the risk to the Council is acceptable. Enrolment of homes is a process where registered home builders and developers purchase a warranty scheme for the house before construction starts. The warranty covers the owner of the house against defined defects.

Key activities:

- Assessment of enrolment documentation.
- Where the risk assessment of unsuitable soil conditions (ie dolomites) is high, a detailed technical assessment of the submission is performed in liaison with the NHBRC's strategic partner, the Council for Geoscience.
- For late enrolments, financial guarantees may be called upon if the risk of enrolment is high.
- For homes under R500 000, the enrolment fee is calculated as 1,3% of the value of the property, including land. For houses above R500 000, a sliding scale is used to calculate the enrolment fee.

Performance:

- There has been a notable increase in enrolments in the current financial year compared to last year; the number of enrolments increased, as shown in Figure 3.
- It should be noted, however, that it is the intention of the Council to reduce the number of late enrolments as they pose a risk to the Warranty Fund. An analysis of late enrolments for the last seven years, as presented in Figure 3, shows an

increase in the percentage of houses enrolled late until 2013/2014 and the late enrolment index needs to be maintained at 0%. The statistics of late enrolment of homes show a significant decrease from the previous year by 9%. This decrease is attributed to our improvement in compliance and enforcement strategies during the year under review.

Figure 10: Total number of non-subsidy enrolments for the last seven years



Figure 11: Non-subsidy late enrolments as a percentage of non-subsidy total enrolments



Complaints and Conciliations

Strategic context:

- Rule 18 of the Regulations RO4 to the Act entitles a housing consumer to lodge a complaint where a home builder has failed to respond to legitimate complaints by the housing consumer, while section 13(8) of the Act entitles a housing consumer to a conciliation process with the home builder. The NHBRC has laid down principles which ensure that disputes between home builders and housing consumers are resolved as effectively, efficiently and expeditiously as possible and a formal dispute resolution process for both housing consumers and home builders has been adopted. The NHBRC warranty is effective from the date of occupation. This section of the report deals with complaints lodged by housing consumers against home builders after occupation has taken place. Complaints lodged during construction are attended through enforcement measures.

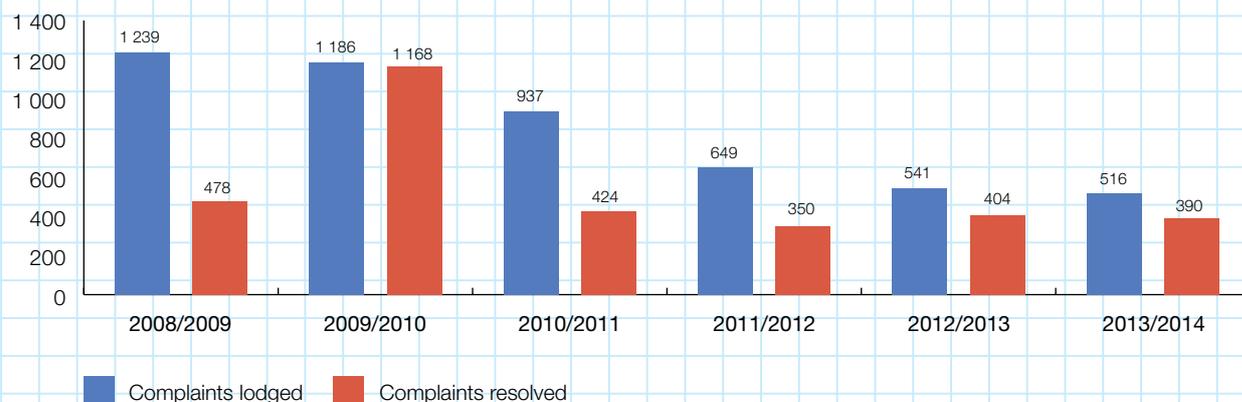
Key activities:

- Complaints lodged during construction are attended to in the form of technical non-compliance notices, issued on site by NHBRC inspectors.
- Complaints are lodged and dealt with through the provincial customer service centres.
- When a complaint cannot be resolved, it is escalated to conciliation between the housing consumer and home builder.
- A conciliation fee of R100 is payable if the enrolment value is less than R100 000, and a fee of R300 is payable if the enrolment value is more than R100 000.

Performance

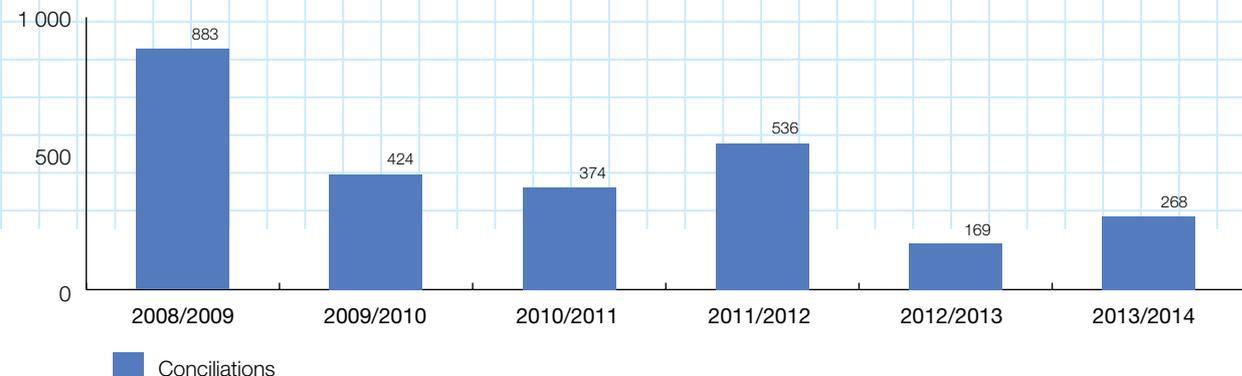
The number of complaints received in the year under review totalled 516, of which 390 complaints were resolved.

Figure 12: Complaints lodged and complaints resolved for the past seven years



The table above indicates that there was a 5% decrease in the number of complaints lodged with the NHBRC as compared to the previous financial year and the number of complaints resolved declined by 3% when compared to the previous financial year. The performance of handling conciliations between the home builder and housing consumers witnessed a growth of 59% from the 2012/2013 financial year to the 2013/2014 financial year.

Figure 13: Conciliations handled for the past seven years



Performance Report continued

Inspections

Strategic context:

- Section 5(4)(b) of the Act requires that all enrolled homes be inspected. The number of inspections conducted per house depends on the enrolment value and the complexity of the design of the house in order to mitigate the risk against the warranty. A minimum of four inspections are conducted on all enrolled homes.

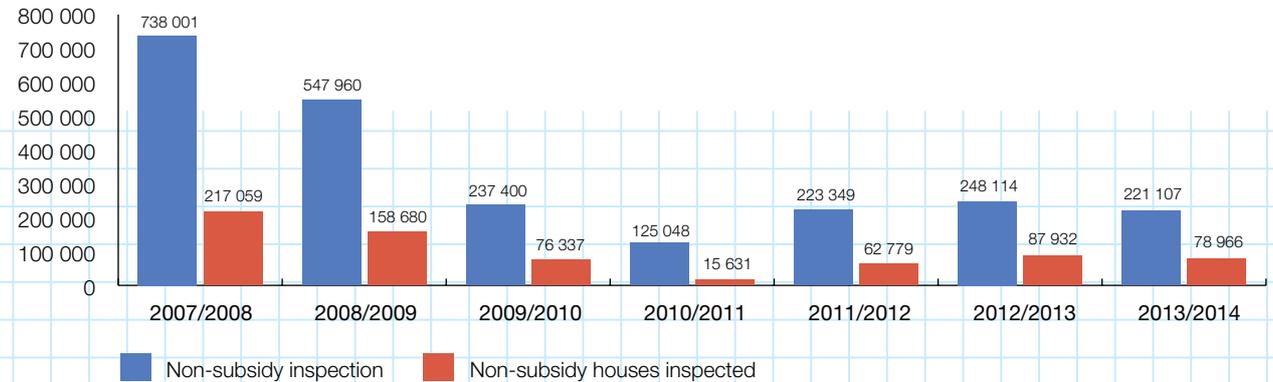
Key activities:

- A minimum of four inspections are conducted on all enrolled houses.
- The number of inspections conducted per house depends on the enrolment value and the complexity of the design of the house in order to mitigate the structural risk to the Warranty Fund.

Performance

- Figure 7 shows the number of houses inspected in the non-subsidy sector and the number of inspections conducted, in the year under review. A total of 221,107 inspections were conducted on 78,966 houses for the year under review. The NHBRC conducts a minimum of four inspections and a maximum of eight inspections depending on the nature and complexity of the house. It should be noted that some of the houses were still under construction as at the end of the financial year, and therefore additional inspections are still to be conducted on these properties.

Figure 14: Non-subsidy inspections and houses inspected for the past seven years



The table above shows that non-subsidy inspections declined by 11% from the previous year to the year under review. The number of homes inspected declined by 10% as compared to the previous financial year.

Remedial work done by the NHBRC

Strategic context:

- Section 17 of the Act requires the NHBRC to rectify any structural defects where a home builder has failed to do so.

Key activities:

- The NHBRC, through its provincial customer service centres, assesses the extent of the structural damage.
- The NHBRC is willing to assist housing consumers/home owners who lodge complaints for remedial purposes.

Performance:

- The NHBRC has conducted remedial works on a total of 95 homes for the year under review.
- Figure 8 indicates that most work was done on top structures of homes.

Table 16: Remedial work per stage

Remedial stages	Number of units rectified per stage
Foundations	6
Sub-structure	19
Super-structure	48
Roof	3
Drainage	1
Settlement	18
Total houses	95

For a total number of 63 complaints lodged, the NHBRC provided transport, storage and accommodation fees and also paid for the professional fees to assess the structural failures.

Subsidy Sector

Strategic context:

- Section 14 of the Act requires all new homes to be enrolled 15 days prior to construction. This includes houses built using the Peoples Housing Process (PHP) and as part of rural projects.

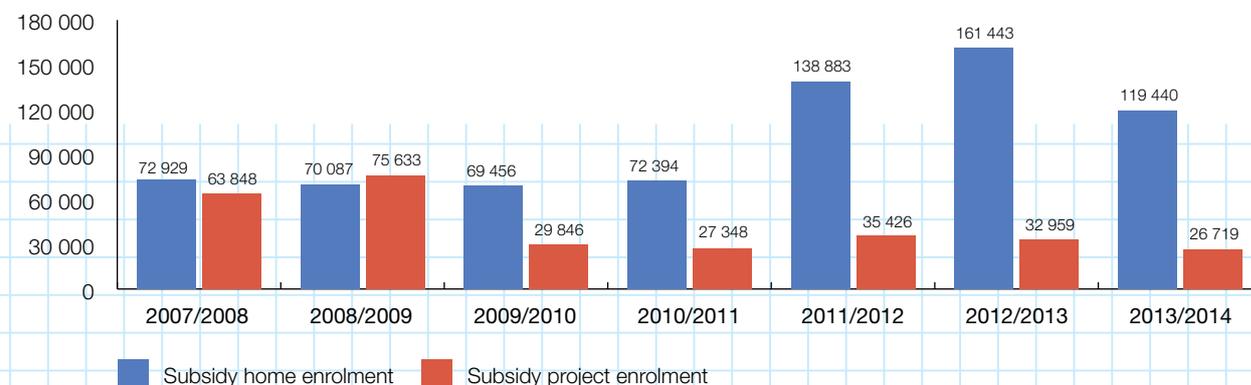
Key activities:

- The NHBRC assesses the submitted projects with particular emphasis on the Phase 1 geotechnical investigation report.
- The objective of the Phase 1 geotechnical site investigation is to perform a detailed risk assessment with more focus on soil classification, ground conditions, suitability of dolomitic land, established subsidy variations, etc.
- On successful assessment, the NHBRC will issue a project enrolment certificate.

Performance:

- Figure 9 below illustrates the performance of the subsidy sector with respect to project and home enrolments over the last seven years. In the current year, the NHBRC has enrolled 26 719 projects which resulted in 119 440 homes and in the previous financial year a total of 32 959 projects were enrolled which resulted in 161 443 homes enrolled with the NHBRC. Subsidy home enrolment increased by 16% as compared to the previous financial year.

Figure 15: Home and project enrolment in the subsidy sector over the last seven years



* It should be noted that some of the houses that are enrolled were not inspected and would be inspected at a later stage.

Subsidy home enrolment declined by 26% when compared to performance of the previous financial year and subsidy project enrolment declined by 19% when compared to performance of the previous financial year.

NHBRC Strategic Intervention

In order to align to the National Department of Human Settlements' delivery plan, the NHBRC implemented the following strategies:

- Developer workshops – Comprehensive workshops between the NHBRC, provincial Departments of Human Settlements and municipalities were held to share information regarding the NHBRC's technical requirements and the process for enrolling PHP and rural projects.
- "On-site" assessments – Project submissions were assessed for enrolment at provincial

departments' premises by NHBRC professionals to ensure immediate feedback and guidance regarding compliance.

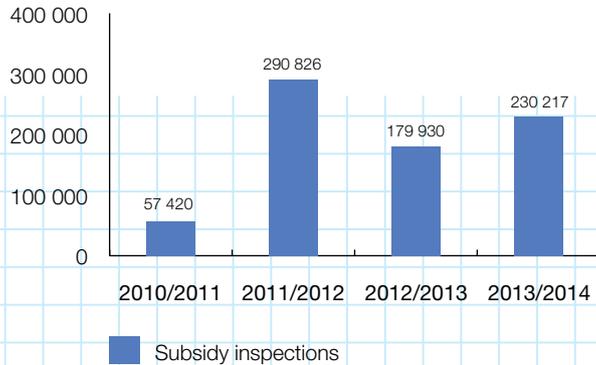
- Decentralisation of services – The NHBRC decentralised most of its services, including geotechnical assessments, in order to ensure a more effective service to its clients and stakeholders.

Subsidy Inspection

The NHBRC also embarked on a strategy to ensure that all subsidy housing units constructed in South Africa were inspected, in order to mitigate the risk of possible future rectification by government. Table 10 shows the number of inspections conducted in the subsidy sector in the year under review. A total of 230 217 inspections were conducted for 119 440 units in the subsidy sector. It should be noted that the number of inspections was dependent on the speed of construction. The performance for inspections in the subsidy sector increased by 28% from the 2012/2013 financial year to the 2013/2014 financial year.

Performance Report continued

Figure 16: The number of subsidy inspections conducted per financial year



Training of Home Builders

Strategic context:

- Section 3 of the Act requires that the Council assists home builders, through training and inspection, to achieve and maintain satisfactory technical standards of home building.

Key activities:

- The NHBRC identifies home builders through its partnerships with provincial departments and municipalities.
- Learners are trained on-site in a number of trades in the home building industry.

Performance:

- The total number of emerging builders trained for the period under review is 1 369. The target in 2013/2014 was 3 500 emerging home builders to be trained across all provinces. Over the past seven years, the NHBRC has trained an average of 3 331 homebuilders per annum.

As compared to the performance of the previous financial year, the performance has declined by 33%. The performance for training home builders was missed by 61% for the financial year 2013/2014. The target for the 2013/2014 financial year was not met due to the fact that the NHBRC management decided to review the training strategy, including content and to ensure that only accredited service providers are appointed. The process of appointing a new panel of service providers has been approved and is currently underway through the Supply Chain Management.

Figure 17: Training of home builders in the past seven years

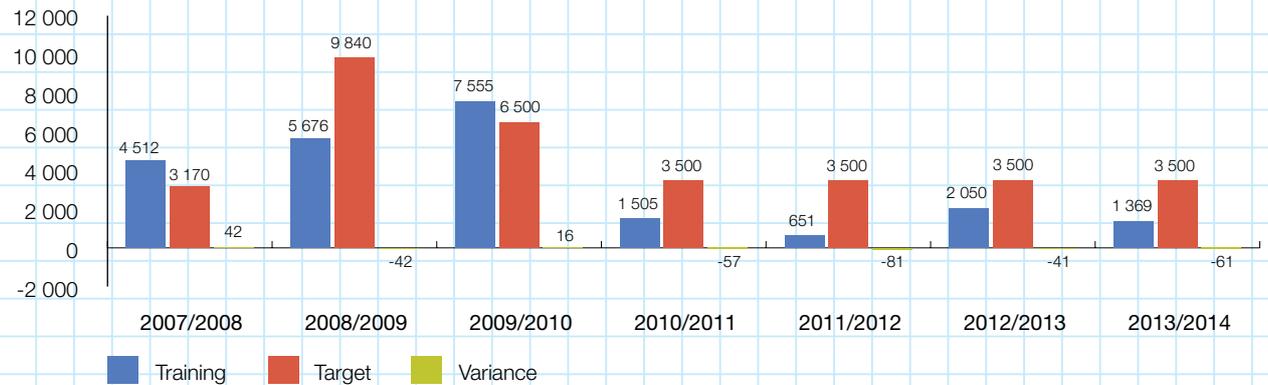
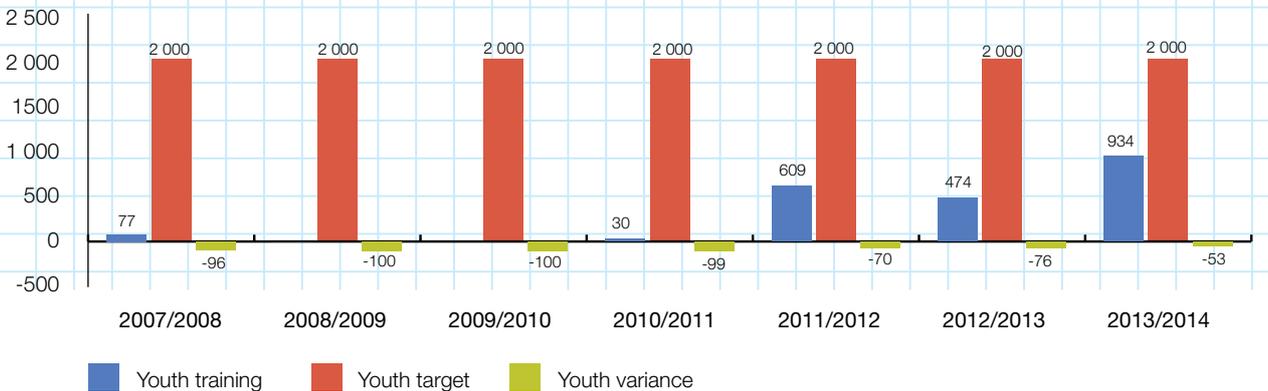


Figure 18: Training of the youth in the past seven years



The NHBRC has trained a total of 934 youth for the 2013/2014 year against a target of 2 000. The target was under-achieved by 53%. The target for the 2013/2014 financial year was not met due to the fact that the NHBRC management decided to review the training strategy, including content and to ensure that only accredited service providers are appointed. The process of appointing a new panel of service providers has been approved and is currently underway through the Supply Chain Management.

Contribution to Outcome 8

As part of its contribution to Outcome 8, the NHBRC:

- Ensures compliance to national norms, standards and quality within the home building sector.
- Assists the public and private sectors in improving programme and project management through training and skills transfers.
- Assists in the protection of the interests of the public within the human settlements sector.

- Assists government in the development of appropriate norms and standards in the provision of services, infrastructure and housing.
- Assists the National Department of Human Settlements in the improvement of governance and performance in the sector.

CORPORATE SERVICES

The strategy for the Corporate Services division is to build an efficient internal customer-focused support structure. The Human Capital, Facilities and Business Management Solutions (IT) support the organisation in executing its strategic objectives.

The division consists of three sections, namely:

- Human Capital;
- Facilities; and
- Business Management Solutions.

Human Capital

A key highlight for the year was the appointment of executives and critical managers; this has ensured that the leadership gap was filled.

The year began with wage negotiations that were concluded amicably with no strike action. This had a positive impact on the Union Management Relationship.

There was a significant recruitment drive with emphasis on the recruitment of home inspectors for the Quality Assurance division. The permanent staff complement grew by 121 permanent employees.

The Human Capital section manages a very successful employee wellness programme with significant wellness interventions throughout the year.

Some key human capital policies were revised.

Headcount and Workforce Profiles

The headcount is 501 permanent staff as at 31 March 2014.

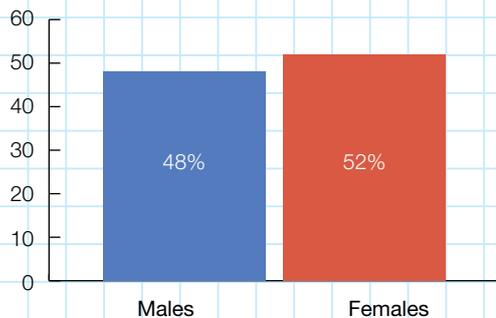
Table 17: Workforce profile as at 31 March 2014

Occupational levels	Grades	Male				Female				Foreign nationals	Total
		A	C	I	W	A	C	I	W	Male	
Top management	1	1	0	0	0	1	0	0	0	0	2
Senior management	3 - 4	1	0		1	2	0	0	0	0	4
Middle-management professionally qualified	5 - 6	14	1	2	3	8	0	1	0	0	29
Skilled/technically qualified/junior management	7-12	170	22	5	12	204	9	5	15	0	442
Skilled and discretionary decision-making	13 - 15	3	0	0	0	5	0	0	0	0	8
Semi-skilled and defined decision-making	16-17	1	0	0	0	15	0	0	0	0	16
Total Permanent		190	23	7	16	235	9	6	15	0	501
Total Temporary Employees		24	0	1	3	18	0	0	2	0	48
Total		214	23	8	19	253	9	6	17	0	549

Performance Report continued

White employees make up of 6% of the total NHBRC equity complement. Indian employees constitute 3%. A focused effort was placed on acquiring women at executive management levels and the target has been achieved.

Figure 19: Employment Equity Graph



Employment Equity by Gender

There are 264 males (48%) and 285 females (52%) employed by the NHBRC. In terms of race, 38% of the employee total reflects African males and 47% reflects African females.

Employment Equity by Race

The figure above indicates that of the 549 employees of the NHBRC, 85% are African, 6% are Coloured, 3% are Indian and 6% are White. The Council is over-subscribed in certain areas and under-subscribed in certain categories. This will be corrected through our targeted recruitment processes.

Facilities

Head Office Move

The NHBRC head office and the Woodmead Customer Service Centre have moved to a new A-grade building, which is situated at 5 Leeuwkop Road, Sunninghill.

Supply Chain and Facilities engaged with various property agencies to solicit proposals for the buildings that were available in the market. Joe Slovo House was purchased for the NHBRC Head Office and Gauteng Customer Service Centre.

Lease Agreements

Nine NHBRC office accommodations Lease Agreements were extended on a 12-month basis as per the Bid Adjudication Committee resolution.

The following NHBRC provincial and satellite offices were part of the resolution:

- Nelspruit Office;
- Tshwane Office;
- Kimberley Office;
- Bryanston Office;
- Durban Office including parking space;
- Bloemfontein Office;
- Witbank Office;
- New Castle Office; and
- Bethlehem Office.

BUSINESS MANAGEMENT SOLUTIONS

The Business Management Solutions Project programme comprises of different projects that run concurrently in order to ensure continuation of the business. The following sections should provide an update of the different projects.

Table 18: Business Management Solutions

Project name	Nature of work	Status	Planned completion
SAP Implementation	<ul style="list-style-type: none"> Implementation of the fully integrated ERP solution. Change Management Blue print documentation Realisation Solution testing Go-live Post Go-live support 	<ul style="list-style-type: none"> The contract with the implementer was terminated after realising the company had problems with its statutory compliance issues. The procurement process to replace them unfolded and will be finalised in April 2014. 	30-04-2015
Data Cleansing	<ul style="list-style-type: none"> Data source identification Report generation Manual and automated cleansing, enrichment, etc Make data compatible to SAP for migration 	<ul style="list-style-type: none"> Manual data cleansing was done but not completed. 16% was signed off. A tender for the automated data cleansing was advertised and the evaluation took place. There was no suitable proposal, therefore the tender was re-advertised. 	24-12-2014
Hardware Hosting	<ul style="list-style-type: none"> Provision of hosting facilities for: SAP 5 landscapes Disaster recovery (SAP, Oracle, Documentum, Cura, etc) 	<ul style="list-style-type: none"> The hardware sizing was reviewed. The tender was advertised and by the end of the year, the process was at an advanced stage. 	September 2015
Voice and Data (Unified Communications)	<ul style="list-style-type: none"> Installation of: Hosted PBX SIP phones with auto-messaging Hosted exchange (emails) Managed enterprise Wi-Fi Video conference facilities 	<ul style="list-style-type: none"> A tender was advertised and the process was at an advanced stage by end of March 2014. 	End of August 2014
Voice and Data (Unified Communications)	<ul style="list-style-type: none"> Installation of: Hosted PBX SIP Phones with Auto-Messaging Hosted Exchange (emails) Managed Enterprise Wi-Fi Video conference facilities 	<ul style="list-style-type: none"> A tender was advertised and the process was at an advanced stage by end of March 2014. 	End of August 2014
Network	<ul style="list-style-type: none"> Cut-over to MPLS and connect all provinces 18 sites cut-over 2 sites outstanding (DR and George) Erick Molobi and Thulamela are excluded 	<ul style="list-style-type: none"> Ongoing 	N/A
Network (Woodmead and Head office)	Network segmentation through V-Lans	<ul style="list-style-type: none"> Complete 	N/A
Disaster Recovery Capability	Provided for the capability in a hosted environment	<ul style="list-style-type: none"> Ongoing Linked to hardware hosting 	N/A
Document Management System	Incorporation of MFP as input to Documentum	<ul style="list-style-type: none"> Testing completed E-copy licence requirements to be finalised 	N/A

Performance Report continued

Data Cleansing

The decision to implement the SAP ERP business solution for the NHBRC has brought about the need for consolidation of the various data sources that contain the NHBRC's transactional data.

The process of consolidation requires categorisation as well as normalisation of data from the identified sources.

Data cleansing projects are by their own nature very complex as they are hardly repeatable for each organisation and thus require various technical and specialist skills in order to succeed.

A competent Project Manager with good data cleansing related experience, as well as a team of employees who are knowledgeable about the business processes is an absolute necessity to ensuring a successful project.

The NHBRC team is in the process of manually cleansing the data from files and other identified sources as recommended in the Project Close-out Report of Phase 1.

The following technical services are activities required to keep the momentum of the data cleansing project:

- Database interrogation in order to verify user perceptions of their data.
- Implementation of the required changes to the current ERP system to ensure that no further data corruption takes place.
- Reporting mechanisms in order to assist with evaluating progress made on data cleansing through analysis and quantification of data.

The NHBRC does not have the necessary technical expertise available in-house; therefore there is a need to secure such services until a suitable appointment is made for a data cleansing services provider.

Without this technical assistance, manual data cleansing will be extremely slow and in some cases not feasible.

SAP ERP Hardware Hosting

A second hardware sizing exercise has resulted in a reduction of the hardware required for the SAP implementation culminating in a saving in excess of R35 million.

The hosted environment will allow for growth and or shrinkage depending on the NHBRC operational needs, as well as the provisioning for Disaster Recovery (DR) for the current Oracle ERP system which is still in use.

The current sizing allows for an open architecture making it possible to utilise more hardware manufacturers that are certified by SAP for adequacy in supporting the application.

The recommendation for a possible service provider will be made available in the report destined for BAC consideration.

Voice and Data (Unified Communications)

- The scope of tender focuses mainly on telephony, email, videoconferencing, and security.
- Service provider managed and hosted PBX for telephony services (including leased hardware) that utilises the cheaper data platform for functionality.

- Service provider managed network services (including leased hardware) for all NHBRC sites for improved network availability and video-conferencing capabilities.
- Hosted exchange (with fail-over), which will facilitate a centralised email facility available to all NHBRC sites over MPLS.

Internet

Internet solution is finalising the availability of a 10 Meg fibre installation at the Sunninghill office which will facilitate a much improved internet speed compared to the current 2x2 Meg lines.

Oracle ERP Support

The continued utilisation of the ORACLE R12 e-business suite to drive the business processes of the NHBRC for another 12 months, necessitates further technical as well as functional support from BMS.

The licence requirements for continued support from the software provider have also been addressed for the 2014/2015 financial year.

Career Development Framework for BMS Staff

The identified framework that could be suitable thus far is the IITPSA IT career Development Framework.

The IITPSA IT Career Development Framework is highly responsive to the dynamic IT business needs and ultimately supports overall IT employee career development and progression readiness. It allows for the implementation of realistic development and career advancement pathways that are actively managed, offer more lines of sight to development opportunities and help with cost

control. It must be noted that the benefits derived from such a framework by the Council as well as the individual are mutually-inclusive.

The framework provides for:

- (a) Defined levels of work and descriptors of basic requirements at each level (Entry, Professional, Strategic).
- (b) Mapping to the grading system.
- (c) Well-defined and cross-organisationally related jobs.
- (d) Evidence-based competencies showing growth through all levels.
- (e) A set of guidelines to show employees how they can move into and across jobs, assuming they meet certain requirements (qualifications, experience, competencies, etc).

The implementation of this framework will lay a foundation for all aspects of talent management:

- Recruiting;
- Performance management; and
- Succession planning.

The framework has the potential to give a sense of purpose for the staff by providing a clear picture of the jobs and levels within the business unit as well as the organisation. The impact on the staff morale is expected to be positive.

INFRASTRUCTURE MANAGEMENT

Network

With the NHBRC head office move from Bryanston to the newly purchased Sunninghill building, BMS was tasked with the responsibility to ensure that

the IT infrastructure was in a position to support the continuation of the business of the NHBRC.

The following are activities that were undertaken:

- Setting up the network infrastructure topology in Sunninghill office.
- Moving the primary server environment to a newly built one.
- Moving of communications systems, including telephony.
- Arranging with Telkom as a telephony service provider for the retention of Woodmead and Bryanston office numbers.

Although server infrastructure was moved to Sunninghill on 20 March 2014, the server room electrical power could only be made available around noon of 23 March 2014. This left the BMS team with very little time to start-up the servers and deal with all challenges posed by a new network topology.

The Woodmead and head office network experienced conflicts caused by the fact that both offices used to operate separate networks and were arranged differently.

The only resource that is tasked with the responsibility to support the network infrastructure of the NHBRC is a network administrator with limited skills.

The problems experienced required a Network expert to advise and assist with the LAN segmentation project in order to have both the Woodmead and head offices' network infrastructure working in harmony.

Disaster

The implementation of the hosted environment will allow for data storage growth and/or shrinkage needs depending on the NHBRC operational needs as well as the provisioning for a Disaster Recovery (DR) for the SAP solution as well as the current Oracle ERP system.

Document Management System

The solution consisting of a Scanning Solution (e-copy in MFPs) Store and Retrieval Solution (Documentum) will provide a platform for documents generated from within Siebel and Oracle or by any other method, including manual, to all be stored in the system and be linked to the related records.

Testing has been completed and training will be rolled out once software has been purchased.

CONCLUSION

Corporate Services conducted a successful roadshow to all the NHBRC provinces whereby the following policies were presented:

- Leave Policy;
- Housing Loan Policy;
- Annual Salary Increment Policy;
- Conflicts of Interest Policy;
- Conditions of Employment; and
- Travel Re-imbusement Model.

The development of seven policies for BMS started in March 2014 and will be finalised in 2014/2015.

Performance Report continued

LEGAL COMPLIANCE AND ENFORCEMENT

The Legal Compliance and Enforcement section's goal is to consistently entrench a culture of compliance with the applicable legislative and regulatory framework, ensure effective enforcement of the Housing Consumers Protection Measures Act ("the Act") and provide cutting edge legal advisory services for the NHBRC.

The section's main service offerings entail:

- Ensuring compliance with applicable legislative and regulatory framework, including relevant policies;
- Facilitating successful enforcement of the Act through suspensions and prosecution of defaulters;
- Initiating and/or defending civil and/or criminal litigation processes for and/or against the NHBRC, including recovering of monies spent on remedial works;
- Implementing an efficient contract management system; and
- Providing cutting edge legal advisory services, including legislative review.

1. Enforcement of the Act through the NHBRC's Disciplinary process and Criminal Prosecution

1.1 Strategic context

In terms of section 11(3) of the Act, the Council may suspend a registered home builder's registration or refuse to enrol such home builder's homes for a period the Council deems necessary to investigate the matter or until the registered home builder has complied with the relevant provisions, conditions or obligations in terms of the Act.

1.2 Key activities

The disciplinary process entails:

- Reviewing files to ensure that the procedural and substantive requirements have been met before deciding whether to prosecute a home builder or not;
- Sending a 30 days' notice of intention to prosecute a home builder which affords a home builder an opportunity to respond to allegations against him/her;
- Issuing summons instructing a home builder to appear before the NHBRC's Disciplinary Committee;
- Attending of disciplinary hearing proceedings; and
- Implementing Disciplinary Committee rulings.

The criminal prosecution process involves:

- Establishing and maintaining working relationships with the law enforcement agencies;
- Collaborating with the law enforcement agencies in the investigation and prosecution of statutory offences as per section 21 of the Act; and
- Training of law enforcement agencies on the relevant provisions of the Act.

1.3 Performance

- During this financial year, disciplinary hearings against home builders were held before the Disciplinary Committee ("DC") in all the nine provinces (as presented in the table below);
- 328 matters were adjudicated by the DC for 2013/2014 as opposed to 103 matters adjudicated during 2012/2013. This represents a 218% increase in performance compared to the previous year;
- The offences ranged from failure by the home builder to rectify major structural defects, failure to rectify workmanship related defects, failure to enrol homes, and failure to attend to correspondence from the NHBRC.

Table 19: Disciplinary Committee Hearings for 2012/2013

Provinces	Suspensions	Total DC hearings	Not guilty verdicts	Warnings	Fines imposed	Registrations withdrawn	Matters postponed	Matters settled out of DC	Verdicts outstanding
Western Cape	33	35	01	12	7	5	0	8	2
KwaZulu-Natal	24	22	0	1	5	8	1	7	0
Gauteng	10	19	0	3	7	5	2	2	0
Eastern Cape	32	13	0	0	9	2	1	1	0
Mpumalanga	4	4	0	0	0	4	0	0	0
Limpopo	2	3	0	1	2	0	0	0	0
North West	0	2	0	1	0	0	1	0	0
Northern Cape	2	2	0	0	2	0	0	0	0
Free State	2	3	0	2	0	1	0	0	0
TOTAL	109	103	1	20	32	25	5	18	2

Table 20: Disciplinary Committee Hearings for 2013/2014

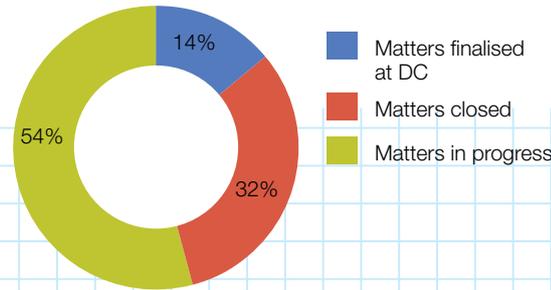
Provinces	Suspensions	Total DC hearings	Not guilty verdicts	Warnings	Fines imposed	Registrations withdrawn	Matters postponed	Matters settled out of DC	Verdicts outstanding
Western Cape	78	82	5	14	22	6	17	18	0
KwaZulu-Natal	15	28	1	2	17	3	4	1	0
Gauteng	23	50	1	21	15	5	2	9	0
Eastern Cape	14	54	1	7	37	5	0	1	0
Mpumalanga	5	9	0	2	4	0	3	0	0
Limpopo	36	32	1	3	14	7	7	0	0
North West	8	27	0	8	12	1	4	2	0
Northern Cape	4	11	0	7	2	1	0	0	0
Free State	19	35	0	2	16	2	15	2	0
TOTAL	202	328	9	66	139	30	52	33	0

- The tables above indicate that suspensions of home builders indicated an increase of 85% from the 2012/2013 to 2013/2014 financial year. The total disciplinary hearings increased by 225% from the 2012/2013 to 2013/2014 financial year.
- Warnings imposed and fines imposed by the NHBRC increased by 220% and 331% respectively from the 2012/2013 to 2013/2014 financial year.
- Registrations withdrawn and matters imposed increased by 12% and 1% respectively from the 2012/2013 to 2013/2014 financial year.
- There was an increase of 83% in the matters settled by the Disciplinary Committee from the 2012/2013 to 2013/2014 financial year. The verdicts outstanding declined by 100% from the 2012/2013 to 2013/2014 financial year.

Performance Report continued

- The Council's decision to increase the section's capacity by appointing investigators and provincial legal officers to provide legal and investigation support to both prosecutors and provincial staff has borne fruits not only in respect of the above disciplinary hearing increases, but also in the enforcement of the Code of Conduct for Home Builders as well as the investigation and prosecution of criminal matters in terms of section 21 of the Act.
- During this period, a total of 41 Code of Conduct related matters were received either from the general public or the NHBRC's hotline. 13 of these matters were closed either as a result of the parties reaching an amicable solution or the complainant deciding not to proceed with the matter; six were adjudicated at the DC hearings and 22 are still either under investigation or undergoing DC processes.
- About 60 cases were instituted in various Police Stations across the country by investigators in terms of section 21 of the Act. Only three matters were finalised wherein the home builders paid fines as admission of guilt for failure to carry on the business of a home builder without having been registered as such in terms of section 10 of the Act. The majority of these matters are still under further investigation by the Investigating Officers while a few are awaiting the Senior Public Prosecutor's decision. In order to expedite the prosecution of these matters and to ensure effective enforcement of this provision, the NHBRC's investigators and prosecutors have initiated engagements and training with the relevant officials of the South African Police Services (SAPS) and National Prosecuting Authority in their respective provinces.

Figure 20: Code of Conduct Matters



2. Compliance

2.1 Strategic context:

In the management of compliance risk, the section aims to ensure that the NHBRC complies with the laws, rules, codes and regulations applicable to it, including internal policies, procedures and ethical standards.

2.2 Key activities:

- Constant analysis of the laws to establish the NHBRC's obligations;
- Facilitation of best practice processes to encourage adherence to ethical standards and good governance within the NHBRC;
- Training of executives, senior management and all staff to inculcate a culture of compliance to applicable laws;
- Proactive monitoring and reporting on the level of compliance risks that the NHBRC is exposed to; and
- Promotion of a vibrant compliance culture based on the principles of accountability and transparency within the NHBRC.

2.3 Performance:

The compliance function has within the year under review:

- Formulated a regulatory universe as well as an analysis of the primary laws that apply to the NHBRC;
- Finalised a draft compliance policy specifically tailored to the NHBRC's operations;
- In the process of implementing a world-class compliance risk management software in order to empower the NHBRC to manage compliance risk in an efficient manner;
- Initiated awareness programmes on the importance and benefits of compliance and ethical conduct by means of various internal mechanisms such as newsletter articles; and
- Continued to provide formal and informal opinions on compliance risk issues as and when required to do so.

3. Litigation

3.1 Strategic context

One of the inherent objectives of the portfolio is to maintain a comprehensive litigation management programme in order to protect the interests of the NHBRC against adverse litigation and reduce litigation fees and costs. Furthermore, the portfolio collaborates with the prosecution/enforcement team to enforce the provisions of the Act by, amongst others, instituting legal proceedings to interdict defaulters of the Act.

3.2 Key activities

- Reviewing matters to decide whether to institute, defend or settle a case;
- Institute legal proceedings against defaulters of the Act;
- Instructing and briefing external legal representatives to act on behalf of the NHBRC;
- Deposing and filing necessary court documents;
- Monitoring and reviewing performance of external representatives to ensure prudent attendance to and expeditious finalisation of cases;
- Attending court hearings/trials; and
- Implementing court rulings.

3.3 Performance

- A total of 27 general litigation matters were handled during the year under review, 15 of which were finalised in court. A total of three matters were settled internally, thereby reducing litigation fees and costs and nine were still pending in court as at 31 March 2014; and
- 43 matters were escalated from our provincial offices requesting institution of interdict applications against home builders. 12 of these matters were successfully heard in court and judgement taken in favour of the NHBRC; 26 were settled through internal intervention, which resulted in the home builder complying to the relevant provisions of the Act and five were still awaiting a court date as at 31 March 2014.

SUPPLY CHAIN

During the year under review, the Supply Chain section made considerable progress, with one important highlight being the approval of the more detailed and regulation compliant Supply Chain Management Policy. In this financial year, 95% of the previous audit findings were addressed and we have experienced confidence and reliance on supply chain processes. A continued improvement on internal control and governance is envisaged under the guidance from the new policy.

The NHBRC remains committed in its endeavours to empower historically disadvantaged individuals, as it posts another report on its preferential procurement spend of 64.75% against a 51% target. This reflects an annual increase of 13.75% above the target. The cost of doing business remains a daily operational priority within the NHBRC's Supply Chain, while at the same time ensuring that the quality of goods and services is not compromised.

The four most important legislative Acts below continue to govern the Supply Chain activities of the NHBRC and, as the pillars of regulatory compliance, are taken into account in daily procurement operations:

- Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996) (as amended);
- Public Finance Management Act, 1999 (Act No 1 of 1999) (as amended);
- Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000); and
- National Treasury practice notes, guides, circulars and letters as they are continuously reviewed, updated and improved.

The NHBRC is committed to the tenets of BBBEE and fully subscribes to legal, social and moral imperatives of BBBEE. It is important to view the BBBEE as an economic imperative, which requires financial investment and commitment from the company in addressing the identified challenges. The NHBRC must remain relevant as a State Owned Enterprise, by promoting transformation through attracting and supporting meaningful participation of BBBEE compliant individuals and enterprises when doing business with the NHBRC.

The table below shows the actual value of purchases placed with suppliers with shareholdings by historically disadvantaged individuals (HDIs).

Table 21: Procurement spend for the month

Procurement spend: HDI institutions	R299 579 535.07	64.75%
Procurement spend: non-HDI institutions	R163 115 085.00	35.25%

Of the R462 692 620 spent on procurement for the year, R299 579 535 was through HDI institutions, representing 64.75% of the total expenditure. The figures shown above are an indication of the NHBRC's continued effort to meet the targets set by the institution in contributing to the empowerment of historically disadvantaged individuals.

The procurement spends of R299 million on HDI included provision for the following services:

- Inspection of houses;
- Rectifications services;
- Actuarial evaluations;
- ERP implementation; and
- Water tanks.

Performance Report continued

CENTRE FOR INNOVATION AND RESEARCH

The object of the Act requires the NHBRC:

- 3(d) "to establish and promote ethical and technical standards in the home building industry"; and
- 3(e) "to improve structural quality in the interests of housing consumers and the home building industry";

The Council is furthermore empowered by the Act:

- 5(5)(a) "to engage in undertakings to promote improved structural quality of homes constructed in the Republic; and
- 5(5)(b) "to engage in undertakings to improve ethical and technical standards in the home building industry".

Based on the objects of the Act, the strategy of the NHBRC as embedded in its strategic corporate plan includes:

- Positioning the NHBRC as a leader in knowledge creation, technical and technological home building solutions through strategic partnerships; and
- Providing diversified services and products in line with changing building requirements and needs for the benefit of the housing consumer.

It is on the basis of the NHBRC strategy that the Council established a Centre for Research and Housing Innovation (The Centre) as a new Business Unit that will support the improvement of structural quality and technical standards in the home building industry, and to support the development of emerging home builders. By developing pragmatic and relevant research for the industry, The Centre will address the challenges of sustainable human settlements and will ensure that the NHBRC remains relevant regarding the initiatives of government.

In the current financial year, The Centre, although new, focused on the following programmes:

Promoting Technical Standards

In terms of the Act, the Minister is required to prescribe Technical Requirements relating to the Warranty Scheme. Furthermore, the NHBRC is required to publish a Home Building Manual (HBM) which contains the Technical Requirements prescribed by the Minister and guidelines established by the NHBRC to satisfy such requirements. Home builders are required to comply with the provisions of the HBM and to rectify at their own cost major structural defects or roof leakage in a home caused by non-compliance with the scheme requirements and occurring within a stipulated period.

This year, the NHBRC engaged with industry, which included representatives from the CSIR, Agrément SA, Council for Geoscience, SABS, National Regulator of Compulsory Specifications, Engineering Council of South Africa, South African Institute of Architects, etc, to review the current edition of the Home Building Manual. By the end of the year draft documents of the Technical Requirements and Home Building Manual were completed for public comment. It is anticipated that the Home Building Manual and the Guideline will be completed in the next financial year.

Promoting Green Building Technology and Innovative Building Technologies

- With a global move towards sustainable and energy efficient constructions, there is an increasing need for innovation within the home built environment. Developing sustainable communities requires the exploration of

alternative and innovative materials and products in the built environment.

- In South Africa, the most popular method of construction is the conventional "brick and mortar". This is a reliable technology and meets the minimum standards required for human habitation and settlement. The single major pitfall of this form of housing is that its rate of service delivery is not sufficient; hence innovations of a higher and rapid rate of delivery using innovative technologies needs to be investigated.
- The Centre has positioned itself as a catalyst for continuous innovation in the housing industry through strong partnerships with public and private organisations.
- The Centre has initiated programmes in the following areas:
 - Development and monitoring of a Green Building Certification in the residential sector in collaboration with other key stakeholders;
 - Promotion of green buildings in housing developments; and
 - Promoting the use of Innovative Building Technologies in housing development and associated infrastructure, such as sanitation.



NON-FINANCIAL PERFORMANCE

Table 22: Performance information for the 2013/2014 financial year

KPA	KPA budget	KPI no	KPI	Key activity	Yearly target	Target met / not met	Actual achievement	Reason for variation
1 Registration	R4.3m	1.1	Register a total of 2 975 home builders with the NHBRC	<ul style="list-style-type: none"> Register home builders Issue a certificate 	Register a total of 2 975 home builders with the NHBRC	Target met	A total of 3,175 home builders were registered with the NHBRC	This is attributed to the expectations of government tenders
2 Renewals of registration	R6.2m	2.1	A total of 10 480 home builders to renew registration with the NHBRC	<ul style="list-style-type: none"> Renewal of registration 	A total of 10 480 home builders to renew registration with the NHBRC	Target met	A total of 12 447 home builders renewed their registrations with the NHBRC	This is attributed to the expectations of government tenders
3 Enrolment	R395m	3.1	Enrol a total of 40 094 non-subsidy homes with the NHBRC	<ul style="list-style-type: none"> Enrol homes Issue of enrolment certificate 	Enrol a total of 40 094 non-subsidy homes with the NHBRC	Target met	A total of 48 891 enrolments of homes were done in the non-subsidy sector	This is attributed to an increase in demand in financial interventions programme rolled out by government in most provinces
4 Late enrolment	R512 000	4.1	Late enrolment of 1 002 home builders with the NHBRC	<ul style="list-style-type: none"> Late enrolment Issue an enrolment certificate 	Late enrolment of 1 002 home builders with the NHBRC	Target not met	A total of 1 743 homes were enrolled late with the NHBRC in the non-subsidy sector	This is due to home builders failing to submit the required documentation on time
5 Subsidy home enrolment	R128m	5.1	Subsidy home enrolment of 210 300 units with the NHBRC	<ul style="list-style-type: none"> Subsidy home enrolment 	Subsidy home enrolment of 210 300 units with the NHBRC	Target not met	A total of 119 440 homes were enrolled in the subsidy sector	This is due to NDHS slowness in rolling out the projects
6 Subsidy project enrolment	R63m	6.1	Subsidy project enrolment of 61 419 units with the NHBRC	<ul style="list-style-type: none"> Subsidy project enrolment 	Subsidy project enrolment of 61 419 units with the NHBRC	Target not met	A total of 26 719 homes were project enrolled with the NHBRC in subsidy sector	This is due to NDHS slowness in rolling out the projects
7 % reduction in the building of homes outside agreed standards and norms	R1m	7.1	80% of prosecution of home builders violating building standards and norms	<ul style="list-style-type: none"> Enforcing compliance and enforcement of regulations with the NHBRC 	80% of prosecution of home builders violating building standards and norms	Target met	A total of 93% of home builders were prosecuted for violating the Act/regulations of the NHBRC.	Team ensures that they meet the turnaround times as stipulated in balanced score-card
8 % compliance with building norms and standards	R3m	8.1	100% issue of interdicts to violating contractors to enforce compliance with building standards and norms	<ul style="list-style-type: none"> Issuing of interdicts to contractors violating building norms and standards 	100% issue of interdicts to violating contractors to enforce compliance with building standards and norms	Target met	100% achieved. All matters received were resolved without going to court because builders have subsequently complied with the Act	Interdicts are measures of last resort hence team focuses on ensuring compliance by defaulters
9 Training of home builders	R8.2m	9.1	A total of 3 500 emerging home builders to be trained	<ul style="list-style-type: none"> Training of home builders Issue of training certificates Courses accredited with CETA 	A total of 3 500 emerging home builders to be trained	Target not met	A total of 1 369 home builders were trained by the NHBRC.	Delays in advertisement of tender.
10 Training of youth	R4.7m	10.1	A total of 2 000 youth to be trained on construction skills	<ul style="list-style-type: none"> Training of youth Issue of training certificates 	A total of 2 000 youth to be trained on construction skills	Target not met	A total of 934 youths were trained by the NHBRC	Delays in advertisement of tender

Performance Report continued

Table 22: Performance information for the 2013/2014 financial year continued

KPA	KPA budget	KPI no	KPI	Key activity	Yearly target	Target met / not met	Actual achievement	Reason for variation
11 Inspection of non-subsidy to be undertaken	R45m	11.1	A total of 160 377 non-subsidy inspections to be undertaken	<ul style="list-style-type: none"> Non-Subsidy inspection to be undertaken 	A total of 160 377 non-subsidy inspection to be undertaken	Target met	A total of 221 107 homes were inspected in the non-subsidy sector	Team ensures that all homes enrolled with the NHBRC are inspected
12 Inspection of Subsidy to be undertaken	R170m	12.1	A total of 210 300 subsidy inspections to be undertaken	<ul style="list-style-type: none"> Subsidy inspections to be undertaken 	A total of 210 300 Subsidy inspections to be undertaken	Target met	A total of 230 217 homes were inspected in the subsidy sector	Team ensures that all homes are inspected by the NHBRC
13 Improvement in media confidence level in the NHBRC	R2m	13.1	100% handling of NHBRC medical queries	<ul style="list-style-type: none"> Responding to media queries 	100% handling of NHBRC medical queries	Target met	A total of 211 (100%) media queries were received in the year and were all resolved	Team ensures that all media queries are resolved with immediate effect
Improvement of the organisational climate	R2.1m	13.2	100% production of quarterly newsletter	<ul style="list-style-type: none"> Compilation and finalisation of the newsletter 	100% production of quarterly newsletter	Target met	An indaba was produced and published in every quarter	Team ensures that the targets are achieved
Improvement of the image of the NHBRC	R2m	13.3	65% improvement of the NHBRC perception survey	<ul style="list-style-type: none"> Gauging the level of NHBRC acceptance in the market 	65% improvement of the NHBRC perception survey	Target not met	The perception survey was not conducted in the quarter	Delays in securing a company that can conduct the survey
14 Home Building Manual	R298 000	14.1	100% review and publication of the Home Building Manual	<ul style="list-style-type: none"> Review and publication of the home building manual 	100% review and publication of the homebuilding manual	Target not met	75% of the Home Building Manual was reviewed and published	There is a legislative process that needs to be done
15 Enterprise Resource Planning	R16m	15.1	80% implementation of ERP solution	<ul style="list-style-type: none"> Implementing the Enterprise Resource Planning 	80% Implementation of ERP Solution	Target not met	35% completion of the ERP solution	None adherence to project deliverables and SAP quality standards from the implementor
16 Research publication	R500 000	16.1	Four Knowledge Management technical publications produced based on research	<ul style="list-style-type: none"> Production of research publication 	4 Knowledge management technical publication produced based on research	Target met	A total of four publications were produced	The articles were all published in Indaba magazine
17 Improved governance and organisational accountability	R1.7m	17.1	100% adherence to the Risk Management Plan	<ul style="list-style-type: none"> Improve governance Improve accountability 	100% adherence to the risk management plan	Target not met	80% of the Risk Management Plan was achieved	High staff turn over
		17.2	100% resolution of risk identified by category	<ul style="list-style-type: none"> Identify risks per division Timeframes established for the resolution of risks 	100% resolution of risk identified by category	Target not met	60% of the risks identified by category were resolved	There was a gap at Executive Management level
		17.3	Six divisional risk education events completed	<ul style="list-style-type: none"> Preparation conducted for educational events 	Six divisional risk education events completed.	Target met	A total of six divisional risk education events were completed	The division executed the risk educational events according to the plan

Table 22: Performance information for the 2013/2014 financial year continued

KPA	KPA budget	KPI no	KPI	Key activity	Yearly target	Target met / not met	Actual achievement	Reason for variation
18 Zero tolerance for fraud and corruption	R150 000	18.1	Six fraud prevention seminars to be carried out with divisions	<ul style="list-style-type: none"> Preparation conducted for hosting of seminar 	Six fraud prevention seminars to be carried out with divisions	Target not met	The division did not conduct the fraud prevention seminars for the year	Did conduct fraud prevention talks at induction programme
		18.2	100% prevention and identification of fraud incidents	<ul style="list-style-type: none"> Compilation of fraud incidents 	100% prevention and identification of fraud incidents	Target met	The division prevented and identified the fraud incidents within the NHBRC	All reported incidents acted upon
		18.3	100% investigation and resolution of the fraud incidences from the hotline	<ul style="list-style-type: none"> Investigation of reported cases Resolution of the investigate cases 	100% investigation and resolution of the fraud incidences from the hotline	Target met	All the cases from the hotline were investigated and resolved for the year	The divisions executed and resolved the cases as they came in
19 Reduction of audit queries	R200 000	19.2	100% audits conducted in accordance with the Audit Plan	<ul style="list-style-type: none"> Auditing the business of the NHBRC 	100% audits conducted in accordance with the audit plan	Target met	100% audits conducted in accordance with the Audit Plan	
		19.3	100% resolution of audit recommendations within agreed timeframes	<ul style="list-style-type: none"> Resolve audit queries 	100% resolution of audit recommendations within agreed timeframes	Target met	100% resolution of audit recommendations within agreed timeframes	
		19.4	Six divisional audit educational events carried out.	<ul style="list-style-type: none"> Preparation for the audit educational event 	Six divisional audit educational events carried out	Target met	Six divisional audit educational events carried out	
20 Collection of revenue by the NHBRC	R814 875 000	20.1	Amount collected from registration	<ul style="list-style-type: none"> Collection of revenue of R4 016 250 	Amount collected from registration	Target Met	A total of R4 169 720 was collected for the year	
		20.2	Amount collected from renewal of registration	<ul style="list-style-type: none"> Collection of revenue of R6 288 000 	Amount collected from renewal of registration	Target Met	A total of R8 656 225 was collected for the year	
		20.3	Amount collected from non-subsidy enrolments	<ul style="list-style-type: none"> Collection of revenue of R 395 838 682 	Amount collected from non-subsidy enrolments	Target Met	A total of R428 292 299 was collected for the year	
		20.4	Amount collected from subsidy home enrolments	<ul style="list-style-type: none"> Collection of revenue of R140 920 466 	Amount collected from subsidy home enrolments	Target Met	A total of R196 438 476 was collected for the year	
		20.5	Amount collected from subsidy project enrolments	<ul style="list-style-type: none"> Collection of revenue of R50 751 960 	Amount collected from subsidy project enrolments	Target not met	A total of R 16 515 161 was collected for the year	
		20.6	Amount collected from late enrolment of homes	<ul style="list-style-type: none"> Collection of revenue of R512 253 	Amount collected from late enrolment of homes	Target not Met	A total of R44 076 was collected for the year	
		20.7	Amount collected from Inspections of non-subsidy homes	<ul style="list-style-type: none"> Collection of revenue of R45 890 106 	Amount collected from Inspections of non-subsidy homes	Target met	A total of R59 189 248 was collected for the year	
		20.8	Amount collected from Inspection of Subsidy homes	<ul style="list-style-type: none"> Collection of revenue of R170,359,652 	Amount collected from Inspection of Subsidy homes	Target not met	A total of R1 005 579 was collected for the year	

Annual Financial Statements



Report of the Auditor-General to Parliament on the National Home Builders Registration Council

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the National Home Builders Registration Council set out on pages 56 to 97, which comprise the statement of financial position as at 31 March 2014, the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Management Finance Act of South Africa, 1999 (Act No 1 of 1999) (PFMA) and section 15(6)(c) of the Housing Consumers Protection Management Act (Act No 95 of 1998), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued

in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Home Builders Registration Council as at 31 March 2014 and its financial performance and cash flows for

the year then ended, in accordance with SA Standards of GRAP and the requirements of the PFMA and section 15(6)(c) of the Housing Consumers Protection Measures Act.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. With reference to note 26 to the financial statement, relating to pending cases which have been disclosed as contingent liabilities, the ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements

Restatement of corresponding figures

9. As disclosed in note 28 to the financial statements, the corresponding figures for 31 March 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the National Home Builders Registration Council at, and for the year ended, 31 March 2013.

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

11. The supplementary information as set out in Note 30 and Note 31 does not form part of the financial statements. I have not audited these schedules and accordingly I do not express an opinion thereon.

Report of the Auditor-General continued

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each sub-heading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected programmes presented in the annual performance report of the Council for the year ended 31 March 2014:
- Programme A: Home Builders Registration and Renewals on page 7
 - Programme B: Home Enrolments on page 8
 - Programme C: Compliance on page 8
 - Programme D: Training on page 9
 - Programme E: Inspections on page 10
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

Usefulness of reported performance information

15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPPI).

16. I did not raise any material findings on the usefulness of the reported performance information for the selected programmes.

Reliability of reported performance information

17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the selected programmes are as follows:
The FMPPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Programme A: Home Builders Registration and Renewals

Overall, 13.33% of the targets were not reliable because we were unable to obtain sufficient appropriate audit evidence for 16.66% of the targets. In addition, 1.66% of the targets were not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements.

Programme B: Home Enrolments, Programme C: Compliance and Programme D: Training

We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

Programme E: Inspections

Overall, 5% of the targets were not reliable because we were unable to obtain sufficient appropriate audit evidence for 4.4% of the targets. In addition, 9.9% of the targets were not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements.

Achievement of planned targets

Refer to the annual performance report on pages 45 to 47 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information in this report.

Compliance with legislation

I performed procedures to obtain evidence that the entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Financial statements

21. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 55(1)(b) of the PFMA. Irregular expenditure amounting to R25 948 634, identified by the auditors, was subsequently included in the disclosure note for irregular expenditure, resulting in the financial statements receiving an unqualified opinion.

Expenditure management

22. The accounting authority did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the Public Finance Management Act.

Procurement and contract management

23. Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulation 16A6.1.

24. Goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation 16A6.1.

25. Invitations for competitive bidding were not always advertised for a required minimum period of 21 days, as required by Treasury Regulation 16A6.3(c).

26. Quotations and competitive bids were procured from suppliers who did not have tax clearance with SARS confirming that their tax matters are in order.

Revenue management

27. The accounting authority did not take effective and appropriate steps to collect all money due, as required by section 51(1)(b)(i) of the Public Finance Management Act and Treasury Regulations 31.1.2(a) and 31.1.2(e).

Internal control

28. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below under the fundamentals of internal control are limited

to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

29. The accounting authority and management did not in all instances exercise adequate oversight responsibility regarding performance reporting, compliance and related internal controls.

Financial and performance management

30. The entity did not have a proper filing system to maintain information that supported the reported information in the annual performance report.

31. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

Auditor-General

Auditor-General
Pretoria



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Statement of Responsibility

for the year ended 31 March 2014

The Council, which is the Accounting Authority of the National Home Builders Registration Council (NHBRC), is responsible for the preparation, integrity and fair presentation of the annual financial statements of the NHBRC.

The annual financial statements for the year ended 31 March 2014 presented on pages 56 to 101 have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board.

They are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable and prudent judgements and estimates. The going concern basis has been adopted in preparing the annual financial statements. The Council have no reason to believe that the NHBRC will not be a going concern in the foreseeable future based on forecasts and available cash resources.

The Council is also responsible for the NHBRC's system of internal controls. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability of assets. These controls are monitored throughout the NHBRC by management

and employees, in an attempt to address the segregation of authority and duties with available resources. The Council continues to design and implement processes to monitor internal controls, to identify material breakdowns and implement timely corrective action.

The Council, and NHBRC management, treat corporate governance matters seriously, and whenever any instances of non-compliance to regulation are uncovered or reported, appropriate disciplinary measures in terms of policy and legislation are instituted.

The annual financial statements were approved by the Council on 31 July 2014 and are signed on its behalf by:



Advocate BM Madumise
Chairperson of Council



Mr M Mnyani
Chief Executive Officer

Date:

Audit and Risk Management Committee (ARMCO) Report

The ARMCO is pleased to report that it is properly constituted as required by section 77 of the PFMA and has complied with its responsibilities under section 38(1)(a) of the PFMA and paragraph 3.1.13 of the Treasury Regulations. The ARMCO also reports that it has adopted appropriate formal terms of reference as its ARMCO Charter, and has managed and regulated its affairs in

compliance with this Charter. As mandated, we hereby report on the functions of the ARMCO for the year ended 31 March 2014.

ARMCO Meetings and Attendances

The ARMCO consists of the members listed below. The Committee meets at least four times per annum in line with its approved Charter. Five meetings were held during the year under review, four were scheduled and one was special. The attendance record of the members is detailed below:

Members	Qualification	Scheduled meetings	Special meetings	Total meetings attended
Mr Z Fihlani – Chairperson - Independent Non-Council Member	CA(SA)	4	1	5
Ms R Moodley – Independent Non-Council Member	CA(SA); CIA, CCSA, MBL	4	1	5
Mr I Kotsoane – Council Member	Postgraduate Diploma (Governance and Political Transformation)	4	1	5
Mr G. Manack – Council Member	MSc (Public Policy and Development)	3	1	4
# Ms Z Vazi – Council Member	BCom (Accounting), HDip Acc, MBA	3	1	4
*Ms B Madikizela – Council Member	CA(SA)	1	0	1
Ms B Nzo – Council Member	BSc Hons (Quantity Surveying)	3	1	4

Substituted by Ms Madikizela effective from 1 November 2013

* Appointed on 30 October 2013

Effectiveness of Internal Controls

In carrying out its mandate as conferred to it by its Charter, and section 27.1.8 of the Treasury Regulations (March 2005), the Committee confirms that by taking into consideration the reports by various assurance sources it has reviewed and assessed the following:

- The effectiveness of the internal control systems;
- The effectiveness of the internal audit and finance functions;
- The effectiveness of the risk management process;
- The scope of risk areas to be covered by internal and external audits;
- The adequacy, reliability and integrity of operational and financial information and

reports used by management and governance overseers;

- The entity's compliance framework and implementation thereof;
- The reports on significant investigations and outcomes thereof; and
- The independence of the external auditors.

There has been a steady improvement in the organisation's control environment; however the ARMCO is of the opinion that there is a need for more focused management action in the following critical areas:

- IT governance and data integrity;
- Revenue accounting, especially regarding the record keeping of the underlying supporting information;

- Compliance across the business ;
- Procurement with emphasis on preventing irregular expenditure;
- Leadership oversight on financial and performance reporting;
- Business continuity and recovery processes; and
- Performance information reporting.

The ARMCO noted with concern the continued reporting around Performance Information deficiencies and Irregular Expenditure. Management will be tasked to give these two areas the necessary urgency and attention they deserve to ensure a quick turnaround regarding accounting, recording and reporting in these areas.

Audit and Risk Management Committee (ARMCO) Report continued

Although the ARMCO is satisfied that the internal accounting control area has improved, more effort is still required to ensure that the controls are adequately designed and operating effectively to ensure completeness, accuracy and reliability of the financial records for preparing the annual financial statements, and that accountability for assets and liabilities is maintained.

The NHBRC has continued to use a hybrid Internal Audit function that incorporated a core in-house team and had access to subject matter experts for complex business areas. The model has made a significant impact on the coverage and review of significant business areas and processes, but there is still room for improvement to get its focus to include areas such as asset and liability management and other activities associated with the short term insurance operations of the business.

Once again, despite the noted improvements, the Committee remains concerned around the gravity of some of the matters raised in the External Auditor's reports to management. The Committee also noted areas of lack of progress by management in addressing reported internal control shortcomings. To this end, it is imperative that management undertake a comprehensive risk and control maturity assessment to establish the organisation's level of control maturity and to identify appropriate strategies to address gaps. The Committee will also engage the Council to consider various initiatives that will see a radical positive change regarding implementation and maintenance of adequate and effective governance, risk and control processes in the NHBRC.

Evaluation of Financial Statements and Management Reports

In terms of section 3.1.13 of the Treasury Regulations (March 2005), the Committee has reviewed and evaluated the following:

- Effectiveness of Internal Controls;
- Quality of Management Reports; and
- The Annual Financial Statements.

Management Reports

The ARMCO has noted that the information management system that produces management reports faced significant challenges during the year resulting in lengthy responses to provide the requested supporting information; furthermore, it is worrying to note that in three strategic key performance areas of the organisation the relevant performance information to support reported achievements could not be availed for audit at all. The NHBRC, it must be reported, however, has embarked on a long term solution to this problem by resolving on the implementation of SAP ERP solution (scheduled go-live date April 2015) to address these frequent system problems and disruptions. The business, however, as reported in prior years, still relies on disparate systems for reporting, with the attendant system interface risks (the reliability and integrity of data may be materially compromised); however, this did not impact on meeting the statutory reports' submission deadlines as set in section 8(1) of the PFMA.

A detailed action plan to address and improve the process issues highlighted during the audit will be developed by management and progress in resolving the issues will be reported and monitored accordingly.

Annual Financial Statements

The ARMCO has:

- Reviewed and discussed the audited annual financial statements to be included in the Annual Report with the Auditor-General and the Chief Executive Officer. It has noted with concern the matters raised in the Auditor-General's report.
- Reviewed the Auditor-General's management letter and the substance of management's response and action plans thereto;
- Reviewed changes in accounting policies and practices, where appropriate; and
- Reviewed significant adjustments resulting from the audit.

The ARMCO concurs with and accepts the Auditor-General's conclusions on the annual financial statements, and recommends that the audited financial statements read together with the report of the Auditor-General be accepted and approved by the Council for submission to the Shareholder and publication for the NHBRC stakeholders.



Signature
Chairperson of ARMCO

31 July 2014

Statement of Financial Position

as at 31 March 2014

	Notes	2014 R'000	Restated 2013 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	2	98 259 299	36 449 456
Intangible assets	3	57 007 633	40 577 524
Investments	4	2 425 159 324	1 873 407 955
		<u>2 580 426 256</u>	<u>1 950 434 935</u>
Current assets			
Investments	4	1 997 005 732	2 101 021 244
Inventories	5	181 503	243 848
Trade and other receivables	6	35 678 126	35 733 758
Cash and cash equivalents	7	147 483 450	134 506 947
		<u>2 180 348 812</u>	<u>2 271 505 824</u>
		<u>4 760 775 068</u>	<u>4 221 940 760</u>
EQUITY AND LIABILITIES			
Equity			
Accumulated surplus		3 274 279 231	3 051 094 676
Emerging contractor reserve		20 419 828	29 029 492
		<u>3 294 699 059</u>	<u>3 080 124 168</u>
LIABILITIES			
Non-current liabilities			
Provision for outstanding claims	10	30 143 782	28 546 767
Provision for unearned premium	10	371 762 257	226 860 411
Provision for unexpired risk	10	645 731 568	563 324 404
		<u>1 047 637 607</u>	<u>818 731 582</u>
Current liabilities			
Trade and other payables	11	171 891 207	125 865 738
Provisions	12	3 095 266	4 537 732
Provision for outstanding claims	10	11 947 734	19 537 936
Provision for unearned premium	10	231 504 195	173 143 604
		<u>418 438 402</u>	<u>323 085 010</u>
Total equity and liabilities		<u>4 760 775 068</u>	<u>4 221 940 760</u>

Statement of Financial Performance

for the year ended 31 March 2014

	Notes	2014 R'000	Restated 2013 R'000
Insurance premium revenue	13	339 061 715	568 476 259
Fee revenue	14	30 951 854	47 477 895
Technical services revenue	15	42 214 463	215 989 718
Interest received and investment income	16	218 047 369	199 183 248
Realised profit on sale of financial assets	4	97 185 568	143 092 105
Other income	17	5 425 437	6 155 467
Net income		732 885 865	1 180 374 692
Insurance claims and loss adjustment expenses	18	2 273 540	8 884 344
Inspections and operating expenses		62 894 274	56 849 342
Technical services expenditure		26 652 774	235 913 941
Administration expenses		416 724 764	343 794 695
Asset management services		9 765 621	9 607 586
Expenses		518 310 972	655 049 908
Surplus from operating activities	19	214 574 893	525 324 784
Finance costs	20	-	8 470
Surplus for the year		214 574 893	525 316 314

Statement of Changes in Net Assets

for the year ended 31 March 2014

	Notes	Accumulated surplus R'000	Emerging contractor reserve R'000	Total R'000
Balance at 31 March 2012 – restated		2 523 490 242	31 317 612	2 554 807 853
Surplus for the year ended 31 March 2013		525 316 314	-	525 316 314
Reserve utilised (note 8)	8	2 288 120	(2 228 120)	-
Balance at 31 March 2013 – restated		3 051 094 676	29 029 492	3 080 124 167
Surplus for the year ended 31 March 2014		214 574 893	-	214 574 893
Reserve utilised (note 8)		8 609 664	(8 609 664)	-
Balance at 31 March 2014		3 274 279 231	20 419 828	3 294 699 060

Cash Flow Statement

for the year ended 31 March 2014

	Notes	2014 R' 000	Restated 2013 R' 000
Cash flows from operating activities			
Cash generated from operations	21.1	252 657 978	80 448 277
- Cash receipts from customers		412 283 151	863 372 859
- Cash paid to suppliers and employees		(159 625 173)	(782 924 582)
Interest paid		-	(8 470)
Interest received		6 255 651	1 389 248
Net cash inflow from operating activities		258 913 629	81 829 055
Cash flows from investing activities			
Purchase of property, plant and equipment		(68 122 400)	(6 034 203)
Proceeds on disposal of property, plant and equipment	21.2	-	-
Purchase of intangible assets		(20 529 482)	(34 837 169)
Purchase of financial assets		(324 000 000)	(1 915 098 735)
Proceeds on sale of financial assets	21.3	174 981 484	1 978 155 704
Net cash inflow/(outflow) from investing activities		(237 670 399)	22 185 597
Cash flows from financing activities			
Claims paid		(8 266 727)	(12 558 677)
Net cash outflow from financing activities		(8 266 727)	(12 558 677)
Net increase in cash and cash equivalents		12 976 503	91 455 975
Cash and cash equivalents at beginning of year		134 506 947	43 050 972
Cash and cash equivalents at the end of the year	21.4	147 483 450	134 506 947

Notes to the Annual Financial Statements

for the year ended 31 March 2014

1. Summary of significant accounting policies

The NHBRC is a statutory body incorporated in terms of the Housing Consumers Protection Measures Act, (Act No 95 of 1998). Its principal business is the regulation of the home building industry and protection of housing consumers by the establishment of a Warranty Fund.

1.1 Basis of preparation

In terms of section 55(1) of the Public Finance Management Act (Act No1 of 1999) (PFMA), the NHBRC is required to comply with South African Statements of Generally Recognised Accounting Practice.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board and International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments measured at fair value;
- Financial instruments at fair value through profit or loss are measure at fair value; and
- Technical liabilities are measured at actuarial values.

The methods used to measure fair value are detailed in note 1.13.

During the year, a number of standards of GRAP became effective for the current financial period.

A brief description of these standards as well as an estimate of the impact is contained in note 1.3. A full list of the GRAP Framework is contained in Directive 5. In the absence of a GRAP standard, the GRAP hierarchy in GRAP 3 – Accounting policies, changes in accounting estimates and errors are used to develop an appropriate accounting policy. In terms of GRAP 3, judgement must be used when developing an accounting policy. In applying judgement, GRAP 3 requires that management refers to and considers the applicability of the following sources in descending order:

- (a) the requirements and guidance in Standards of GRAP dealing with similar and related issues; and
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements.

These accounting policies are consistent with those of the prior financial year.

The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value less point of sale costs, and incorporate the principal accounting policies set out below.

The NHBRC concluded that the annual financial statements present fairly the Council's financial position, financial performance and cash flow for the year ended in accordance with SA Standards of GRAP and in the manner required by the PFMA and section 15(6)(c) of the Housing Consumers Protection Measures Act (Act No 95 of 1998).

1.2 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is given in the following notes:

- Technical liabilities;
- Impairment of financial assets; and
- Measurement of the recoverable amount from provincial departments.

1.3 Application of new accounting standards

The following standards, amendments to standards and interpretations which are relevant to the Council, have been adopted in these financial statements:

GRAP 1: Presentation of Financial Statements (Revised)

Incorporates guidance on how entities as part of their accounting policies should disclose the extent to which they have taken advantage of any transitional provisions in adopting the standards of GRAP and commentary should be added to explain where there has been a departure from a particular Standard of GRAP and that departure is material, entities cannot claim compliance with Standards of GRAP.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

GRAP 3: Changes in Accounting Estimates and Errors (Revised)

Provides clarity that changing an entity's basis of accounting is a change in an accounting policy, and that certain changes within a basis of accounting may also be a change in accounting policy.

GRAP 9: Revenue from Exchange Transactions (Revised)

The definition of revenue in terms of GRAP 9 incorporates the concept of service potential. Revenue is the gross inflow of economic benefits or service potential when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Entities may derive revenue from exchange or non-exchange transactions.

An exchange transaction is one in which the entity receives resources or has liabilities extinguished, and directly gives approximately equal value to the other party in exchange.

Non-exchange revenue transaction is a transaction where an entity receives value from another entity without directly giving approximately equal value in exchange.

An entity recognises revenue when it is probable that economic benefits or service potential will flow to the entity, and the entity can measure the benefits reliably.

Clarifies that this standard only applies to revenue from exchange transactions. This standard will not have a material impact on the NHBRC.

GRAP 12: Inventories (Revised)

The fair value measurement has been removed. Inventories are not measured at their fair value except if the entity is a commodity broker, which is not common in the public sector.

GRAP 13: Leases (Revised)

Incorporates additional guidance on the concept of substance and legal form of a transaction, to illustrate the difference between lease and other contracts and on operating lease incentives. In certain circumstances, legislation may prohibit the entering into certain types of lease agreements. If the entity has contravened these legislative requirements, the entity is still required to apply the requirements of GRAP 13.

Other than the abovementioned requirements, there is no other impact on the initial adoption of GRAP 13.

GRAP 14: Events After the Reporting Date (Revised)

An event, which could be favourable or unfavourable, that occurs between the reporting date and the date the annual financial statements are authorised for issue. The impact of the standard is not material.

GRAP 16: Investment Property (Revised)

This standard prescribes the accounting treatment for investment property and related disclosure requirements. The impact of the standard is not material.

GRAP 17: Property, Plant and Equipment (Revised)

Does not require or prohibit the recognition of heritage assets, but if an entity recognises heritage assets the entity needs to comply with GRAP 17 disclosure requirements.

Additional commentary has been included to clarify the recognition and measurement of exploration and evaluation assets in terms of GRAP 17.

Where assets are held for rental to others in the ordinary course of operations and the entity subsequently sells the assets, the Standard of GRAP on Non-current Assets held for Sale and Discontinued Operations does not apply. The sale of such assets is treated under GRAP 12 on inventories.

The disclosure requirement for temporarily idle, fully depreciated property, plant and equipment that are retired from active use is encouraged rather than required.

The disclosure of the cost of property, plant and equipment measured at fair value is no longer required.

The impact of the standard is not material but will result in additional disclosure.

GRAP 19: Provisions, Contingent Liabilities and Contingent Assets

Excludes from its scope those provisions and contingent liabilities arising from social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits.

For the purpose of GRAP 19, social benefits refer to goods, services and other benefits provided in the pursuit of the social policy objective of a government. This standard includes guidance on the accounting of these social benefits.

Outflow of resources embodying service potential also needs to be considered when assessing if a present obligation that arises from past events exists or not.

Additional disclosure for each class of provision regarding reductions in the carrying amounts of provisions that result from payments or other outflows of economic benefits or service potential made during the reporting period and reductions in the carrying amounts of provisions resulting from re-measurement of the estimated future outflow of economic benefits or service potential, or from settlement of the provisions without cost to the entity. The impact of the standard is not material.

GRAP 104: Financial Instruments

Financial Instruments should also be applied retrospectively, except where indicated otherwise. In previous reporting periods, entities would have applied IAS 39 or, they may have used GRAP 104 to formulate their accounting policies. The main difference between GRAP 104 and IAS 39 is the elimination of certain categories of financial assets in GRAP 104. As a result of these differences in categorisation, entities should analyse the financial assets recognised as at 31 March/30 June 2012 and categorise them using the requirements in GRAP 104. Entities should also take note of the carrying values and fair values of any instruments at that date as these will form the basis of either the fair value or carrying value going forward.

The impact of this standard is material and has been applied retrospectively with additional disclosure.

1.3.1 Standards, interpretations and amendments to published standards effective for reporting periods commencing on or after 1 April 2012 not adopted by the NHBRC

GRAP 100: Non-current Assets held for Sale

The impact of the standard is not material but will result in additional disclosure.

GRAP 27: Agriculture

1.4.1 The following Standards of GRAP should be applied by public entities, constitutional institutions, municipalities and municipal entities for the period beginning 01 April 2014

- GRAP 18: Segment Reporting;
- GRAP 20: Related Party Disclosure;
- GRAP 32: Service Concession Arrangement: Grantor;
- GRAP 105: Transfer of Functions between Entities under Common Control;
- GRAP 106: Transfer of Control between Entities not Under Common Control;
- GRAP 107: Mergers; and
- GRAP 108: Statutory Receivables.

1.4.2 Effective GRAP Standards affected by the improvements project

- GRAP 1: Presentation of Financial Statements;
- GRAP 2: Cash Flow Statements;
- GRAP 3: Accounting policies, Changes in Accounting Estimates and Errors;
- GRAP 7: Investments in Associates;

- GRAP 10: Financial Reporting in Hyperinflationary Economies;
- GRAP 11: Construction Contracts;
- GRAP 13: Leases;
- GRAP 17: Property Plant and Equipment;
- GRAP 19: Provisions, Contingent Liabilities and Contingent Assets;
- GRAP 21: Impairment of Non-cash-generating Units;
- GRAP 24: Presentation of Budget Information in Financial Statements;
- GRAP 25: Employee Benefits;
- GRAP 26: Impairment of Cash-generating Assets;
- GRAP 31: Intangible Assets;
- GRAP 103: Heritage Assets; and
- GRAP 104: Financial Instruments.

1.5 Insurance technical result

The technical result is determined on an annual basis whereby the incurred cost of insurance claims and related expenses, together with any change in other technical provisions is charged against the earned proportion of insurance premiums, as follows:

Insurance premiums written

Insurance premiums are defined as an enrolment fee in terms of section 14 of the Housing Consumers Protection Measures Act. Insurance premiums written relate to business incepted during the year, together with any differences between booked insurance premiums for prior years and those previously accrued. They include the insurance premiums for the whole of the period of risk covered by the warranty regardless of whether or not these are wholly due for payment in the accounting period.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

Insurance premiums written comprise the total insurance premiums payable by the insured to which the insurer is contractually entitled and are shown net of insurance premium refunds. Insurance premiums written exclude value added taxation.

Unearned insurance premiums

In terms of the Housing Consumers Protection Measures Act (Act No 95 of 1998), the Council shall provide a warranty to housing consumers for a maximum period of five years from the date of occupation. Insurance premiums are earned over the period of the policy commensurate with the expected incidence of risk. In reaching its assessment of the pattern of risk, the Council makes reference to past insurance claims experience. Unearned insurance premiums represent the proportion of insurance premiums written that is held to cover expenses, claims and profits attributable for future years of warranty cover.

In determining the unearned premium provision, initial expenses are deducted from the enrolment fee. The remaining portion of the enrolment fee is assumed to be earned over the life of the policy in accordance with the earnings curve. Initial expenses are earned uniformly over two quarters. The unearned premium provision includes an allowance for the future release of profits.

Insurance claims incurred

Insurance claims incurred, comprise insurance claims and related expenses paid in the year and changes in the outstanding claims provision, including provisions for insurance claims incurred but not reported and related expenses, together

with any other adjustments to insurance claims from previous years. Insurance claims are typically reported relatively quickly after the insurance claims event and are therefore subject to significantly less uncertainty than future insurance claims events.

Insurance claims outstanding represent the cost of settling all insurance claims arising from events that have occurred up to the balance sheet date, including the provision for insurance claims incurred but not reported, less any amounts paid in respect of those insurance claims.

In estimating the cost of notified but not paid insurance claims, the Council has regard to the insurance claim circumstances as reported. Basic chain ladder techniques are applied to project outstanding remedial work payments for each complaint period. The difference between the ultimate claims and the claims paid to date produced a result which includes both the "Incurred But Not Reported" and "Notified Outstanding Claims" provisions.

Unexpired risk provisions

An unexpired risk provision is made where the estimated cost of insurance claims, related expenses and deferred acquisition costs exceed unearned insurance premiums, after taking account of future investment income. An assessment is made at the year-end for the estimated cost of insurance claims, which will arise during the unexpired terms of policies in force at the balance sheet date. The estimated cost of insurance claims includes expenses to be incurred in settling insurance claims.

The provisions are inevitably subject to inherent uncertainties because of the range of factors, which could give rise to potentially significant insurance claims over the five-year period covered by the "unexpired risk provision". The time expected to elapse between the inceptions of policies, the manifestation of events giving rise to insurance claims, and the notification to and settlement by the Council of such insurance claims accentuate these uncertainties.

In calculating the estimated cost of future insurance claims, actuarial and statistical projections of the frequency and severity of future insurance claims events are used to project ultimate settlement costs.

Such projections are based on current facts and circumstances. Due to inherent uncertainties a significant degree of caution has been included in exercising the judgement required for setting the unexpired risk provision at a level such that the Council is confident that it is not understated.

Given the inherent uncertainty in estimating the cost of future insurance claims, it is likely that the final outcome will prove to be different from the estimate established at the balance sheet date. Any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified.

Liability adequacy test

The solvency of the Warranty Fund is tested annually by an independent actuarial service company. The assessment is to confirm the solvency of the organisation and its ability to meet

its future obligations. The results of the actuarial valuation indicated that the NHBRC as a whole, including both subsidy and non-subsidy houses, is solvent and able to fund its liabilities on a run-off basis. The change in mix of business between subsidy and non-subsidy houses and enrolment fee structures will in future determine the solvency position of the NHBRC.

1.6 Revenue recognition

Revenue arising from registration, renewal, late enrolment, non-subsidy enrolments, and subsidy home enrolments are recognised on the accrual basis when cash and appropriate supporting documentation is obtained.

Revenue arising from subsidy project enrolment fees and technical services are recognised on the accrual basis.

Revenue from the sale of goods and service are recognised when significant risks and rewards of ownership have been transferred to the buyer.

Interest income is accrued on a time proportion basis, taking into account the principal outstanding amount and the effective interest rate over the period to maturity.

1.7 Irregular, unauthorised, fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA, or any legislation providing for procurement procedures in government.

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government or organ of state and expenditure in the form of a grant that is not permitted in terms of the PFMA.

Fruitless and wasteful expenditure means expenditure that was made in vain and could have been avoided had reasonable care been exercised.

All irregular, unauthorised, fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.8 Taxation

No provision has been made for South African Normal Tax as the Council has been granted exemption in term of section 10(1)(cA)(i) of the Income Tax Act, No 58 of 1962.

1.9 Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

Items of property, plant and equipment are initially recognised at cost, being the cash price equivalent at the recognition date. Expenditure on additions and improvements to property, plant and equipment, including the cost of related interest is capitalised as the expenditure is incurred.

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Change in useful lives

Management re-assessed the useful lives of computer equipment and office furniture.

Depreciation is charged to surplus or deficit so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The following rates are used for the depreciation of property, plant and equipment:

Computer equipment	20,0% pa
Office furniture	6,7% pa
Office equipment	10,0% pa
Motor vehicles	10,0% pa
Buildings	5,0% pa
Minor assets	1 year

Land is not depreciated.

The residual values, useful lives and economic consumption patterns for all items of property, plant and equipment are reviewed annually and, if necessary, the consequent depreciable amounts, rates and methods are adjusted at each balance sheet date. Any changes are accounted for as changes in accounting estimates and included in surplus or deficit for the current and future periods by adjusting the relevant future depreciation charges.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

The gain or loss arising from the disposal or retirement of an asset is determined by deducting the carrying value from the proceeds on the date of disposal and are included in surplus or deficit.

1.10 Intangible assets

The intangible assets are purchased and have a finite life. Amortisation is recorded by a charge to income computed on the straight-line basis, after adjusting for residual value at the end of their useful life, so as to write off the cost of the assets over their expected useful lives. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year and adjusted if appropriate. The useful life of intangible assets was reviewed and the following rate is used for the amortisation of intangible assets:

Computer software	14,29% pa
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Subsequent expenditure is capitalised only when it creates the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands is recognised in profit or loss when incurred.

1.11 Impairment

The carrying values of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where the carrying value exceeds the estimated recoverable amount, such assets are written down to their estimated recoverable amount.

Impairment losses are recognised as an expense in the statement of financial performance.

Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income.

1.12 Inventories

Inventories are initially measured at cost and subsequently written down to the lower of cost and estimated net realisable value. Any write-down is recognised in surplus or deficit. Cost is calculated using the first-in-first-out method and comprises direct purchase costs. Estimated net realisable value is the estimated selling price in the ordinary course of business, less any costs to be incurred in distribution.

1.13 Financial instruments

Significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed below:

Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an

investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets are classified into the following specified categories: financial instruments at fair value, financial instruments at amortised cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Financial instruments at fair value

Unlisted shares and listed redeemable notes, traded in an active market are classified as financial instruments at fair value and are stated at fair value. Fair value is determined in the manner described in note 25. Gains arising from changes in fair value are recognised directly in the statement of comprehensive income, this is not consistent with prior years as a result of the adoption of GRAP 104 which has been applied retrospectively. Impairment losses are recognised directly in surplus or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised is included in surplus or deficit for the period.

Financial instruments at amortised cost

Trade receivables, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial instruments at amortised cost. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. For unlisted shares classified as fair value financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, including financial assets at amortised cost, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in surplus or deficit.

With the exception of fair value derivative financial assets, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through surplus or deficit to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

De-recognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from that asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Where the risks and

rewards of ownership are not transferred or retained continue to control the transferred asset, the retained interest in the asset and the associated liabilities are recognised. Where risks and rewards of ownership are retained, the financial asset and a collateralised borrowing are recognised.

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period.

The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

De-recognition of financial liabilities

Financial liabilities are derecognised when, and only when, the obligations are discharged, cancelled or they have expired.

1.14 Cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand and short term bank deposits.

1.15 Leased assets

Rentals payable under operating leases are charged to surplus or deficit on a straight-line basis over the term of the relevant lease. Benefits

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

1.16 Investments

Investments are made in terms of an approved investment policy and investment strategy approved by the accounting authority in terms of Treasury Regulation 31.3.1 and 31.3.2.

1.17 Value added tax

No provision has been made for Value Added Taxation as the Council was deregistered as a vat vendor on 01 April 2011 in terms of the Revenue Laws Amendment Acts, Nos 45 of 2003 and 32 of 2004 which came into operation on 01 April 2005.

1.18 Financial guarantees

Financial guarantees are contracts that require a Bank to make specified enrolment payments to the NHBRC at the expiration of a certain period stated in the financial guarantee. Financial guarantees are initially recognised at their fair value and the initial value is amortised over the life of the financial guarantee. The guarantee liabilities are included in other current liabilities.

1.20 Provisions

Provisions are recognised if, as a result of a past event, the NHBRC has a present legal or constructive obligation that can be estimated reliably and is probable that an outflow of economic resources will be required to settle the provision.

Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

1.21 Events after the reporting period

An event, which could be favourable or unfavourable, that occurs between the end of the reporting period and the date that the financial statements are authorised for issue.

Adjusting event: An event that after the reporting period provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.

Non-adjusting event: An event after the reporting period that is indicative of a condition that arose after the reporting period.

1.22 Related parties

The NHBRC operates in an economic environment currently dominated by entities directly owned by the South African Government. As a result of the constitutional independence of all spheres of government (national, provincial and local) in South Africa, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with authority and responsibility for planning, directing and controlling the activities of the NHBRC. All individuals from Council to executive management are key management individuals.

Close family members of key management personnel are considered to be those family members who may be expected to influence or be influenced by key management in their dealings with the NHBRC.

Other related party transactions are also disclosed in terms of the requirements of IAS 24. The objective of the standard and the financial statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

1.23 Critical accounting judgements and key sources of estimation uncertainty

Certain critical accounting policies require the use of judgement in their application or require estimates of inherently uncertain matters. Listed below are those policies that the Council believe are critical and require the use of complex judgement in their application.

Insurance technical result

The accounting for the insurance technical result as disclosed in note 1.5 requires the Council to make certain assumptions that have a significant impact on the revenues, expenses and liabilities that are recorded for these insurance premiums. The expected impact as recorded in note 10 are based on historical performances, current and long-term outlooks and the actuarial statistics compiled and updated by the actuarial industry on an on-going basis.

Plant and equipment

Residual values and estimated useful lives are assessed on an annual basis. The residual values of vehicles are estimated on published second hand vehicle values as well as trading history. The residual values of all other assets are estimated to be zero.

2. Property, plant and equipment

	Computer equipment R	Office furniture and equipment R	Motor vehicles R	Land R	Building R	Total R
Year ended 31 March 2014						
Opening net book amount	6 382 241	8 865 486	371 880	1 453 947	19 375 902	36 449 456
Additions	3 644 153	4 841 033	244 197	16 298 000	43 095 017	68 122 400
Disposals	(3 594 859)	(1 328 810)	(695)	-	-	(4 924 364)
Depreciation on disposal	3 330 708	1 309 907	695	-	-	4 641 310
Depreciation charge	(2 710 022)	(1 931 939)	(120 031)	-	(1 267 511)	(6 029 503)
Closing net book amount	7 052 221	11 755 677	496 046	17 751 947	61 203 408	98 259 299
At 31 March 2014						
Cost	19 183 077	22 722 652	1 136 897	1 453 947	84 898 809	129 395 382
Accumulated depreciation	(12 130 856)	(10 966 974)	(640 850)	-	(7 397 402)	(31 136 082)
Net book amount	7 052 221	11 755 677	496 046	1 453 947	77 501 407	98 259 299
Year ended 31 March 2013						
Opening net book amount	4 613 991	8 811 452	485 890	1 453 947	21 347 090	36 712 371
Additions	4 053 277	1 980 926	-	-	-	6 034 203
Disposals	(2 479 801)	(74 228)	-	-	-	(2 554 029)
Depreciation on disposal	2 390 354	41 693	-	-	-	2 432 047
Depreciation charge	(2 195 580)	(1 894 357)	(114 010)	-	(1 971 189)	(6 175 136)
Closing net book amount	6 382 241	8 865 486	371 880	1 453 947	19 375 901	36 449 456
At 31 March 2013						
Cost	19 133 786	19 214 432	893 391	1 453 947	25 505 793	66 201 350
Accumulated depreciation	(12 751 546)	(10 348 946)	(521 511)	-	(6 129 891)	(29 751 894)
Net book amount	6 382 241	8 865 486	371 880	1 453 947	19 375 902	36 449 456

Land

Land comprises of ERFs 1085 & 1086 situated in Leeuwkop Road Sunninghill, and Soshanguve A Township, Registration Division JR, Province of Gauteng; under General Plan No A9923/1996 and held by Certificate of Registered Title No T4866/1997. The register of land is available at the Council's premises.

Buildings

Buildings comprise of a head office located in Leeuwkop Road, Sunninghill, show houses, a training centre and a conference centre at the Eric Molobi Housing Innovation Hub. The Hub was established towards the end of 2005 at Thorntree View, Soshanguve A, in the Tshwane Metropolitan Municipality in Gauteng.

Useful lives

The residual values and estimated useful lives are reflected under "Critical accounting judgements and key sources of estimation uncertainty" (note 1.9) in the summary of significant accounting policies.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

3. Intangible assets

	Computer software R	Total R
Year ended 31 March 2014		
Opening net book amount	40 577 524	40 577 524
Additions	20 529 482	20 529 482
Disposals	(73 790)	(73 790)
Amortisation on disposal	73 790	73 790
Amortisation charge	(4 099 373)	(4 099 373)
Closing net book amount	57 007 633	57 007 633
At 31 March 2014		
Cost	115 057 279	115 057 279
Accumulated amortisation	(58 049 646)	(58 049 646)
Net book amount	57 007 633	57 007 633
Year ended 31 March 2013		
Opening net book amount	11 372 762	11 372 762
Additions	34 837 169	34 837 169
Disposals	(4 500)	(4 500)
Amortisation on disposals	4 500	4 500
Amortisation charge	(5 632 407)	(5 632 407)
Closing net book amount	40 577 524	40 577 524
At 31 March 2013		
Cost	94 601 588	94 601 588
Accumulated amortisation	(54 024 063)	(54 024 063)
Net book amount	40 577 524	40 577 524

Impairment

The carrying value of the assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated.

4. Investments

Investments represent investments in cash, listed bonds, securities and equities, which generate interest and dividend income and trading gains/losses.

4. Investments (continued)

	2014 R	2013 R
<i>Investments carried at fair value comprise the following:</i>		
Money market investments	1 844 480 030	2 101 021 244
CPD money market	152 525 702	-
Listed bond securities and equity		
- Short-term < 7 years	1 174 542 976	206 749 196
- Medium-term 7 to 12 years	129 180 190	98 376 658
- Long-term > 12 years	365 521 124	656 917 410
- Inflation linked bonds, equity and derivatives	459 331 550	381 733 793
	4 125 581 572	3 444 798 301
Derivative financial instruments at fair value	296 583 483	529 630 898
	4 422 165 055	3 974 429 198
<i>Split between non-current and current</i>		
Non-current portion	2 425 159 324	1 873 407 955
Current portion	1 997 005 732	2 101 021 244
Total	4 422 165 055	3 974 429 200
None of these financial assets are either past due or impaired		
<i>Reconciliation of opening and closing balance</i>		
Opening balance	3 974 429 199	3 693 648 974
Capital additions	324 000 000	1 915 098 731
Interest accrued	202 857 272	189 615 095
Dividend income	8 934 445	8 222 540
Disposals	(174 981 486)	(1 915 640 660)
Withdrawals	-	(50 000 000)
Administration fee	(10 259 944)	(9 607 586)
Fair value gain on financial instruments	97 185 568	143 092 105
	4 422 165 055	3 974 429 199

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

4. Investments (continued)

4.1 Credit quality of financial assets (continued)

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

Financial assets at fair value

(Bonds, money market, equities and structured products)

	2014 R	2013 R
Fitch		
F1	181 689 238	196 029 271
F2	1 809 077	7 467 724
F1+	1 638 377 123	1 692 916 097
BB-	40 411 986	-
A	1 082 008	78 001 684
A-	57 315 788	15 846 938
A+	626 138 553	59 394 871
AA	406 888 738	296 013 471
AA-	206 844 182	111 215 372
AA+	47 417 250	307 292 498
AAA	152 525 702	552 205 671
Aaa	9 965 265	
BBB-	306 047 923	
BBB	-	275 214 705
	3 676 512 833	3 591 598 304
Moody		
A1	26 128 783	-
A2	41 768 277	
Aaa	309 125 545	
Aa2	23 912 179	-
Aa3	8 997 080	-
Baa2	3 522 282	
Baa3	56 591 745	-
	470 045 891	-

4. Investments (continued)

4.1 Credit quality of financial assets (continued)

	2014 R	2013 R
(Bonds, money market, equities and structured products) (continued)		
GCR		
A	19 627 130	
A+	10 156 334	
AA+	4 988 241	
BBB+	3 905 453	
A-	7 616 900	
	46 294 058	
Issuer Rated		
A	–	–
AA	1 002 739	–
	1 002 739	–
Equity exposure	228 309 533	382 830 895
	4 422 165 054	3 974 429 199
Fitch ratings were available for all the above listed financial assets in 2014. In 2014 GCR, Moody and Issuer Rated were used where Fitch ratings was not available.		
5. Inventories		
Builders' manuals at cost	181 503	243 848
6. Trade and other receivables		
Net trade receivables	19 422 603	18 848 784
- Trade receivables	32 850 549	34 016 511
- Less provision for impairment	(13 427 946)	(15 167 727)
Other receivables:		
- Deposits	971 648	153 849
- Sundry debtors	15 283 875	16 731 151
	35 678 126	35 733 785

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

6. Trade and other receivables (continued)

	2014 R	2013 R
The fair values of trade and other receivables are as follows:		
Trade receivables	32 850 549	34 016 511
Deposits	971 648	153 849
	33 822 197	34 170 360
Ageing of past due but not impaired is as follows:		
Amounts in 60 to 120 days	2 053 584	6 321 794
Amounts in 120 days +	13 427 946	15 167 727
	15 481 530	21 489 521
Movements on the provision for impairment of trade receivables is as follows:		
At 01 April 2013	(15 167 727)	(13 439 323)
Provision for receivables impairment	-	(1 728 404)
Unused amounts reversed	1 739 781	-
At 31 March 2014	(13 427 946)	(15 167 727)
In determining the recoverability of trade receivables, the NHBRC considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is high due to the customer base being Provincial Human Settlements Departments.		
6.1 Credit quality of financial assets		
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.		
Trade receivables		
Counterparty with external credit rating (Fitch)		
BBB	32 850 549	34 016 511
Total unimpaired trade receivables	32 850 549	34 016 511
Note: The customer is the National and Provincial Department of Human Settlements		

7. Cash and cash equivalents

	2014	2013
	R	R
Cash balances	147 446 236	134 479 210
Short-term bank deposits	37 214	27 737
	147 483 450	134 506 947

FNB uses the credit rating of FirstRand Bank Ltd which has a credit rating of BBB.

The NHBRC currently has a guarantee with FNB in favour of Barinor Properties (Pty) Ltd to the value of R274 794.66.

This guarantee was issued on 15 June 2012 and expires on 31 May 2015.

8. Emerging contractor reserve

The reserve was established to develop programmes to assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building in terms of section 3(h) of the Housing Consumers Protection Measures Act (Act No 95 of 1998). The emerging contractor reserve has been established, with Ministerial approval, to develop programmes targeted at the empowerment of emerging home builders registered with the NHBRC, which will enable learners to be able to start and manage their own construction contracting businesses. The Council utilised R8 609 664 (2013: R2 288 120) for home builder training in the current financial year.

9. Non-distributable reserve

The non-distributable reserve relates to unrealised gains/losses on available-for-sale investments. This reserve is not substantiated by cash reserves, which makes it inaccessible to the NHBRC. The NDR has been released to the Statement of Comprehensive Income as a result of the adoption of GRAP 104.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

10.1 Technical actuarial liabilities

Balance at 31 March 2012

Increase during the year (note 18)

Utilised during the year (note 18)

Increase/(decrease) during the year (note 13)

Balance at 31 March 2013

Increase during the year (note 18)

Utilised during the year (note 18)

Increase/(decrease) during the year (note 13)

Balance at 31 March 2013

Current

Non-current

Balance at 31 March 2014

Current

Non-current

	Outstanding claims R	Unearned premium R	Unexpired risk R	Total R
Balance at 31 March 2012	51 759 036	322 481 382	602 408 953	976 649 371
Increase during the year (note 18)	8 884 344	-	-	8 884 344
Utilised during the year (note 18)	(12 558 677)	-	-	(12 558 677)
Increase/(decrease) during the year (note 13)	-	77 522 633	(39 084 549)	38 438 084
Balance at 31 March 2013	48 084 703	400 004 015	563 324 404	1 011 413 122
Increase during the year (note 18)	2 273 540	-	-	2 273 540
Utilised during the year (note 18)	(8 266 727)	-	-	(8 266 727)
Increase/(decrease) during the year (note 13)	-	203 262 437	82 407 164	285 669 601
Balance at 31 March 2013	42 091 516	603 266 452	645 731 568	1 291 089 536
Current	19 537 936	173 143 604	-	192 681 540
Non-current	28 546 767	226 860 411	563 324 404	818 731 582
Balance at 31 March 2013	48 084 703	400 004 015	563 324 404	1 011 413 122
Current	11 947 734	231 504 195	-	243 451 929
Non-current	30 143 782	371 762 257	645 731 568	1 047 637 607
Balance at 31 March 2014	42 091 516	603 266 452	645 731 568	1 291 089 536

10.2 Basis and methodology of valuation

Best practice actuarial techniques were applied to value the insurance liabilities of the NHBRC on a run-off basis, using best estimate assumptions per general practice in the South African short-term insurance industry and IFRS 4. The valuation followed as best as it could the Advisory Practice Note 401 (APN401) of the actuarial society.

The Outstanding Claims Provision (OCP) is determined at a 99.5% sufficiency level. This is consistent with the Financial Services Board's proposed Financial Condition Reporting Requirements, which will require companies to hold liabilities at the 75% level, and capital at 99.5%.

The OCP has been estimated by applying chain ladder techniques to a run-off triangle of remedial work claims paid grouped by quarter of complaint. The Bornhuetter Ferguson (BF) method was used to calculate the OCP, as this method was most suitable to the data. The methodology is consistent with that applied in the prior year. The OCP includes insurance claims incurred, changes in outstanding claims provision, and provision for insurance claims incurred but not yet reported.

The Unearned Premium Provision (UPP) has been estimated using the enrolment fee earnings curve, having deducted initial expenses which are assumed to be earned uniformly over the first two quarters following the enrolment date (being the estimated period between enrolment and occupation dates). This methodology is consistent with that used in the prior year.

Sensitivity

The unexpired risk provision (URP) is the sum of all UPPs plus any additional unexpired risk provision (AURP) that may be required if the unearned premium is considered to be inadequate to pay for the unexpired risks.

10.3 Assumptions

The basis of assumptions used are consistent with those used in the prior year valuation. The discount rate and inflation rates are consistent with the market. The ultimate complaint rate is dependent on a run-off triangle (historical and projected) of complaints. Actuarial judgement was applied on setting other assumptions supported by internal data.

Key assumption	2014		2013	
	Non-subsidy	Subsidy	Non-subsidy	Subsidy
Discount rate	7.57%	7.57%	5.73%	5.73%
General price inflation	7.73%	7.73%	6.51%	6.51%
Future building cost inflation	7.73%	7.73%	7.01%	7.01%
Historical building cost inflation	4.40%	n/a	6.20%	n/a
Ultimate complaint rate	2.59%	2.59%	2.62%	2.62%
BF complaints loss ratio	2.39%	n/a	2.43%	n/a
Remedial work rate	2.64%	2.64%	2.64%	2.64%
Average claim cost	R202 498	R44 656	R174 831	R30 294
Initial expense ratio	68.00%	8.00%	66.00%	30.00%
BF method loss ratio	2.50%	2.50%	2.50%	2.50%
BF method tail factor	10.00%	10.00%	10.00%	10.00%
Spread of risk period	Per earnings curve (of complaints)		Per earnings curve (of complaints)	

10.4 Sensitivity analysis

The various components of the provisions are sensitive to various factors. The UPP is mostly driven by the initial expense ratio and the earnings curve. The UPP is sensitive to the earnings curve, even though the high level of initial expenses in non-subsidy sector which results in only 42% of the enrolment fees being held as the UPP negates this sensitivity to some extent. The initial expense ratio affects the current component of the UPP held to meet inspection costs still ongoing. The requirement for AURP makes the total provisions insensitive to the initial expense ratio (for 2013/2014). The OCP is sensitive to the net real discount rates and the BF Tail Factor. The AURP is also sensitive to the net real discount rate in addition to the average remedial claim amount, the remedial work rate, the ultimate complaint rate, and to a lesser extent the development of complaints as suggested by the earnings curve.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

	2014	Restated 2013
	R	R
11. Trade and other payables		
Trade payables and accrued expenses	44 718 915	44 740 514
Operating lease accrual	879 022	1 153 334
Income received in advance (KwaZulu-Natal Rectification Work and Eastern Cape Forensics projects)	76 493 351	32 204 656
Leave accrual	15 428 260	11 778 530
Unidentified receipts	3 772 133	1 517 108
Cash received in advance	15 560 783	20 823 278
Retentions	15 038 742	13 648 318
	171 891 207	125 865 738

The NHBRC has financial risk management policies to ensure that all payables are paid within the credit timeframe. Due to the short-term nature of the payables, management believes that the carrying amount approximates the fair value.

12. Provisions

	Legal Fees	Other	Total
Balance at 1 April 2013	3 037 732	1 500 000	4 537 732
- Utilised during the year	(3 037 732)	(1 500 000)	(4 537 732)
- Raised during the year	2 978 582	116 684	3 095 266
Balance at 31 March 2014	2 978 582	116 684	3 095 266
Balance at 1 April 2012	6 179 008	7 189 105	13 368 113
- Utilised during the year	(6 179 008)	(7 189 105)	(13 368 113)
- Raised during the year	3 037 732	1 500 000	4 537 732
Balance at 31 March 2013	3 037 732	1 500 000	4 537 732

The "Other" provisions consist of professional fees payable which will be settled in the new financial year.

	2014	Restated 2013
	R	R
13. Insurance premium revenue		
Premium received	624 730 776	606 914 343
Change in unearned premium provision (note 10)	(203 262 437)	(77 522 633)
Change in unexpired risk provision (note 10)	(82 407 164)	39 084 549
	339 061 175	568 476 259
14. Fee revenue		
Annual registration fees	1 614 223	1 473 638
Annual renewal fees	8 656 225	8 054 917
Registration fees	2 555 497	2 111 160
Builder manual fees	517 774	427 764
Subsidy project enrolments fees	16 515 161	34 240 457
Late enrolment fees	44 075	657 626
Document sales	1 048 900	512 333
	30 951 854	47 477 895
15. Technical services revenue		
Forensic audit, geotechnical and rectification work	42 214 463	215 989 718
	42 214 463	215 989 718
16. Investment income		
Investment income earned on financial assets, analysed by category of asset, is as follows:		
Income from investments	202 857 272	189 571 459
Dividend income	8 934 445	8 222 541
Income from loans and receivables (cash and cash equivalents)	6 255 651	1 389 248
	218 047 369	199 183 249

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

	2014	Restated 2013
	R	R
17. Other income		
Sundry income	4 259 233	6 135 467
Movement in provision for doubtful debts	-	-
Legacy project income	-	-
Penalties	1 166 204	20 000
	5 425 437	6 155 467
18. Insurance claims and loss adjustment expenses		
Current year warranty claims	8 266 727	12 558 677
Decrease in the outstanding claims provision	(5 993 187)	(3 674 333)
	2 273 540	8 884 344
19. Results from operating activities		
Results from operating activities is arrived at after taking into account the following:		
Auditor's remuneration	3 610 150	3 103 377
Depreciation	6 029 503	6 175 136
Computer equipment	2 710 022	2 195 580
Office furniture and equipment	1 931 939	1 894 357
Motor vehicles	120 031	114 010
Buildings	1 267 511	1 971 189
Amortisation of intangible assets	4 099 373	5 632 407
Net loss on disposal of property plant and equipment	283 055	121 982
Emerging contractor training	8 609 664	2 288 120
Rentals in respect of operating leases	17 170 432	15 781 644
The Council leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.		

	2014	Restated 2013
	R	R
19. Results from operating activities (continued)		
The future minimum lease payments are as follows:	6 644 377	13 999 788
Not later than one year	4 834 648	5 972 137
Later than two years and not later than five years	1 809 728	8 027 651
Salaries and related costs	245 534 932	195 008 551
Directors' emoluments	7 682 537	5 719 594
Executive directors		
- For managerial services	6 378 562	4 635 397
Non-executive directors		
- For services as directors	1 303 975	1 084 197
20. Finance costs		
Interest paid – late payments	-	8 470
21. Notes to the cash flow statement		
21.1 Cash generated from operations		
Surplus for the year	214 574 893	525 316 314
Adjustments for:		
Depreciation	6 029 503	6 175 136
Amortisation	4 099 373	5 632 407
Administration fee	10 259 944	9 607 586
Net loss on disposal of property, plant and equipment	283 055	121 982
Fair value gain on financial instruments	(97 185 568)	(143 092 105)
(Decrease)/increase in provisions	(1 442 466)	(8 830 382)
Increase in technical liabilities	287 943 139	34 763 751
Dividend received	(8 934 445)	(8 222 541)
Interest paid	-	8 470
Interest received	(209 112 923)	(190 960 707)

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

	2014	Restated 2013
	R	R
21. Notes to the cash flow statement (continued)		
21.1 Cash generated from operations (continued)		
Operating income before working capital changes	206 514 506	230 519 911
Decrease/(increase) in inventories	62 345	150 682
Decrease/(increase) in trade and other receivables	55 659	31 428 988
Decrease in trade and other payables	46 025 468	(181 651 304)
	252 657 978	80 448 277
21.2 Proceeds on disposal of property, plant and equipment		
Net book value	283 055	121 982
Net loss on disposal of property, plant and equipment	(283 055)	(121 982)
	-	-
21.3 Proceeds on sale of financial assets		
Net book value	174 981 484	1 978 155 704
	174 981 484	1 978 155 704
21.4 Cash and cash equivalents		
Cash and cash equivalents consist of cash balances and short-term bank deposits. Cash and cash equivalents included in the cash flow statement comprise the following amounts:		
Cash on hand and balances with banks	147 483 450	134 506 947

22. Remuneration

22.1 Total cost - Non-executive Council members

	Fees	Cell phone allowance	Subsistence and travel	Total 2014	Total 2013
S Nene ¹	-	-	-	-	11 350
S De Gois ¹	-	-	-	-	5 580
A Goliger ¹	-	-	-	-	8 361
SP Hlahane ²	95 308	9 600	7 465	112 373	91 465
SM Maja-Masilo ²	135 727	9 600	29 924	175 251	118 221
VC Mehana (Chairperson) ¹	-	-	-	-	70 098
BA Mhlabeni ¹	-	-	-	-	27 250
M Mkhize ¹	-	-	-	-	30 539
X Daku ³	113 862	9 600	3 790	127 252	77 309
IW Kotsokane ³	111 870	9 600	2 087	123 557	113 690
S Loonat ³	114 191	9 600	2 812	126 603	113 495
Adv BM Madumise ³ (Chairperson)	180 860	9 600	2 188	192 648	167 419
G Manack ³	-	-	-	-	-
BN Ndzo ³	48 123	9 600	7 222	64 945	70 972
SP Ngwenya ³	71 977	9 600	2 249	83 826	64 638
LA Potwana ³	-	-	-	-	-
Z Vazi ³	120 507	9 600	4 910	135 017	113 810
B Madikizela ⁴	18 509	4 000	1 386	23 895	-
MC Markgraaf ⁵	138 608	-	-	138 608	-
	1 149 542	90 400	64 033	1 303 975	1 084 197

¹ Term ended 30 April 2012

² Re-appointed to the Council 01 May 2012

³ Appointed to the Council 01 May 2012

⁴ Appointed to the Council 01 September 2013

⁵ Appointed to the Council 01 December 2013

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

22. Remuneration (continued)

22.2 Total cost – Top management

	Salaries	Cell phone allowance	Subsistence and travel and acting allowance	Total 2014	Total 2013
S Mashinini (Chief Executive Officer) ¹	-	-	-	-	642 931
M Mnyani (Chief Executive Officer)	2 375 431	42 000	22 082	2 439 513	-
T Ngqobe (Chief Operations Officer) ²	1 368 221	28 000	8 183	1 404 404	-
	3 743 652	70 000	30 265	3 843 917	642 931

¹ Terminated 31 May 2012

² Appointed 01 August 2013

22.3 Total cost – Executive Managers

K Modise (Executive Manager Corporate Services) ¹	675 617	12 000	-	687 617	-
C Thorp (Chief Financial Officer) ²	1 556 831	22 500	11 924	1 591 255	1 988 518
J Mahachi (Technical and Information Technology) ³	-	-	-	-	2 003 948
W Bellingan ⁴	249 973	5 000	800	255 773	-
	2 482 421	39 500	12 724	2 534 645	3 992 466

¹ Appointed on 01 November 2013

² Contract expired at 31 December 2013

³ Acting capacity ended on 28 February 2013

⁴ Appointed on 01 February 2014

22.4 Bonuses

	2014 R	Restated 2013 R
Executive Managers		
J Mahachi (Technical and Information Technology)	59 520	100 668
C Thorp (Chief Financial Officer)	57 134	106 297
	116 654	206 964

	2014	Restated 2013
	R	R
23. Related parties		
23.1 Transactions with the Department of Human Settlements:		
Subsidy project enrolment fee (note 14)	16 515 161	34 240 457
Insurance premium revenue	196 438 477	245 968 738
Technical service revenue (note 15)	42 214 463	215 989 718
Subsidy project enrolment fee and insurance premium revenue relates to transactions with the following Departments of Human Settlements: KwaZulu-Natal Department of Human Settlements, Eastern Cape Department of Human Settlements, Western Cape Department of Human Settlements, Gauteng Department of Human Settlements, Limpopo Department of Local Government and Housing, Mpumalanga Department of Human Settlements, North West Department of Human Settlements, Free State Department of Human Settlements and Northern Cape Department of Human Settlements.		
Technical service revenue relates to: KwaZulu-Natal Department of Human Settlements Eastern Cape Department of Human Settlements		
Balances with the Department of Human Settlements:		
Trade receivable (note 6)	32 850 549	34 016 511
Income received in advance (note 11)	76 493 351	32 204 656

Income received in advance relates to the KwaZulu-Natal Department of Human Settlements and the Eastern Cape Department of Human Settlements.

The NHBRC provides a warranty for both non-subsidy and government subsidised homes. The fee payable by government in the subsidy market comprises 1% project enrolment fee, 0.75% home enrolment fee and 2.01% for consolidated projects. The subsidy income is funded by national government through the Department of Human Settlements.

23.2 Transactions with other related parties

Key management are individuals who have authority and responsibility for planning, directing and controlling the activities of the Council, directly or indirectly.

For remuneration of key management personnel refer to note 22.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

	2014	Restated 2013
	R	R
24. Fruitless, wasteful and irregular expenditure		
24.1 Reconciliation of fruitless and wasteful expenditure		
Opening balance	272 053	830
Add: Fruitless and wasteful expenditure relating to prior year	-	-
Add: Fruitless and wasteful expenditure relating to current year	45 000	271 223
Less: Amounts condoned	-	-
Fruitless and wasteful expenditure awaiting condonation	317 053	272 053
Analysis of awaiting condonation per economic classification		
Current	45 000	272 053
Capital	-	-
24.2 Analysis of current year's fruitless and wasteful expenditure		
Incident		
Interest paid to suppliers	-	8 470
SARS penalty	-	262 753
Ligwa Chartered Accountants	45 000	-
	45 000	271 223
24.3 Reconciliation of irregular expenditure		
Opening balance	508 500 258	201 304 234
Add: Irregular expenditure relating to prior year	95 494 087	30 507 319
Add: Irregular expenditure relating to current year	34 962 628	276 688 705
Less: Amounts condoned	-	-
Irregular expenditure awaiting condonation	638 958 973	508 500 258
Analysis of awaiting condonation per age classification		
Current year	34 964 628	276 688 705
Prior year	603 994 345	231 811 553
Total	638 958 973	508 500 258

The additional irregular expenditure from the prior year relates to transactions with a value from R5 000 to R500 000 which should have been procured by means of a three quotation system.

24. Fruitless, wasteful and irregular expenditure (continued)

24.4 Details of irregular expenditure - current year

		2014	2013
		R	R
Incident	Action taken	Amount	Amount
Hydrotek International ⁽¹⁾	Contract cancelled and not renewed	-	12 107 122
Extension to non-subsidy inspectorate ⁽²⁾	Extension was approved by the Council, contracts expiring at 31 May 2014	29 985 987	32 053 274
Water tank Installations ⁽³⁾	Approved by the Council	-	15 242 653
Tita I.T. Solutions ⁽⁴⁾	Supplier services terminated	-	492 550
Clickware I.T. Solutions ⁽⁵⁾	Supplier services terminated	-	196 350
The Mortgage ⁽⁶⁾	Responsible manager issued with a warning	-	51 300
Miscellaneous expenditure ⁽⁷⁾	Invoices approved by Line Managers. In some cases disciplinary action taken against responsible person	641 494	5 156 565
Lease contracts for office buildings ⁽⁸⁾	Condoned by the Bid Adjudication Committee	-	2 646 354
Rectification and forensics appointments ⁽⁹⁾	Action taken against responsible person and matter reported to National Treasury	25 696 482	148 479 722
Izenozonke Technology (Pty) Ltd ⁽¹⁰⁾	Under investigation by management	3 933	373 568
Nomkhanzi Trading CC ⁽¹¹⁾	Under investigation by management	291 145	266 920
LMR and Projects ⁽¹²⁾	Under investigation by management	6 950	29 548
Morena Corporate Service CC ⁽¹³⁾	Under investigation by management	347 107	748 803
Motheo Construction Group (Pty) Ltd ⁽¹⁴⁾	Action taken against responsible person and matter reported to National Treasury	-	339 444
ERP system ⁽¹⁵⁾	None due to the resignation of the SCM Specialist. However, the SCM Division has been restructured and an SCM Manager has been employed. The contract with the service provider was terminated	22 383 922	46 671 156
Training contracts ⁽¹⁶⁾	None due to the resignation of the SCM Specialist. However, the SCM Division has been restructured and an SCM Manager has been employed	2 064 659	2 625 998
Security contracts ⁽¹⁷⁾	Action taken against responsible person and matter reported to National Treasury	2 857 423	1 826 311
KwaZulu-Natal Master Builders & Allied Industries Association ⁽¹⁸⁾	Action taken against responsible person and matter reported to National Treasury	6 454 392	2 817 190
Lebea Development and Projects ⁽¹⁹⁾	Under investigation by management	457 012	539 359
Huge Telecom Managed Telecommunication ⁽²⁰⁾	Under investigation by management	932 933	840 761
THS Systems CC ⁽²¹⁾	None due to the resignation of the SCM Specialist. However, the SCM Division has been restructured and an SCM Manager has been employed. The contract ended in November 2013	93 024	754 400
Experian South Africa (Pty) Ltd t/a Kreditinform ⁽²²⁾		2 364 676	2 429 358
BBR Design SA (Pty) Ltd	Under investigation by Management	9 928 943	-
Amount carried over to next page		104 510 080	276 688 705

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

24. Fruitless, wasteful and irregular expenditure (continued)

24.4 Details of irregular expenditure - current year (continued)

		2014	2013
		R	R
Incident	Action taken	Amount	Amount
Amount carried forward from prior page		104 510 080	276 688 705
Travel Management Services ^(23 - 24)	Under investigation by management	20 033 740	-
Ummsizi Office Supplies-NHB001 ⁽²⁴⁾	Under investigation by management	310 765	-
Ribex (Pty) Ltd ⁽²⁴⁾	Under investigation by management	151 057	-
Jonti Tenders ⁽²⁴⁾	Under investigation by management	268 627	-
Kgantsho Cleaning & Projects ⁽²⁴⁾	Under investigation by management	208 470	-
Datacentrix ⁽²⁴⁾	Under investigation by management	579 832	-
Generator Boys CC ⁽²⁴⁾	Under investigation by management	233 510	-
Home Grown Solutions CC t/a Centre for Community Education ⁽²²⁾	Under investigation by management	739 796	-
Leps Training consultants and service provider ⁽²²⁾	Under investigation by management	432 117	-
Thuthuka skills training ⁽²²⁾	Under investigation by management	1 028 100	-
Tjeka Training Matters (Pty) Ltd ⁽²²⁾	Under investigation by management	886 324	-
Industries Education and Training Institute (Pty) Ltd ⁽²²⁾	Under investigation by management	600 210	-
Expired Tax Clearance Certificates ⁽²⁵⁾	Under investigation by management	476 087	-
		130 458 716	276 688 705

24. Fruitless, wasteful and irregular expenditure (continued)

24.4 Details of irregular expenditure – current year (continued)

- ⁽¹⁾ The advertisement for the appointment of Hydrotek International was not advertised for 21 days as stipulated by the Treasury Regulations; the advert was only open for 16 days which deems this expenditure as irregular.
- ⁽²⁾ The extension to the non-subsidy inspectorate contracts was outside the Delegation of Authority of the CEO; as a result the expenditure has been classified as irregular.
- ⁽³⁾ The contract with the project management company (Hydrotek International) expired but the contracts with the installing agencies were not terminated. A new SLA was signed that did not follow the tender process.
- ⁽⁴⁾ The supplier was engaged to perform a back-up function to BMS staff members in the prior year without following the Supply Chain Management Policy. The supplier was not used in the current financial year.
- ⁽⁵⁾ The supplier was engaged in the prior year to perform a back-up function for BMS staff members on SAP training for two months without following the Supply Chain Management Policy. This supplier was not used in the current financial year.
- ⁽⁶⁾ The supplier was appointed to publish advertisements on behalf of the NHBRC in their publication in the prior year. This was done without following the Supply Chain Management Policy. This supplier was not used in the current financial year.
- ⁽⁷⁾ Relates to transactions with suppliers not on the database and which did not follow the Supply Chain Management Policy; excluded are claims, sponsorships, water tanks and Department of Human Settlements training.
- ⁽⁸⁾ Various lease contracts for office buildings were entered into or extended without the approval of the Bid Adjudication Committee. These were approved by the Bid Adjudication Committee in September 2013.
- ⁽⁹⁾ The appointment of the companies that performed the forensic investigations contravened the Supply Chain Management Policy. The appointments were above the delegated authority of the CEO; as a result the total expenditure for the rectification programme has been classified as irregular.
- ^{(10) - (13)} Written price quotations were not obtained from at least three different prospective suppliers for procurement with a transaction value of between R10 000 and R500 000.
- ^{(14) & (18)} Goods and services with a transaction value of more than R500 000 were not procured through a competitive bidding process.
- ^{(15) - (17)} Competitive bids were not advertised for a minimum period of 21 days before closure.
- ^{(19) & (21)} The preference point system was not applied in the procurement of goods and services above R30 000.
- ⁽²⁰⁾ Goods and services with a transaction value of more than R500 000 were not procured through a competitive bidding process.
- ⁽²²⁾ Competitive bids were not advertised for a minimum period of 21 days before closure.
- ⁽²³⁾ Goods or services with a transaction value of R2 000 up to R5 000 were procured without obtaining at least three verbal or written quotes, or orders have not been placed against written confirmation for quotations submitted verbally.
- ⁽²⁴⁾ Goods or services with a transaction value of R5 000 up to R500 000 were procured without inviting at least three written quotations from prospective suppliers.
- ⁽²⁵⁾ Tax clearance certificates for the service providers could not be located; the issue is being investigated by management.
-

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

25. Financial instruments

25.1 Categories of financial instruments and maturity profile

	0-1 R	>1 Year R	Restated Total R
2014			
FINANCIAL ASSETS			
Loans and receivables	19 422 603	–	19 422 603
Trade and other receivables	147 483 450	–	147 483 450
Cash and cash equivalents			
Financial assets at fair value			
Investments	1 997 005 732	1 669 244 290	3 666 250 022
Derivative financial instruments	–	755 915 033	755 915 033
Total financial assets	2 163 911 785	2 425 159 324	4 589 071 109
FINANCIAL LIABILITIES			
Financial liabilities at amortised cost			
Trade and other payables	44 718 915	–	44 718 915
2013			
FINANCIAL ASSETS			
Loans and receivables			
Trade and other receivables	35 733 785	–	35 733 785
Cash and cash equivalents	134 506 947	–	134 506 947
Financial assets at fair value			
Investments	2 101 021 244	1 343 777 057	3 444 798 301
Derivative financial instruments	–	529 630 898	529 630 898
Total financial assets	2 271 261 976	1 873 407 955	4 144 669 931
FINANCIAL LIABILITIES			
Financial liabilities at amortised cost			
Trade and other payables	44 740 514	–	44 740 514

25. Financial instruments (continued)

25.2 Categories of financial instruments

	Loans and receivables	Derivative financial instruments	Fair value investments	Total
31 March 2014				
Derivative financial instruments	-	296 583 483	-	296 583 483
Fair value financial assets	-	-	4 125 581 572	4 125 581 572
Trade and other receivables	35 678 126	-	-	35 678 126
Cash and cash equivalents	147 483 450	-	-	147 483 450
Total	183 161 576	296 583 483	4 125 581 572	4 605 326 631

31 March 2013

Derivative financial instruments	-	529 630 898	-	529 630 898
Fair value financial assets	-	-	3 444 798 301	3 444 798 301
Trade and other receivables	35 733 785	-	-	35 733 785
Cash and cash equivalents	134 506 947	-	-	134 506 947
Total	170 240 732	529 630 898	3 444 798 301	4 144 669 931

31 March 2014

	Financial liabilities at amortised cost	Total
Lease liabilities	879 022	879 022
Trade and other payables	171 012 185	171 012 185
Total	171 891 207	171 891 207

31 March 2013

Lease liabilities	1 153 334	1 153 334
Trade and other payables	124 712 404	124 712 404
Total	125 865 738	125 865 738

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

25. Financial instruments (continued)

25.3 Liquidity risk

Liquidity risk is the risk that the NHBRC will not be able to meet its financial obligations as they fall due.

The NHBRC manages liquidity risk by maintaining adequate reserves, and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Refer to note 25.1 for the maturity profile of financial instruments.

The amounts disclosed in the table below are contractual undiscounted cash flows:

	Less than 3 months	Between 3 months and 1 year	Between 1 year and 2 years	Over 2 years
At 31 March 2014				
Operating lease liability	-	879 022	-	-
Trade and other payables	59 757 657	111 254 528	-	-
At 31 March 2013				
Operating lease liability	-	1 153 334	-	-
Trade and other payables	58 388 832	66 323 572	-	-

25.4 Fair value of financial instruments

The NHBRC considers that the carrying amounts of trade and other receivables, cash and cash equivalents and trade and other payables approximate their fair values due to the short-term nature of these assets and liabilities.

The fair values of financial assets represent the market value of quoted instruments and other traded instruments.

For non-listed investments and other non-traded financial assets, fair value is calculated using discounted cash flows with market assumptions, unless the carrying amount is considered to approximate fair value.

The fair values of financial liabilities carried at amortised cost is calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

25.5 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The NHBRC does not undertake transactions in foreign currencies and is thus not unduly exposed to foreign currency risk.

25.6 Capital risk

The NHBRC manages its capital to ensure that the NHBRC will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The NHBRC's overall strategy remains unchanged from the 2013/ 2014 financial year.

25.7 Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the NHBRC. Financial assets, which potentially subject the NHBRC to concentrations of credit risk, consists principally of cash and cash equivalents and trade and other receivables.

25. Financial instruments (continued)

25.7 Credit risk (continued)

The NHBRC's cash and cash equivalents are placed with high credit quality financial institutions. Refer to note 6 for further information on the NHBRC's exposure to credit risk with regards to trade and other receivables.

If there is no independent rating, credit quality of the customer is assessed taking into account the customer's financial position, past experience and other factors.

There has been no significant change during the financial year, or since the end of the financial year, to the NHBRC's exposure to credit risk, the approach to the measurement or the objectives, policies and processes for managing this risk. The NHBRC does not grant credit limits to the National Department of Human Settlements and does not expect any losses from non-performance by the Human Settlements Department.

25.8 Management risk

The underwriting risk of the NHBRC is governed by the Housing Consumers Protection Measures Act (Act No 95 of 1998) and the risk of defaulting home builders.

The premiums on the non-subsidy sector are based on the selling price of the home to be constructed, and applied on a sliding scale limited to a maximum premium of R34 000 and a maximum claim of R500 000 per home.

The premiums for the subsidy sector are based on 0,75% and 2,01% for consolidated subsidy projects.

The risk to the NHBRC and housing consumers is managed primarily through the assessment and registration of home builders who have the appropriate financial, technical, construction and management capacity for their specific business.

Within the insurance process, concentration of risks may arise in the subsidy market where a particular event or series of events could impact the NHBRC technical liabilities. Such concentrations may arise from a single contract or through a number of related contracts in concentrated housing developments.

The NHBRC is invested predominantly in fixed interest investments, exposed to interest rate risk. The investment strategy has moved closer, in the past three financial years, to the target of a return in excess of inflation as the NHBRC has inflation linked liabilities. Although the liabilities of the NHBRC are within five years, over 20% of assets are invested in fixed interest assets maturing beyond five years. This though is less than in previous years, prior to the 2010/2011 shift in investment strategy, where over 25% of invested assets were maturing beyond five years.

The results of the actuarial valuation indicate that the NHBRC as a whole, including both subsidy and non-subsidy houses, is solvent and in a sound financial position as at 31 March 2014 when valued on a run-off basis. The actuarial liabilities are 343% funded. However, for future business, the enrolment fees currently charged are adequate to cover expenses of the NHBRC and remedial claims for both subsidy and non-subsidy homes.

Enrolment fee adequacy						
Utilisation	All houses		Non-subsidy		Subsidy	
	Amount	%	Amount	%	Amount	%
Enrolment and inspections	1 857	40	5 724	59	199	8
Complaints conciliations	360	8	1 106	11	40	2
Remedial claims	189		417		92	4
average	62		137		30	
99,5% variation margin	127		280		62	
Total expenses and claims	2 406	52	7 247	75	332	13
Average fee per enrolment	4 622		9 644		2 470	
Surplus/deficit	2 216	48	2 396	25	2 138	87

Table 8: Enrolment fee adequacy table. The surplus as a % of an average fee per enrolment has improved from 11% in 2012/2013 to 48% in 2013/2014.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

25. Financial Instruments (continued)

25.8 Management risk (continued)

Although there was downward management of expenses in 2009/2010 and 2010/2011, the continued trend of above inflation increases seen in 2011/2012, 2012/2013 and 2013/2014 and the significant future planned increases in expenditure if not coupled with similar significant increases in business volumes, could threaten the future of the NHBRC business.

25.9 Insurance risk

The primary insurance activity carried out by the NHBRC assumes that the risk to the Warranty Fund relates to the warranty cover as defined in the Act as amended. The insurance premiums are received in advance as a "home enrolment fee" and a portion of the insurance premium is invested in terms of the NHBRC investment policy to cover future rectification of homes paid out under the Warranty Scheme.

The risks to the Warranty Fund are defined in section 3 of the Act "Objects of Council" which states:

The Council shall:

- represent the interests of housing consumers by providing a warranty protection against defects in new homes;
- regulate the home building industry;
- provide protection to housing consumers in respect of the failure of the home builders to comply with their obligations in terms of the Act;
- establish and promote ethical and technical standards in the home building industry;
- improve structural quality in the interests of housing consumers and the home building industry;
- promote housing consumer rights and provide housing consumer information;
- assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building; and
- achieve the stated objects in the subsidy housing sector.

There is no risk categorisation in determining the enrolment fees charged. The enrolment fee structure is promulgated in the regulations to the Act. Enrolment fees are charged on the selling price of the home (including land value) so that equal value homes yield equal enrolment fees. The subsidy and non-subsidy markets each have their own enrolment fee structure. The NHBRC is exposed to the uncertainty surrounding the timing and severity of claims under the warranty contract. The NHBRC also has exposure to market risk through its insurance and investment activities.

The NHBRC uses several methods to assess and monitor insurance risk exposures for the protection of housing consumers. A home builder can only be registered if he has the appropriate financial, technical, construction and management capacity for the specific business carried on by the home builder in order to protect housing consumers and the Council from being exposed to unacceptable risks. The Council may withdraw the registration of a home builder where the home builder has been found guilty by the Disciplinary Committee as prescribed in the Act. The insurance risk is further mitigated by the inspection of houses under construction, interdicts issued against home builders who do not comply with the provisions of the Act and in cases of a late enrolments, a financial guarantee is required from the home builder, calculated on a risk model which takes the stage of completion of the house at enrolment date into account. The financial guarantee is held for the full five-year warranty period.

Risk to the Warranty Fund is further controlled by the inspection of homes during the construction phase, and rectifications are enforced when construction of the home does not comply with the provisions of the Act.

The NHBRC is an insurer of last resort, as claims are only paid where a home builder fails to perform the necessary remedial work, due to liquidation or unavailability. The maximum claim per home is limited to the insured value up to a maximum claimable amount of R500 000 per home.

The NHBRC has an internal audit function which regularly reviews the degree of compliance with Council procedures.

Underwriting strategy

The registration of all home builders is prescribed in terms of section 10 of the Act. The NHBRC is obliged to register and insure all new homes constructed. The NHBRC may on the recommendation of the Council, on application made to it, in exceptional circumstances, exempt a person or home from any provision of the Act.

25. Financial Instruments (continued)

25.9 Insurance risk (continued)

Reinsurance strategy

The NHBRC does not reinsure any portion of the risk it underwrites due to the current low claim rate experienced. Reinsurance of the exposure to losses has been identified as a medium-term strategic objective.

Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below:

The NHBRC's main business is highly specialised, and covers the rectification of:

- major structural defects in a home caused by non-compliance with the NHBRC technical requirements within a period of five years from the occupation date;
- non-compliance with or deviation from the terms, plans and specification or the agreement of any deficiency related to design, workmanship or material notified to the home builder by the housing consumer within three months from the occupation date; and
- repair roof leaks attributable to workmanship, design or materials occurring and notified to the home builder by the housing consumer within 12 months of the occupation date.

The event giving rise to a claim occurs with the insolvency, liquidation and protracted default of the home builder. The claim will be notified to the NHBRC in terms of the specific regulations to the Act. The business of the NHBRC can be classified as short to long term as the NHBRC may only be notified of a claim up to five years after occupation of the home in the instance of structural defects.

Concentration of insurance risk

Insurance risk by geographical area

Gauteng and Western Cape make up 64.34% of exposure with 49.37% and 14.97% respectively.

Insurance risk by developer

The risk per developer is ranked by units of exposure (enrolments after September 2007). Liquidation of the 14 largest developers constitute R252.4 million of sum insured (comparison of 293 609 home enrolments) which could potentially increase claims against the Warranty Fund.

25.10 Interest rate and price risk

Interest rate risk

Interest rate risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. All cash surpluses are invested with investment fund managers in terms of the investment policy. The exposure to interest rate risk is determined by the maturity profile of investments (note 4).

Price risk

Price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or foreign currency risk. The NHBRC is exposed to equity price risk as it holds equity securities classified as at fair value. However, due to the investments in equities being immaterial, the exposure to equity risk is limited.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

25. Financial Instruments (continued)

25.10 Interest rate and price risk (continued)

Sensitivity analysis

31 March 2014						
Financial assets	Carrying amount at 31 March 2014	Interest rate risk				
		Rand amount exposed to risk	Reasonable possible change			
			Rate increase	Rand amount	Rate decrease	Rand amount
Money market investments	1 844 480 030	1 844 480 030	1%	18 444 800	-1%	(18 444 800)
CPD money market	152 525 702	152 525 702				
<i>Listed bond securities</i>						
- Short-term < 7 years	1 174 542 976	1 174 542 976	1%	11 745 430	-1%	(11 745 430)
- Medium-term 7 to 12 years	129 180 190	129 180 190	1%	1 291 802	-1%	(1 291 802)
- Long-term > 12 years	365 521 124	365 521 124	1%	3 655 211	-1%	(3 655 211)
- Inflation linked bonds	459 331 550	459 331 550	3%	13 779 947	-3%	(13 779 947)
Derivative financial instruments	296 583 483	296 583 483	1%	2 965 835	-1%	(2 965 835)
Impact of financial assets on:						
Statement of changes in net assets				48 917 190		(48 917 190)
Statement of financial performance						
Impact on financial position	4 422 165 056	4 422 165 056		100 800 214		(100 800 214)

25. Financial Instruments (continued)

25.10 Interest rate and price risk (continued)

	31 March 2013				
	Carrying amount at 31 March 2013	Rand amount exposed to risk	Interest rate risk		
			Rate increase	Rand amount	Rate decrease
Financial assets					
Money market investments	2 101 021 244	2 101 021 244	1%	21 010 212	(21 010 212)
Listed bond securities					
- Short-term < 7 years	206 749 196	206 749 196	1%	2 067 492	(2 067 492)
- Medium-term 7 to 12 years	98 376 658	98 376 658	1%	983 767	(983 767)
- Long-term > 12 years	656 917 410	656 917 410	1%	6 569 174	(6 569 174)
- Inflation linked bonds	381 733 793	381 733 793	3%	11 452 014	(11 452 014)
Derivative financial instruments	529 630 898	529 630 898	1%	5 296 309	(5 296 309)
Impact of financial assets on:					
Statement of changes in net assets					
Statement of financial performance				42 082 659	(42 082 659)
Impact on financial position	3 974 429 198	3 974 429 198		89 461 627	(89 461 627)

26. Contingent liabilities

There are outstanding claims pending in the Courts in relation to disputes between the NHBRC and other parties amounting to R29 518 326; the outcome of which is unknown.

27. Post reporting date events

No material facts or circumstances have arisen after the reporting date which affect the financial position of the NHBRC as reflected in the annual financial statements.

28. Errors and reclassifications

The errors and reclassifications relates to the overstatement of revenue. The prior year financial results have been restated.

The impact on the Statement of Financial Performance and Statement of Financial Position is shown below.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

28. Errors and reclassifications (continued)

	Balance previously stated	Adjustment	Restated balance
Accumulated surplus at 31 March 2013	3 054 876 788	(3 782 113)	3 051 094 676
Surplus at 31 March 2013	529 098 427	(3 782 113)	525 316 314
Statement of Financial Performance			
Fee revenue (note 14)	42 574 320	4 903 574	47 477 895
- subsidy project enrolment fee	29 336 883	4 903 574	34 240 457
Technical services revenue			
- Forensic audit, geotechnical and rectification work	229 358 548	(13 368 831)	215 989 717
Technical services expenditure	240 597 084	(4 683 143)	235 913 941
Statement of Financial Position			
Trade and other receivables (note 6)	44 199 041	(8 465 257)	35 733 784
- Net trade receivables	27 314 041	(8 465 257)	18 848 784
- Trade receivables	42 481 768	(8 465 257)	34 016 511
Trade and other payables (note 11)	130 548 881	(4 683 143)	125 865 738
- Trade payables and accrued expenses	45 903 350	(1 162 836)	44 740 514
- Income received in advance	32 204 656	-	32 204 653
- Retentions	17 168 625	(3 520 307)	13 648 318
Notes to the Cash flow Statement			
Changes in working capital			
Decrease/(increase) in trade and other receivables	22 963 731	(8 465 257)	31 428 988
(Decrease) in trade and other payables	(176 968 161)	(4 683 143)	(181 651 304)
Financial instruments			
Financial assets (note 25.1)			
- Trade and other receivables	27 314 041	(8 465 257)	18 848 784
- Total financial assets	2 262 842 232	(8 465 257)	2 254 376 974
Financial liabilities			
- Trade and other payables	63 071 975	4 683 143	58 388 832

29. Contractual commitments

	2014 R	2013 R
Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash. At 31 March 2014, the NHBRC had the following commitments:		
Operational expenditure		
Approved and contracted	-	42 831 647
Outsourced contracts for Inspectorate Agencies	929 481	929 481
Outsourced contract for Actuarial Services	1 685 070	5 351 456
Outsourced contracts for Security Services	-	129 496
Outsourced contract for Testing Machines for Eric Molobi	-	146 561
Outsourced contract for Information Technology Services	12 976 572	412 674
Outsourced contract for Media Services	2 106 891	2 106 891
Outsourced contract for the review of the Home Building Manual	17 698 014	51 908 206
Capital expenditure		
Approved and contracted	-	83 355 641

Implementation of an integrated Enterprise Resource Planning Business Solution.

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

30. Reconciliation of budget surplus with the surplus in the statement of financial performance

Actual 2012/2013	Description	Actual 2013/2014	Approved budget 2013/2014	Difference: actual and approved budget
	Revenue			
12 579 811	Registration fees	14 392 618	10 601 750	3 790 868
284 080 597	Non-subsidy enrolments	225 029 862	395 838 682	(170 808 819)
319 293 744	Subsidy enrolments	130 546 474	191 672 426	(61 125 953)
222 145 185	Technical and other revenue	47 683 974	129 512 253	(81 828 279)
342 275 355	Interest received	315 232 936	204 709 232	110 523 704
1 180 374 692	Total revenue	732 885 864	932 334 344	(199 448 479)
	Expenses			
301 647 627	Operating expenditure	91 820 588	317 455 770	(225 635 182)
17 481 970	General and administration	14 509 163	30 292 945	(15 783 782)
3 307 114	Payroll costs	6 219 385	4 840 000	1 379 385
195 008 552	Permanent staff costs	245 534 933	297 233 600	(51 698 667)
79 755 235	General costs	100 358 753	95 658 934	4 699 819
57 857 880	Other expenses	59 783 658	78 258 905	(18 475 248)
655 058 377	Total expenses	518 226 479	823 740 154	(305 513 675)
525 316 315	Surplus/(deficit) for the period	214 659 385	108 594 190	(504 962 154)

Revenue

Revenue decreased by R199 million compared to budget. The decrease in the volumes of work done for technical services contributed to this increase. The lower project enrolments fees in the subsidy sector was partly recovered by higher than budgeted non-subsidy home enrolments.

Technical provisions

The technical provisions are assessed annually by independent actuaries and are not budgeted.

Expenditure

General and administration expenditure and permanent staff costs were stringently managed by the organisation so as to ensure savings in expenditure. Operating expenditure is higher than budget as technical expenditure was not budgeted for.

Income from investments

The investment strategy followed by the entity is to maximise the return on cash investments when the bond and equity markets were declining.

31. Detailed expenditure

	2014 R	Restated 2013 R
Insurance claims and loss adjustment expenses	2 273 540	8 884 344
Inspections and operating expenses	62 894 274	56 849 342
- Inspection costs	60 342 878	53 798 640
- Accreditation fees	2 273 385	2 150 732
- Direct costs of builder manuals	278 011	430 518
- Direct costs of certificates	-	469 452
Technical services expenditure	26 652 774	235 913 942
- Forensic investigations and geotechnical	16 635 438	137 944 024
- Water tank installations	10 017 336	97 969 917
Administration expenses	416 640 272	343 794 695
- Amortisation	4 099 373	5 632 407
- Depreciation	6 029 503	6 175 135
- Motor vehicle expenses	187 065	236 075
- Office equipment and furniture expenses	4 193 222	5 438 353
- Payroll costs	6 219 385	3 307 114
- Permanent staff costs	245 534 932	195 008 551
- Insurance paid	1 003 549	1 810 339
- Information technology costs	10 291 672	10 984 788
- Legal fees	6 898 302	4 993 465
- Marketing fees	8 996 145	6 587 804
- Telephone expenditure	12 420 249	10 055 871
- Travelling expenditure	21 068 775	16 020 875
- Training	16 013 199	13 793 937
- Audit fees	3 610 150	3 103 377
- Staff costs	20 056 715	12 404 779
- Bank charges	1 136 929	1 222 234
- Bad debts written off	-1 739 781	1 728 404

Notes to the Annual Financial Statements continued

for the year ended 31 March 2014

31. Detailed expenditure (continued)

	2014 R	Restated 2013 R
- Cleaning costs	1 743 901	1 385 850
- Conferences and seminars	3 876 159	1 522 092
- Consulting fees	10 522 795	9 472 229
- Courier and freight	998 483	1 201 168
- Water and electricity	431 396	3 499 294
- Rentals	17 170 432	15 781 644
- Security	3 596 382	3 061 692
- Other rental costs	5 180 159	1 737 704
- Stationery	1 399 356	1 289 234
- Other expenses	5 701 825	6 340 280
Asset management services	9 765 621	9 607 586
Total expenditure before interest paid	518 226 480	655 049 908

The National Home Builders Registration Council

Head Office

5 Leeuwkop Road, Sunninghill, Johannesburg

Tel: 011 317 0000 Toll free: 0800 200 824 Fraud hotline: 0800 203 698

www.nhbrc.org.za

 NHBRCSA  @NHBRC

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