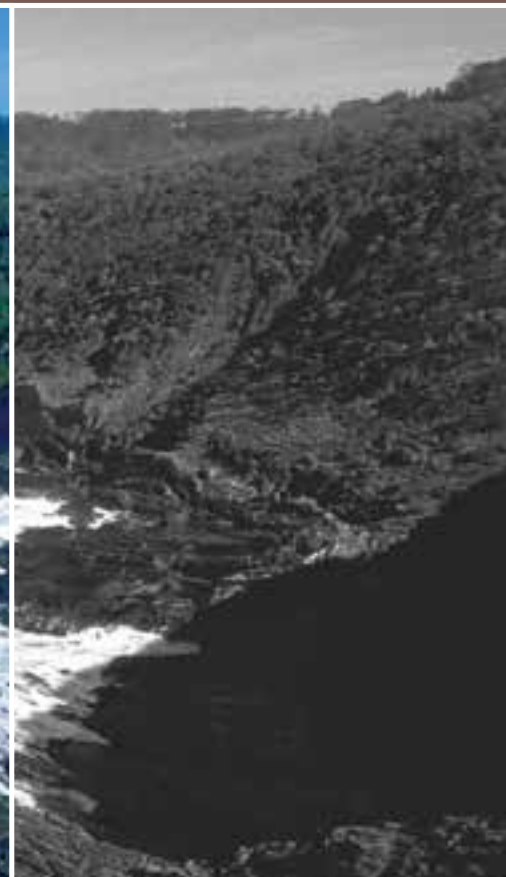


Eastern Cape



AUDITOR - GENERAL
SOUTH AFRICA

General report
on the audit outcomes of local government
MFMA 2012-13

Our reputation promise/mission

"The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence."



The information and insights presented in my office's flagship publication are aimed at empowering oversight structures, local government and provincial leaders to focus on those issues that will result in reliable financial statements, credible reporting on service delivery and compliance with legislation.

This publication also captures the commitments that leaders have made to improve audit outcomes.

Our responsibility extends to citizens, who trust us to make a contribution towards a better South Africa.

Kimi Makwetu
Auditor-General



AUDITOR - GENERAL
SOUTH AFRICA

Overview

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EASTERN CAPE **CLEAN AUDITS 2012-13**

6



MUNICIPALITY

None



MUNICIPAL ENTITY

Mandela Bay Development Agency



FOREWORD

FOREWORD

I hereby present to the legislature and municipal councils of the Eastern Cape my first general report as the auditor-general, summarising the results of the audit outcomes of local government for the financial year ended 30 June 2013.

At a point where, based on the previous year's commitments, including commitments made during the Eastern Cape door-to-door campaign, there was an expectation of an improvement towards clean administration, it is encouraging that there was a net improvement in six audit outcomes. However, considering the five-year trend in outcomes, it is evident that progress has been slow to the extent that the overall poor state of financial and performance management in the province overshadows these positive developments.

One of the key messages of my predecessor was that councillors were not delivering on their basic responsibilities at the level of excellence required of them by legislation, as well as the citizens of their constituencies. He recommended that the legislature, provincial executive council, provincial coordinating departments and South African Local Government Association join hands to ensure that all councillors are skilled and empowered to discharge their responsibilities effectively. Little progress has been made in this regard, which resulted in

the levels of assurance provided by councillors on the credibility of what is being done at municipal level, remaining low.

The low levels of assurance provided by the leadership, together with the poor state of internal controls, show that much work has to be done to ensure proper accountability in local government in the province. Fortunately, this is not an impossible task if there is commitment to implement basic financial and performance management disciplines. These basic disciplines must be implemented in the context of a robust performance management system that results in appropriate consequences for those that do not live up to expectations.

Despite my audit teams regularly visiting municipalities during the year to discuss the root causes relating to poor audit outcomes and making recommendations on the way forward, the same challenges remained in most of the cases. The slow response to our messages has reinforced a culture of tolerance for the inadequate execution of controls and general disregard for legislative requirements, especially in the area of supply chain management.

At the same time, it is clear that where our messages were heeded in a proactive way, municipalities saw the results of



Kimi Makwetu
Auditor-General

their effort in improved outcomes. I have to commend certain of the district municipalities, which have shown signs of playing a leading role in ensuring clean administration. I am challenging the remaining district municipalities to follow suit, to lead by example through cleaning up their own administrations, and to support the local municipalities in their districts to achieve the same.

I have taken note that the member of the executive council for local government and traditional affairs, together with his department, has created forums and had interventions at various municipalities to drive accountability, even though the impact on the audit outcomes for the year under review was still limited.

I also note and support the provincial executive's commitment on coordinated and structured support to municipalities, which aims to reduce reliance on consultants and to promote accountability. In addition, the leadership should consider collaborating with tertiary institutions in the province to build capacity and develop skills.

The collective effort of all role players is required to ensure good governance, underpinned by good financial management and accountability in local government in the province. My office will continue to support the province's journey to build the capacity of municipalities to meet their developmental objectives for the benefit of the province's citizens.

I wish to thank the audit teams from my office and the audit firms that assisted us in the province for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership of the province.



**Auditor-General
Pretoria
July 2014**

SUMMARY OF AUDIT OUTCOMES AND KEY RECOMMENDATIONS FOR IMPROVEMENT

Our audit and reporting process

We audit all municipalities and their municipal entities in the province, also called *auditees* in this report, so that we can report on:

- the quality of their **financial statements**
- the quality of their **annual performance reports**
- their **compliance with legislation**.

We also assess the root cause of any error or non-compliance, based on the internal control that had failed to prevent or detect it. This year we also audited key aspects of the provision of water and sanitation services and roads infrastructure by municipalities. We include these aspects in the following three types of reports:

- We report our findings, root causes and recommendations in **management reports** to the senior management and accounting officers or authorities of auditees, which are also shared with the mayors and audit committees.
- Our opinion on the financial statements, material findings on the performance report and non-compliance with legislation as well as significant deficiencies in internal controls are included in an **audit report**, which is published with the auditee's annual report and dealt with by the municipal council.
- Annually we report on the audit outcomes of all auditees in a **provincial general report** (such as this one), in which we also analyse the root causes that need to be addressed to improve audit outcomes in the province. Before the general reports are published, we share the outcomes and root causes with the provincial leadership, the Provincial Legislature and key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist local government to improve its audit outcomes by identifying the **key controls** that should be in place at auditees; assessing these on a quarterly basis; and sharing the assessment with mayors, accounting officers and audit committees.




We further identified the following **six key risk areas** that need to be addressed to improve audit outcomes and financial and performance management, and we specifically audit these so that we can report on the status thereof: ■ quality of submitted financial statements ■ quality of annual performance reports ■ supply chain management (SCM) ■ financial health ■ information technology (IT) controls ■ human resource (HR) management.

During the audit process, we work closely with the accounting officer, senior management, audit committee and internal audit unit, as they are **key role players** in providing assurance on the credibility of the auditees' financial statements and performance report as well as compliance with legislation.

We also continuously strengthen our relationships with district mayors, mayors of local councils, the premier, the Provincial Treasury, the Department of Local Government and Traditional Affairs in the province as well as the Provincial Legislature, as we are convinced that their involvement and oversight should play a crucial role in the performance of local government in the province. We share our messages on key controls, risk areas and root causes with them, and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

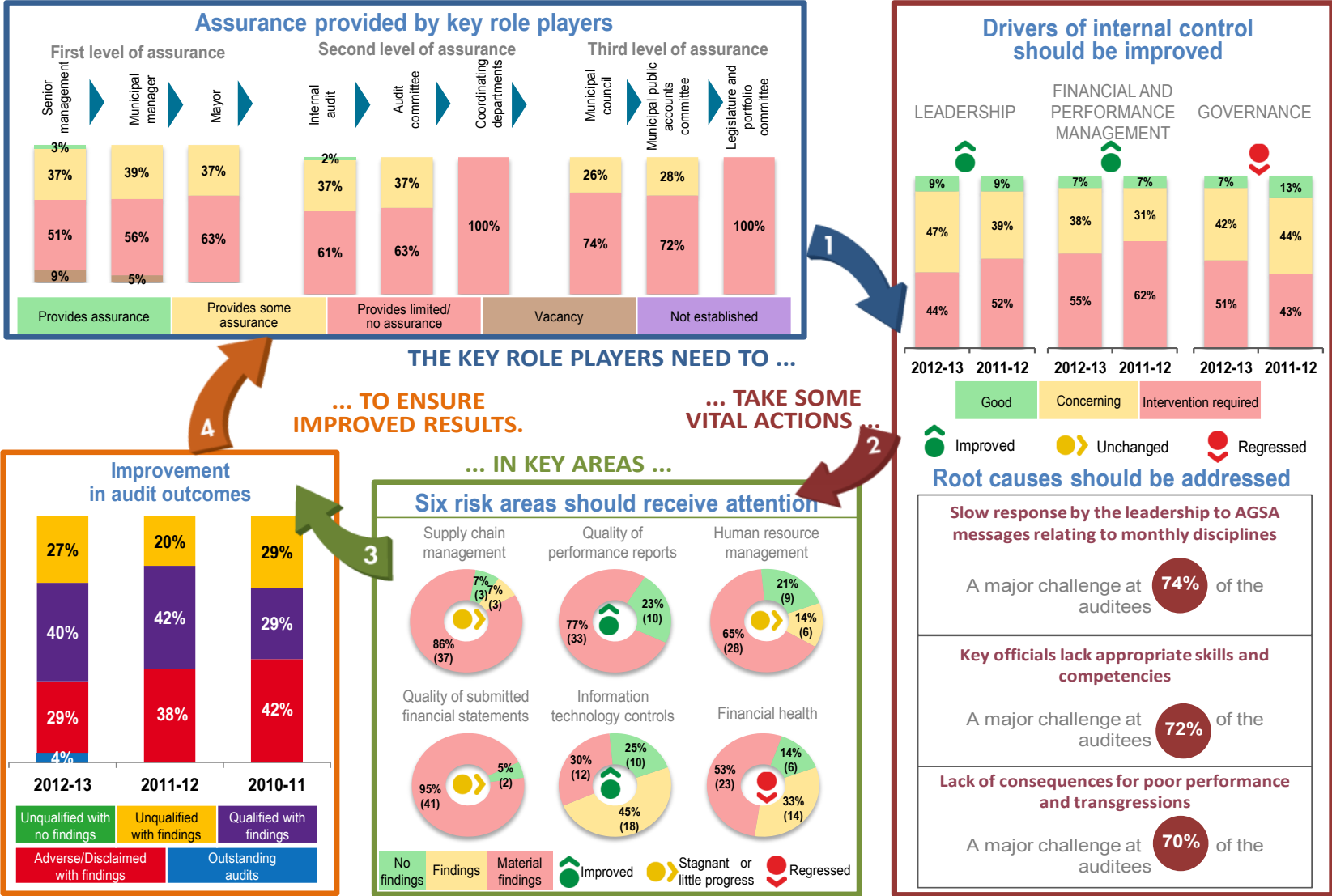
Figure 1 on the following page gives an overview of our message on the 2012-13 audit outcomes, which is a continuation of what we had reported and recommended in our last report on the audit outcomes of local government in the province. Please note the following about the figure and when reading the rest of this report:

- If municipalities have municipal entities under their control, the audit opinion on their financial statements is that of the consolidated financial statements. (The outcomes of municipal entities are analysed in a separate section. All other sections in this report refer to the parent municipalities only.)
- 'With findings' means findings on either the quality of the annual performance reports or non-compliance with legislation, or findings on both these aspects. Clean audits are achieved when the financial statements are unqualified and there are no findings on the quality of the annual performance reports or non-compliance with legislation.
- Movement of more than 5% is regarded as an improvement or a regression. Movement is depicted as follows:

 Improved
  Stagnant or little progress
  Regressed

The rest of the section summarises the audit outcomes and our key recommendations for improvement. This summary is followed by the results of our audits per municipality. The report also includes an annexure that details the audit outcomes and findings per auditee. The glossary of terms included after the annexure defines the terminology used in this report.

Figure 1: Overview of audit outcomes and key recommendations for improvement



Status of the three areas that we audit and report on

Figure 2: Auditees’ outcomes over five years

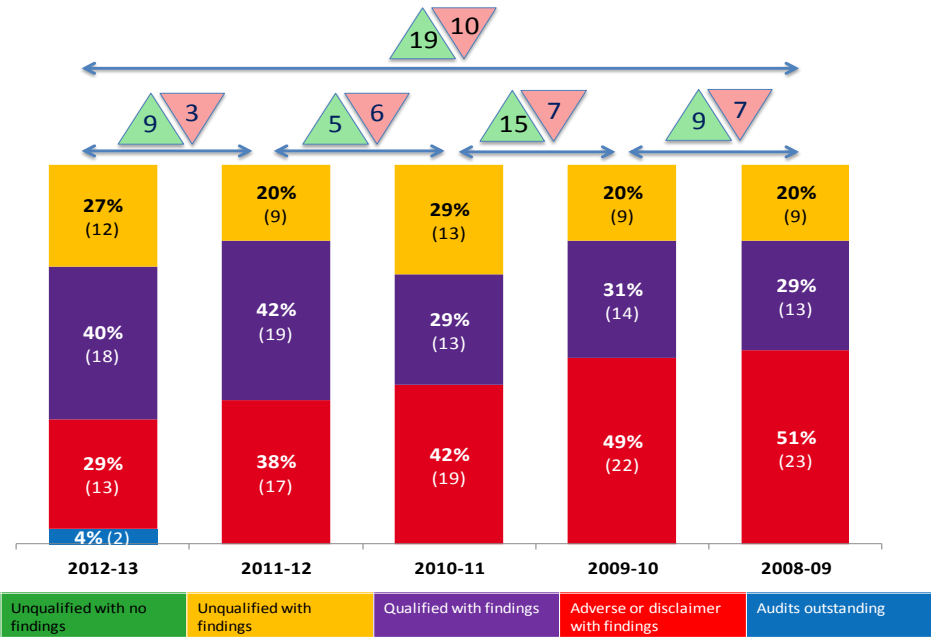
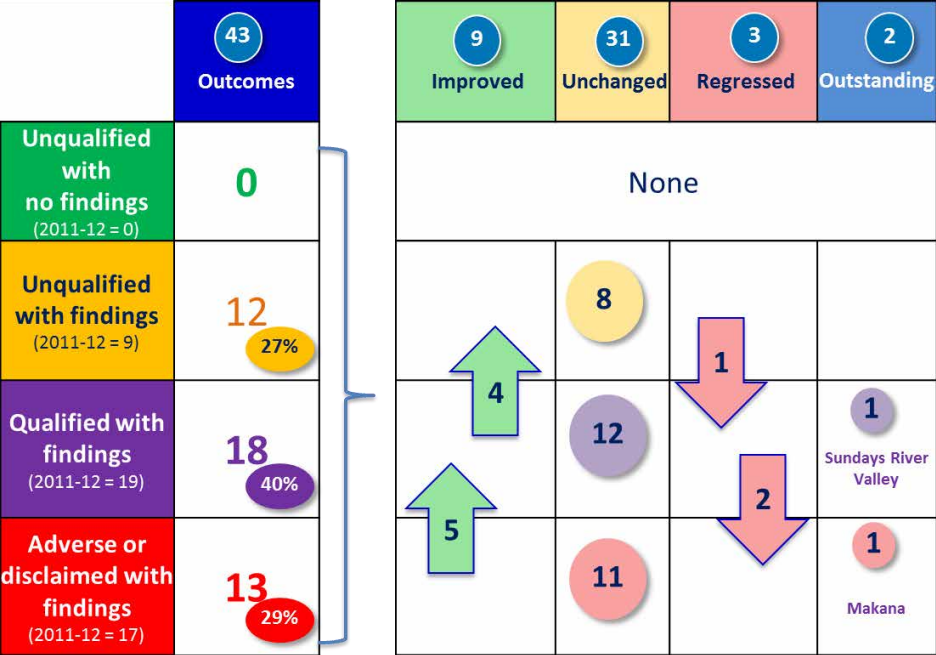


Figure 3: Movement in auditees’ outcomes



Audit outcomes

Year-on-year audit outcomes have improved but stagnant disclaimers remain a concern

The 2012-13 audit outcomes of municipalities as shown in figures 2 and 3 reflect a net improvement in the outcomes of six municipalities from the previous year. This net improvement is made up of nine improvements and three regressions. Further to this positive momentum are the municipalities that have been able to maintain an unqualified opinion for a number of consecutive years with limited findings on non-compliance and performance reporting. These municipalities are encouraged to take the final steps in entrenching daily financial and performance management disciplines to break through to clean administration, laying the foundation for effective and sustainable service delivery. Other municipalities should also learn from these municipalities and instil those practices that can improve their control environments and ultimately their audit outcomes.

Of concern, however, are the 11 municipalities that have shown no forward movement from adverse or disclaimed audit opinions. These municipalities have again failed to provide supporting documentation for a significant number of transactions and balances in their financial statements. This, together with the further deterioration of the control environments and the ineffectiveness of all structures of governance, has created an environment that does not support accountability and is susceptible to loss through fraudulent transactions.

We have informed the political and administrative leadership of four of these municipalities (King Sabata Dalindyebo, OR Tambo District Municipality, Emalahleni and Ikwezi) that had it not been for the legislated requirement to perform the audit of the municipality, we would have withdrawn from the engagement in terms of the International Standards on Auditing. This was due to the numerous and recurring significant risks and the poor status of administration. This could have been avoided had the political and administrative leadership responded to our messages of the past four years, implemented our recommendations, and delivered on their own commitments.

Due to the late submission of financial statements for audit purposes, we had not finalised two audits (those of Sundays River Valley and Makana) by 15 February 2014 – the cut-off date for inclusion of audit outcomes in this general report.

Five-year movement of outcomes indicates slow progress and serious concerns about the sustainability of outcomes

Although there has been a substantial improvement in the submission of financial statements for audit purposes over the past five years, the extent of adjustments required during the audit process is of concern. This creates an impression of malicious compliance, as financial statements are of a poor quality and there is over-reliance on the audit process to identify and correct misstatements.

As indicated in our previous year's messages, auditees' inability to sustain the audit outcomes remains a concern. Although 19 outcomes have improved

when comparing the 2012-13 outcomes to those of 2008-09, 10 outcomes have regressed over the same period. It is clear that municipalities do not address the root causes as highlighted in our messages and recommendations but rather focus on the symptoms of findings, which is not a sustainable practice.

A culture of good governance and accountability is not being embedded at all municipalities, and practices that promote clean administration are not being entrenched within the daily, weekly and monthly activities. In addition, there are no consequences for wrongdoing or poor performance, which creates an inappropriate work ethic and culture within the municipalities. As a result, improvements are negated by ever-present regressions.

Analysing the movement in 2012-13 outcomes

Of the nine municipalities that have improved their audit outcomes, five (Chris Hani District Municipality, Baviaans, Camdeboo, Inkwanca and Nxuba) have moved from adverse or disclaimed outcomes to a qualified with findings outcome. Four municipalities (Amahlathi, Engcobo, Nyandeni and Tsolwana) that had previously received a qualified with findings outcome have now received an unqualified with findings outcome.

These improvements are due to a combination of the leadership setting the appropriate tone, responding to our previous message on leadership stability, and employing people with appropriate skills and competencies. Furthermore, adjustments passed during the audit process and the use of consultants contributed to the improvements, which raises concerns regarding the sustainability thereof, since the municipalities still need to respond to our message of institutionalising daily and monthly disciplines in the control environment.

Municipalities with stagnant adverse or disclaimed opinions should take note of the five outcomes that have improved during the year under review from the same position, and be encouraged that their own outcomes can also be improved with the correct leadership tone and access to the appropriate skills. The five that have improved from adverse or disclaimed opinions, however, must continue the momentum and intensify efforts to strengthen their control environments to ensure the sustainability of their improved outcome.

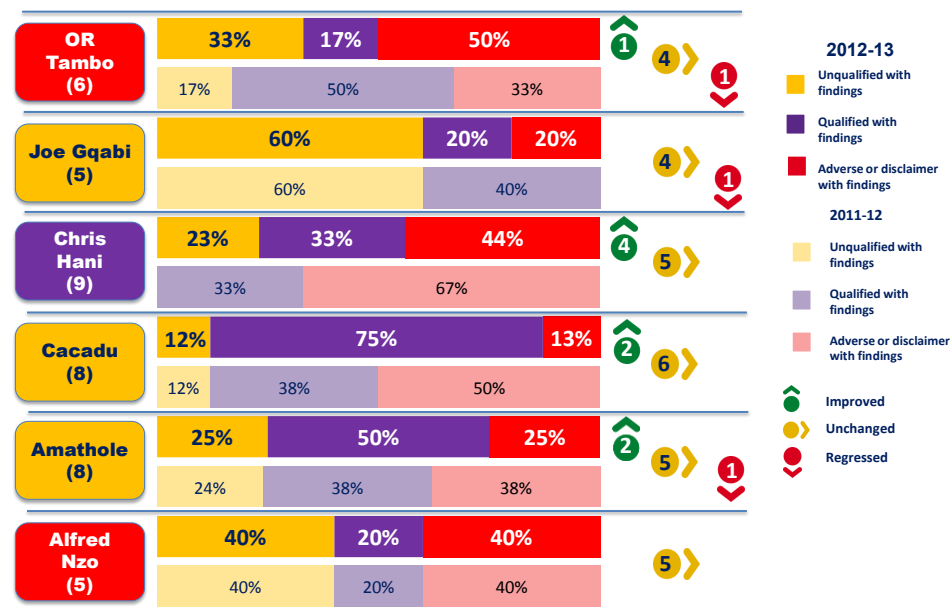
There have been three regressions from the previous year, with Mnquma moving from an unqualified with findings outcome to a qualified with findings outcome, and Gariep and Mhlontlo moving from a qualified with findings outcome to an adverse or disclaimed outcome. The regressions were a result of leadership instability, an inappropriate organisation-wide leadership tone, and a lack of employees with the necessary skills and competencies.

Thirty-one municipalities have unchanged audit outcomes from the previous year. Eight of these municipalities currently have unqualified audit opinions but still have other findings on either non-compliance with legislation or performance reporting, or both these aspects. They are generally characterised by an appropriate leadership tone and a control environment that – although not perfect – is functioning. Nevertheless, these municipalities should not become complacent. They should further strengthen and enhance current practices to eliminate all findings and implement processes to ensure that the financial statements are credible and do not require audit adjustments after submission.

Also included in the unchanged audit outcomes are 12 qualified opinions, including those of the two metropolitan councils (metros). The remaining 11 unchanged outcomes are adverse or disclaimed opinions. These opinions did not improve due to an absence of decisive and progressive leadership, a disregard for good governance principles, and a lack of basic values governing public administration. This has led to a collapse in the control environments and governance structures, particularly within those auditees that have remained on adverse and disclaimed audit opinions.

The outcomes in the province have varied from one district to the next. Figure 4 analyses the outcomes per district in detail.

Figure 4: Auditees' outcomes per district



District municipalities not only have to coordinate development and delivery in the whole district, but also need to play a vital supporting role in the financial management of their local municipalities. They should serve as an example of accountability and reporting. Unfortunately, this was not the case at all district municipalities in the province, with two of the six district municipalities receiving an adverse or disclaimed opinion, namely OR Tambo and Alfred Nzo.

The Chris Hani district reflects the most encouraging movement, with four improvements in audit outcomes, including that of the district municipality itself. In the case of Joe Gqabi, Cacadu and Amathole, these district municipalities led by example and received an unqualified opinion with limited findings on non-compliance. They could potentially progress towards an opinion with no

findings should the current best practices be further enhanced and embedded. The non-compliance matters can also be addressed with immediate effect through focused in-year monitoring. The sustainability of the improvements will remain under threat, though, as improvements have not been fully embedded in the daily financial and performance management practices.

The OR Tambo and Alfred Nzo districts remain a serious concern, with a significant number of the municipalities (including the district municipalities themselves) once again being in the adverse or disclaimed category. Both district municipalities, which should be assisting their local municipalities, have received a disclaimed opinion for the sixth year. Although there have been signs that Alfred Nzo can improve going forward, it will depend on the leadership's ongoing commitment to change. The leadership of this municipality initiated the implementation of our recommendations too late in the year to have an impact on their audit outcome in the current period. This included filling some critical vacancies. It is very important that they continue this momentum, address all the skills gaps within the municipality, and demonstrate an appropriate tone of leadership to break through from a disclaimed to a qualified opinion.

District municipalities can make a positive contribution to the improvement of internal control, governance and accountability. This challenges the leadership of all districts to realise this potential and take the lead in restoring accountability in local government in the province. The turnaround at Chris Hani and the four improvements in the district, underpinned by the collective effort displayed by the administrative and political leaders as well as the appointment of key personnel with appropriate skills and competencies, should serve as an example and encouragement.

Slight improvement in the quality of annual performance reports points to slow progress

Auditees are required to measure their service delivery against the performance indicators and targets set for each of their predetermined performance objectives, and to report on this in their annual performance reports. We audit the annual performance reports to determine whether the information in these reports is **useful** and **reliable**. In the audit report, we reported findings from the audits that were material enough to be brought to the attention of the users of the annual performance report, including the community.

Figure 5: Status of quality of annual performance reports

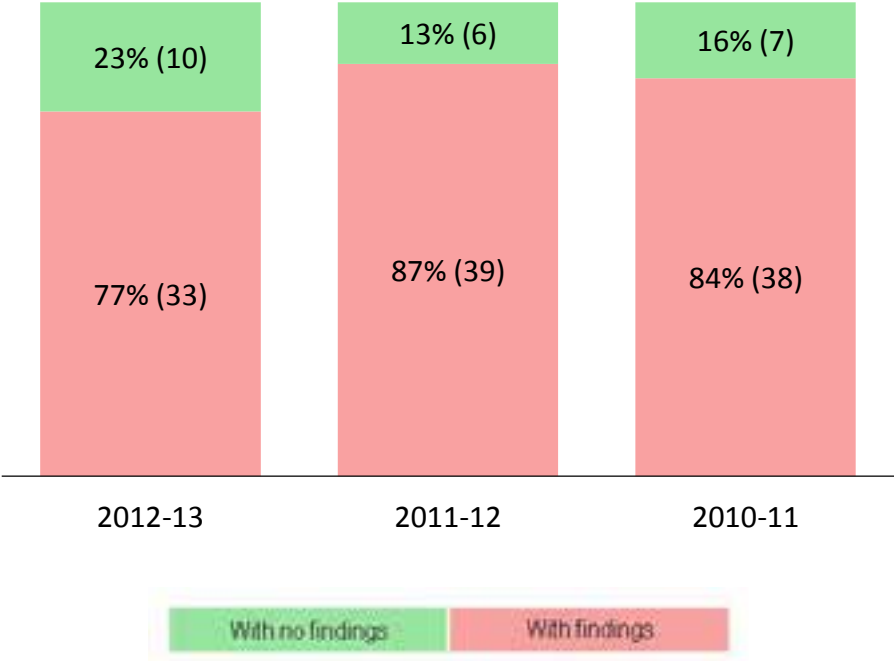


Figure 6: Non-compliance with legislation relating to strategic planning, performance management and reporting

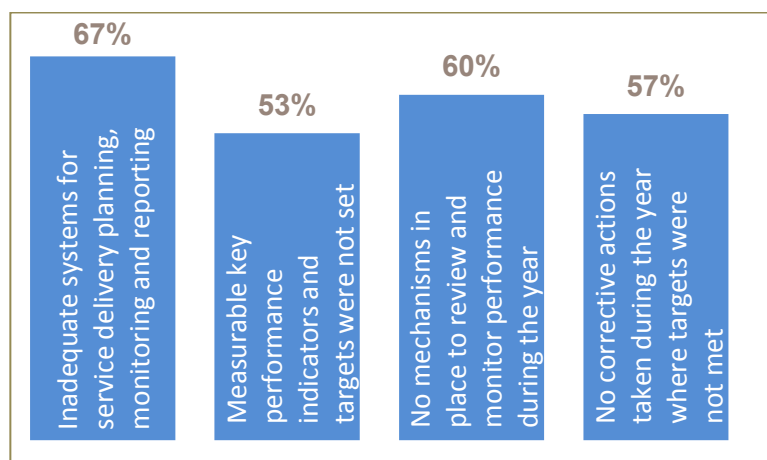


Figure 5 shows the auditees in the province with material findings in respect of the quality of the annual performance report over the past three years. The auditees 'with findings' also include those auditees that did not prepare an annual performance report or submitted the report too late for auditing.

Although there has been an improvement at four municipalities, the progress has been very slow and much work is still required to improve the quality and credibility of performance reporting. Over the past three years, we have conducted numerous sessions to workshop recommendations to enhance the quality of the annual performance reports. The leadership has generally been slow to respond to these messages. However, where the messages were taken seriously, we have noted improvements in the quality of the annual performance reports.

Five municipalities (2011-12: two) did not submit annual performance reports that met all of the requirements of section 57 of the Municipal Systems Act (MSA). The deterioration in the rate of submission can be attributed to a loss, or lack, of competent personnel in critical areas relating to performance management and a lack of commitment to credible reporting on service delivery.

The Joe Gqabi district showed the greatest improvement in this area, with two of its municipalities receiving no findings on their annual performance reports for the first time, while the district municipality itself retained the positive outcome it had achieved in this area in previous years. The lessons

learnt by these municipalities should be replicated by the remaining municipalities in this district, as well as in the other districts that are struggling to achieve positive audit outcomes on their service delivery reports.

We measured the **usefulness** of the reported information against the criteria of presentation, consistency, relevance and measurability. The number of auditees with material findings in this regard has decreased by 9% since the previous year. The most common findings on usefulness were the following:

- Performance indicators and targets were **not** sufficiently **specific** and **measurable**.
- The indicators and measures were **not well defined** in that performance data could not be collected consistently and was not easy to use and understand. This also had an impact on the verifiability of the actual reported performance.
- Measures taken to improve performance were **not** always **disclosed** in cases where planned targets had not been achieved; or where they were disclosed, they could **not** always **be corroborated** by supporting evidence.

Findings on **reliability** relate to whether the reported information could be traced back to the source data or documentation and whether the reported information was accurate, complete and valid when compared to the source. The number of auditees with material findings in this regard has decreased by 11% since the previous year. The most common findings on reliability were the following:

- The actual reported performance was **not accurate** or **valid** when compared to supporting information.
- Supporting information for reported performance was **incomplete**.

We also reported the following performance-related matters in the audit reports:

- In total, 70% of the auditees had **material findings** on non-compliance with the legislation that regulates strategic planning, performance management and reporting. Figure 6 depicts the most common non-compliance areas and shows that service delivery was not properly planned, monitored, or reported on. This was due to councils not adequately overseeing service delivery and not holding officials accountable for their work.

- Across the province, 23% of the municipalities **made amendments** to the annual performance report submitted for auditing to correct material misstatements identified during the audit process. Three municipalities (7%) had no material findings only because they corrected all the misstatements we had identified during the audit.
- Of the 12 auditees with reliable annual performance reports, 75% **did not achieve** 20% or more of the **planned targets** they reported on. Furthermore, 33% of the municipalities that did not achieve their planned targets overspent their approved budgets.
- Some auditees appointed consultants to assist with the preparation of performance information. These municipalities will remain dependent on consultants to assist with their performance information until they fill their vacancies and address the skills and competencies of the officials that are responsible for planning, implementing and reporting on performance. As a result, not all current outcomes may be sustainable. More detail in this regard is included in the section on the effective use of consultants.

In order for citizens to reap the benefits of a well-functioning local government, municipal councils must empower themselves with credible performance information. They should therefore take ownership of developing and maintaining proper systems and processes for managing and reporting service delivery information. This implies that the council must scrutinise all service delivery plans (including the integrated development plan, service delivery and budget implementation plan, and budget), regularly monitor credible in-year service delivery reports, and ensure that corrective action is taken when actual performance is below expectation.

Municipal public accounts committees (MPACs), audit committees and internal audit units should assist councils to make informed decisions by providing assurance that planning documents and in-year reports on actual performance are credible.

The level of compliance with legislation has not improved and remains at a critical level

We annually audit and report on compliance with legislation applicable to financial matters, financial management and other related matters.

We focused on the following areas in our compliance audits: ■ material misstatements in the submitted annual financial statements ■ asset and liability management ■ audit committee ■ budget management ■ expenditure management ■ unauthorised, irregular as well as fruitless and wasteful expenditure ■ consequence management ■ internal audit ■ revenue management ■ strategic planning and performance management ■ annual financial statements and annual report ■ transfer of funds and conditional grants ■ procurement and contract management (in other words, SCM) ■ HR management and compensation.

In the audit report, we reported findings from the audits that were material enough to be brought to the attention of the council and the public.

Figure 7: Status of compliance with legislation

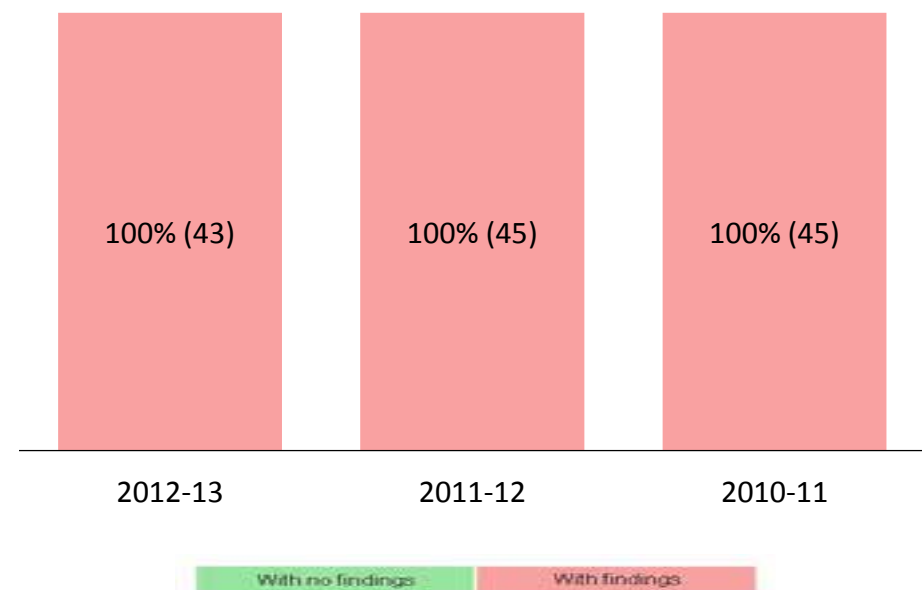


Figure 7 shows the number of auditees with material findings in this regard over the past three years.

Although all municipalities had non-compliance findings, 12 municipalities showed a positive movement by reducing their findings by more than 20%. The areas of improvement related mainly to expenditure management, internal audit and audit committees. The non-compliance findings across all areas reported on have either stagnated or regressed at the remaining 31 municipalities. This lack of progress was due to the leadership not monitoring compliance and not enforcing consequences for breaches of legislation and transgressions.

Figure 8: Trends in findings on non-compliance with legislation

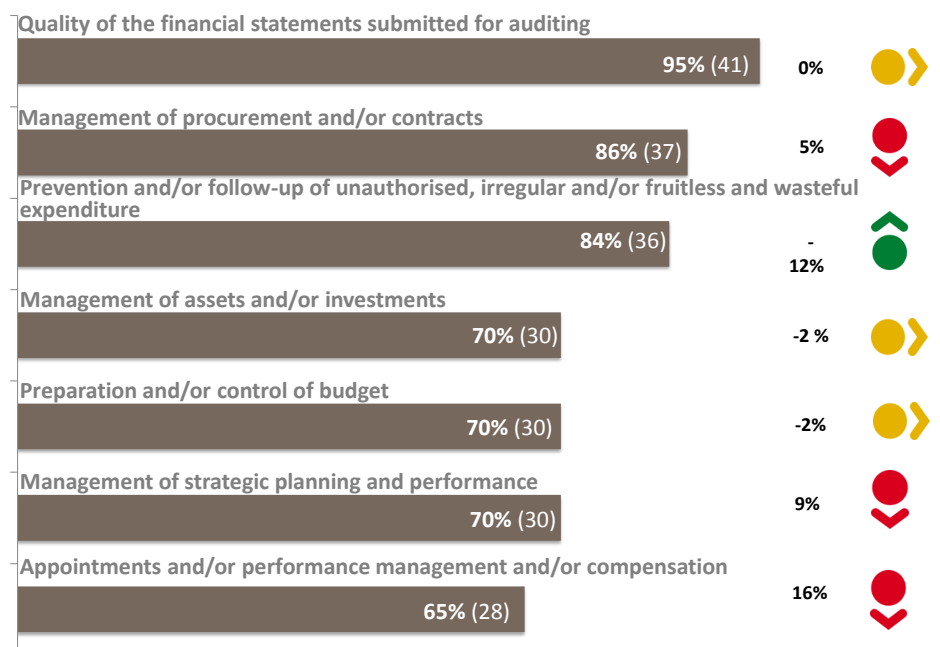


Figure 8 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings. With the exception of a slight reduction in the number of auditees with findings relating to the prevention of unauthorised, irregular as well as fruitless and wasteful

expenditure, the seven focus areas reported on above have either stagnated or regressed.

Figure 9: Trends in unauthorised, irregular as well as fruitless and wasteful expenditure

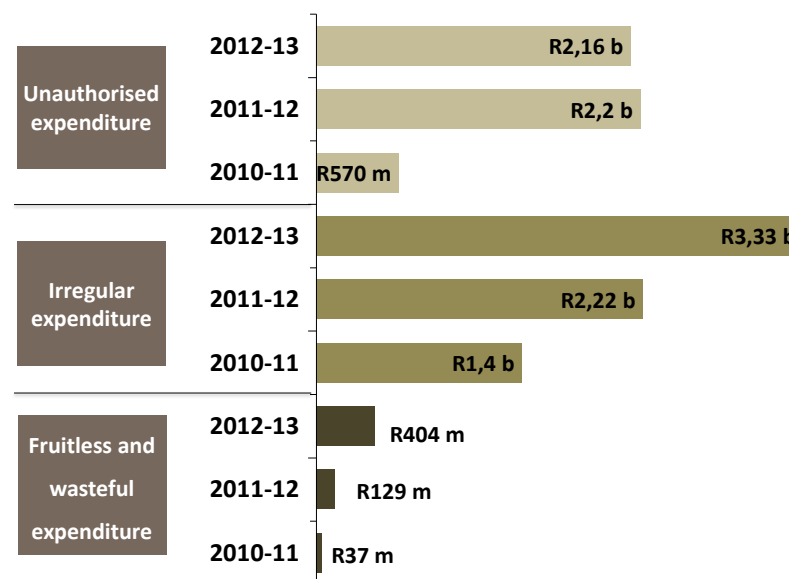


Figure 9 reflects the three-year trend in unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees. This is discussed in more detail below.

Unauthorised expenditure

Unauthorised expenditure is expenditure that was not incurred in accordance with the approved budget.

Of the unauthorised expenditure of R2,2 billion incurred in 2012-13, most (99%) was as a result of overspending the approved budget. Although auditees identified 85% of the expenditure themselves, it was only identified during the preparation of

the financial statements, which took place after year-end. The lack of credible in-year financial reports and a lack of monitoring of expenditure during the year contributed to the overall increase in the amount of unauthorised expenditure reported.

Fifty-five per cent (R1,2 billion) of the unauthorised expenditure for 2012-13 relates to an amount disclosed by King Sabata Dalindyebo which could not be explained by the municipality and could not be audited due to a lack of supporting documentation and calculations.

In total, 81% of the unauthorised expenditure reported on during 2012-13 was incurred by six municipalities, namely King Sabata Dalindyebo (R1,2 billion),

Nelson Mandela Bay Metro (R271 million), Alfred Nzo District Municipality (R103 million), Engcobo (R60 million), Lukhanji (R60 million), and Amathole District Municipality (R59 million).

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and that would have been avoided had reasonable care been taken.

The increase in fruitless and wasteful expenditure was due to a R330 million land claims settlement paid by King Sabata Dalindyebo that could have been avoided had reasonable care been exercised. The remaining fruitless and wasteful expenditure related to penalties and interest incurred on the late settlement of amounts owing and, in the case of Mbizana, payments of R12,6 million for electrical infrastructure for which no goods or services were received.

Of the fruitless and wasteful expenditure of R404 million incurred in 2012-13, 9% was identified by the auditees. The incomplete reporting of this type of expenditure was due to a lack of credible in-year reports as well as management and councils not monitoring and overseeing this type of expenditure during the year.

Irregular expenditure

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money was wasted or that fraud had been committed, but is an indicator that legislation is not adhered to, including legislation aimed at ensuring that procurement processes are competitive and fair. It is the role of councils to investigate all irregular expenditure to determine whether it constitutes misconduct, fraud, or losses that should be recovered.

The municipal leadership did not respond appropriately to our message to implement adequate controls to address the increasing trend in irregular expenditure reported in our previous general reports. As a result, irregular expenditure has increased during the year under review.

Of the irregular expenditure of R3,33 billion incurred in 2012-13, most (96%) was as a result of non-adherence to SCM prescripts. In total, 71% of the expenditure was the result of acts of non-compliance in the year under review, while the rest was expenditure resulting from transgressions in previous years.

Only 26% of the reported irregular expenditure was identified by the auditees' internal controls, with the rest being identified during the audit process. Auditees were unable to identify irregular expenditure due to a lack of monitoring and oversight of compliance with legislation, in particular legislation dealing with SCM.

The significant increase in the amount of irregular expenditure was due to irregular expenditure of R1,8 billion being reported at the Nelson Mandela Bay Metro. This amount includes irregular expenditure of R710 million incurred in the previous year but only audited once documentation was made available during the year under review. The main contributing factor towards this irregular expenditure was the non-adherence to SCM prescripts because of a lack of competencies and skills within the SCM unit. As much as 78% of the irregular expenditure reported in the province can be attributed to five municipalities, namely Nelson Mandela Bay Metro (R1,84 billion), OR Tambo District Municipality (R246 million), King Sabata Dalindyebo (R201 million), Buffalo City Metro (R182 million), and Alfred Nzo District Municipality (R120 million).

The main areas of SCM non-compliance within the province are analysed in more detail in the section on key risk areas further on in this report.

Figure 10: Irregular expenditure per district

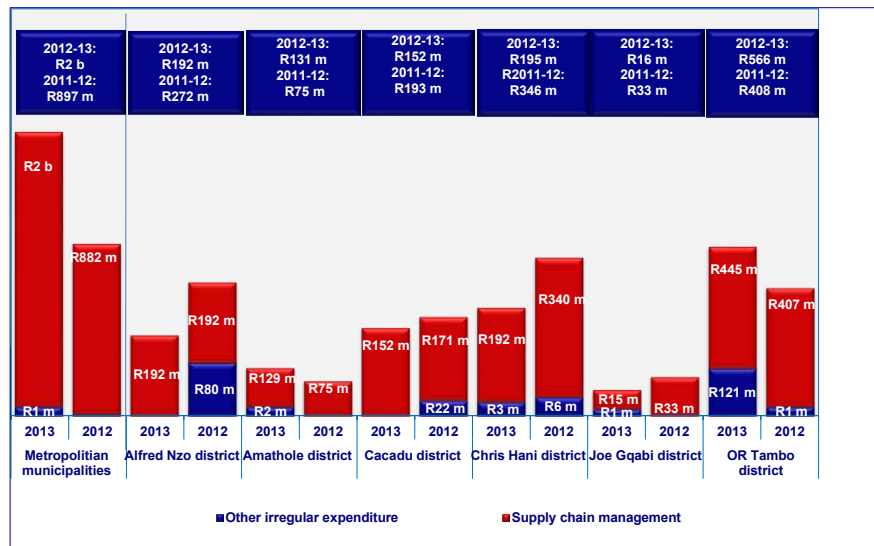
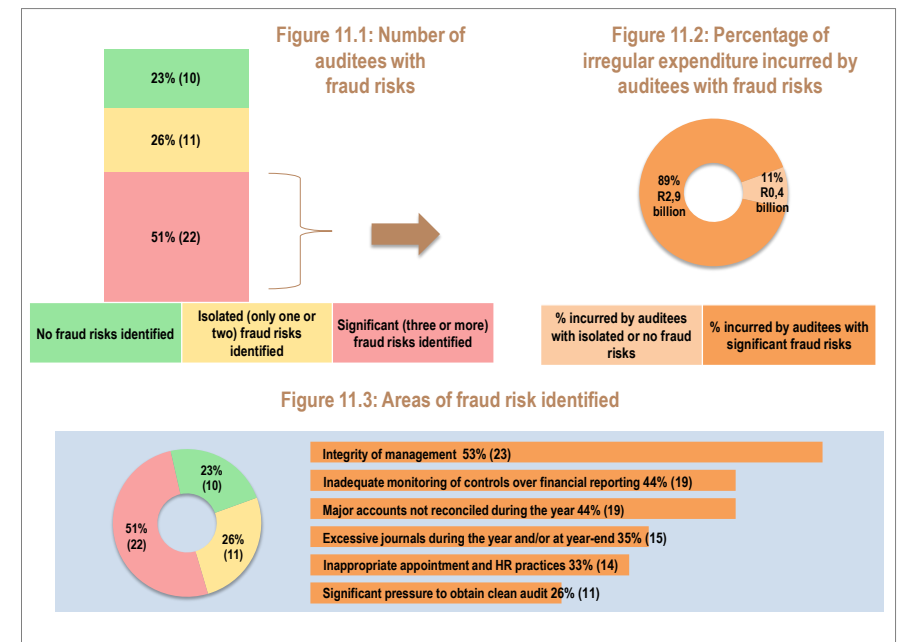


Figure 10 shows the irregular expenditure incurred per district. The municipalities in the rural Joe Gqabi district incurred the least amount of irregular expenditure. The good practices followed by these municipalities should be replicated by the rest of the municipalities in the province.

The continued incurrence of irregular expenditure does not promote the economic and efficient use of financial resources. The leadership should set the tone in addressing irregular expenditure by focusing on risk management and establishing a control environment that supports compliance with SCM prescripts.

Correlation between fraud risk and irregular expenditure

Figure 11: Fraud risks identified at municipalities



We analysed the fraud risks identified by the audit teams at municipalities. These **do not represent instances of identified fraud** during the audit process, but rather weaknesses and a breakdown in the internal control environment that **may provide an opportunity for fraud to occur**; and that have resulted in an increase in the number of investigations by other state institutions at certain municipalities.

Figure 11 indicates that more than two risk factors were identified at just over half (51%) of the municipalities in the province. These 22 municipalities incurred R2,9 billion or 89% of all of the irregular expenditure in the province.

The main risks identified included concerns regarding the integrity of management at 53% of the auditees, coupled with inappropriate appointment

and HR practices at 33% of the municipalities. Matters that speak to the need for strengthening regular disciplines include inadequate monitoring of controls over financial reporting and major accounts not being reconciled during the year – both of which

were identified at 44% of the municipalities. Excessive journals were also processed at 35% of the municipalities. These matters clearly indicate a general breakdown in the control environment, which allowed irregular expenditure to be incurred.

To improve this situation, the leadership and oversight structures must ensure that risk assessments are comprehensive, and that they respond to the matters identified during the assessments. The correct tone of leadership, creating an environment in which fraud or any indication of fraud is not tolerated, and related consequence management are also needed. This will enhance the integrity of management and ensure that HR practices are adhered to, resulting in the appointment of skilled staff who can help to improve the control environment.

Responsibilities of municipal managers, councils and other role players with regard to unauthorised, irregular as well as fruitless and wasteful expenditure

Legislation prescribes the actions that municipal managers and councils should take to investigate and deal with unauthorised, irregular as well as fruitless and wasteful expenditure. More information on the effectiveness of these actions is included in the section on HR management further on in this report.

It is vital that both the political and the administrative leadership address weak control environments that tolerate deviations from legislation, which in turn result in unauthorised, irregular as well as fruitless and wasteful expenditure. The inadequate execution of controls and deviations from legislation should not be tolerated.

Transparent financial and reporting systems that are managed and led by competent and technically proficient staff; the enforcement of consequences for transgressions; assurance provided by MPACs, audit committees and internal audit units; and an appropriate, decisive and progressive leadership tone are required to effectively address the weak control environments that gave rise to the findings reported above.

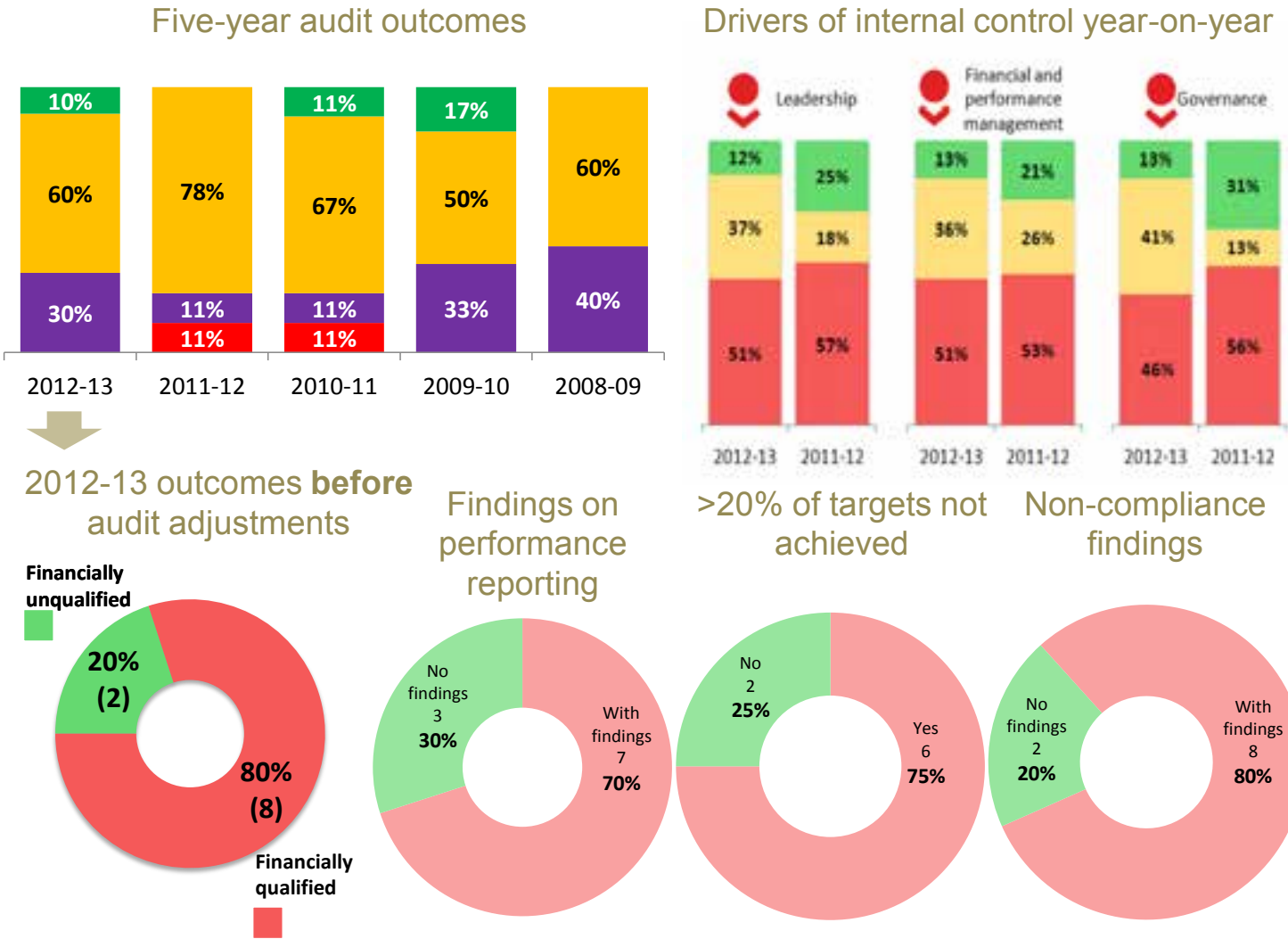
The Provincial Treasury and the Department of Local Government and Traditional Affairs should assist municipalities to address their non-compliance findings by monitoring compliance with legislation (especially actions taken in respect of unauthorised, irregular as well as fruitless

and wasteful expenditure) and by providing financial resources, training and other capacity-building assistance. Although these departments do provide assistance, it needs to be strengthened and its impact monitored. The commitments of these role players are analysed further on in this report.

All role players within local government should prioritise these areas of non-compliance and ensure that adequate daily and monthly processes are implemented to promote a control environment that encourages good governance and accountability. This can only be enforced if proper and consistent consequence management is applied and people are held accountable for their transgressions.

Lack of movement in the outcomes of municipal entities

Figure 12: Audit outcomes of municipal entities



The Eastern Cape currently has 10 municipal entities – which is the second most of any province in the country. Municipal entities are independent organisations (although they are under the ownership control of the parent municipality) that perform municipal services on behalf of the municipality. Given the nature of these entities and the reason for their establishment, it is concerning that 70% of the entities had material findings on the quality of their annual performance reports. Of the eight municipal entities that had prepared a performance report, six (75%) achieved less than 80% of their performance targets for the year. In most instances this was because funding was either not received or not received timeously, indicating that the performance planning process was not closely aligned to the approved budget.

Material non-compliance findings were reported at 80% of the municipal entities, while irregular expenditure of more than R1,5 million was incurred at 60% of the entities. Two entities, namely Ntinga OR Tambo and Port St Johns Development Agencies, had material going concern uncertainties at the date of the audit report. These matters point to a weak control environment and the fact that the inadequate execution of controls and deviations from legislation were tolerated, which is unexpected given the relatively small size of most of these entities.

Although the outcomes of most entities are on par or better than the outcomes of their parent municipality, the overall outcomes of municipal entities have still shown a regression from the previous year. This was as a result of the deterioration in the drivers of internal control. Although the controls that require intervention did show a slight improvement, controls that were assessed as sustainable in the previous year had not been monitored to ensure that they operated effectively during the year under review, which ultimately led to the overall regression of key controls.

While it is pleasing that no entities received a disclaimed or adverse opinion, 30% of the municipal entities received a qualified opinion. A further 50% of the entities only avoided qualification through adjustments identified during the audit process. Only Ntinga OR Tambo and Mandela Bay Development Agencies submitted financial statements that had no material misstatements.

The Mandela Bay Development Agency was the only auditee to receive an unqualified audit opinion with no findings. It is also the only entity that has sustainable governance controls and a control environment supporting continued clean administration and good governance. This environment enhances the credibility of information used for enforcing accountability. These best practices can be copied by not only other agencies but by the metro as well.

Overall, 41% of the governance-related controls at municipal entities were still being implemented while 46% required intervention, meaning that governance structures at these auditees did not yet have a positive impact on audit outcomes.

The council, and more specifically MPAC, should ensure that the board is aligned to the objectives of the municipality to enhance the oversight and governance of the entities. This should include steps to ensure that there are sound internal controls, which will not only lead to an improvement in audit outcomes but also to enhanced service delivery through the achievement of performance targets.

The member of the executive council (MEC) for local government and traditional affairs should assess the fiscal discipline, good governance principles and viability of these entities, to ensure that they deliver on the mandate for which they were originally established, and that their resources are utilised in an economic, effective and efficient manner.

MATTERS RELATED TO SERVICE DELIVERY

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The provision of water and sanitation services and road infrastructure should receive urgent attention

Municipal infrastructure in respect of roads and the provision of water and sanitation services is a crucial element in ensuring service delivery to all communities in South Africa. In support of this, we reviewed key aspects of these services provided by municipalities, and reported the findings in the management reports.

Figures 13 and 14 show the number of municipalities with findings in one or more of the key aspects reviewed.

Figure 13: Number and percentage of water services authorities with findings

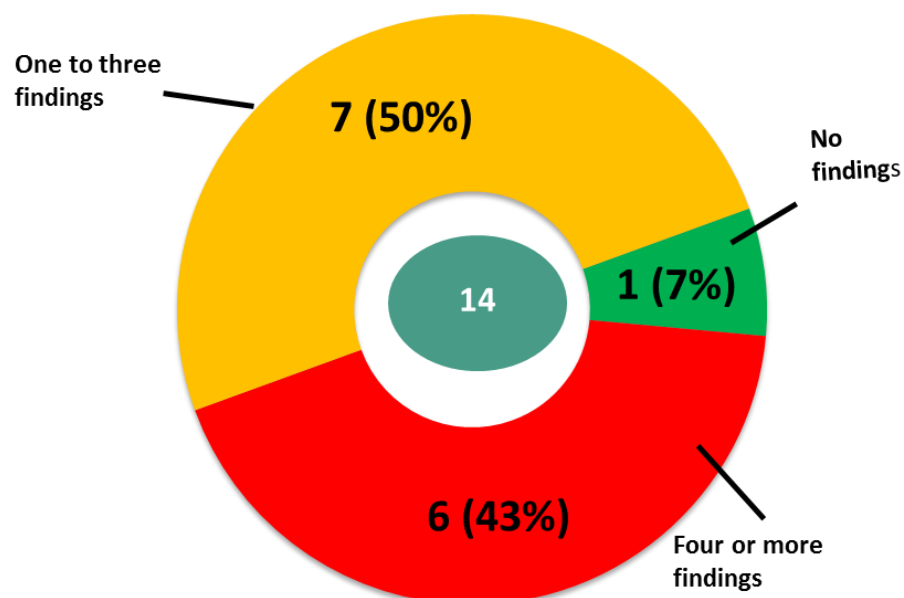
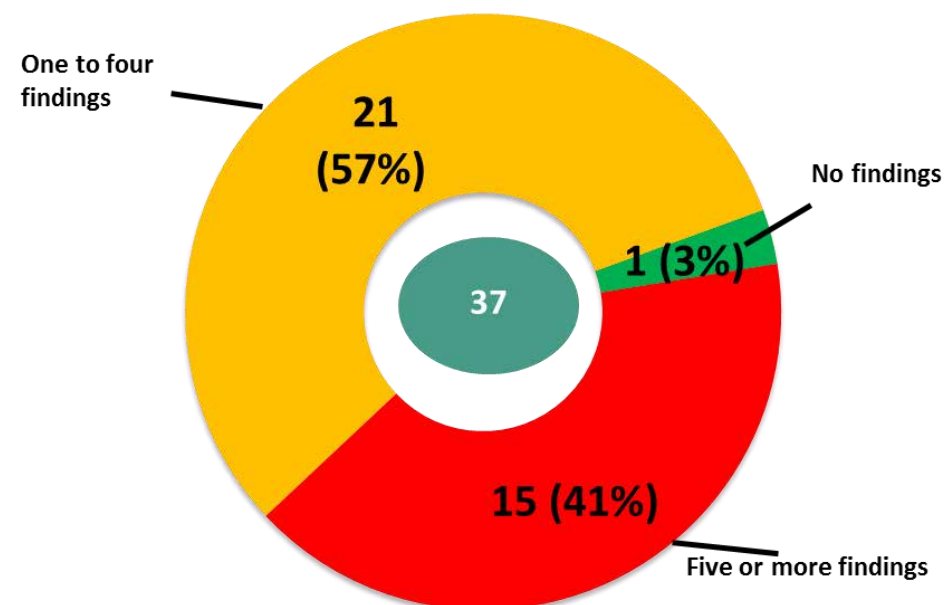


Figure 14: Number and percentage of roads authorities with findings



Water and sanitation services

According to the Constitution, every person has the right to clean water. Government thus set a target to provide access to basic water and sanitation to all the people in South Africa by 2014. However, more than 5% of South African citizens are currently still without clean water.

The service delivery of water services and sanitation is critical, as the lack thereof increases the risk of poor health and premature deaths and also has an impact on the dignity of citizens.

Municipalities classified as water services authorities are responsible for the provision of water and sanitation services. Within the province, there are 16 water services authorities.

Figure 15 illustrates the most common water and sanitation findings and the number of water services authorities with these findings. These findings are based on audits conducted at 14 water services authorities, excluding those of Makana and Sundays River Valley, of which the audits had not been finalised at

the cut-off date for this general report due to the late submission of their financial statements.

Figure 15: Most common water and sanitation findings

The backlog in the provision of basic sanitation will not be eradicated in 2014

11 (79%)

Targets for providing access to basic water to households were not achieved

8 (57%)

The backlog in the provision of basic water will not be eradicated in 2014

7 (50%)

Targets for providing access to basic sanitation to households were not achieved

6 (43%)

The municipality did not adopt a water services development plan

6 (43%)

As illustrated in the figure above, much improvement is still required within this area. The reasons for the poor situation and recommendations on the way forward are detailed below after the analysis of roads infrastructure. (The root causes and recommendations for water and sanitation services and roads infrastructure have been combined due to their similar nature.)

Roads infrastructure

In terms of the Constitution, the functions and powers relating to roads lie with those municipalities classified as roads authorities. There are 39 roads authorities in the province.

The condition of roads has an impact on all citizens and, as such, poor road conditions create challenges for many resulting in unnecessary time delays,

increased transportation costs, accidents as well as reduced access to education, health care and social services.

Figure 16 shows the most common roads infrastructure findings and the number of municipalities with these findings. These findings are based on audits conducted at 37 roads authorities, excluding those of Makana and Sundays River Valley, of which the audits had not been finalised at the cut-off date for this general report due to the late submission of their financial statements.

Figure 16: Most common roads infrastructure findings

The municipality did not have a road maintenance plan to indicate the strategy to be followed

18 (49%)

The municipality did not have a road asset management system

18 (49%)

MIG funding for roads infrastructure was underspent

18 (49%)

The municipality did not have an approved policy on roads infrastructure

17 (46%)

Targets for the maintenance of roads were not achieved

15 (41%)

Root causes and recommendations

The findings highlighted relating to the delivery of water and sanitation as well as roads infrastructure were largely the result of a weak control environment where there was a lack of reporting and accountability. In addition, the leadership did not emphasise service delivery implementation, monitoring and reporting enough, as detailed in the section on the quality of annual performance reports earlier on in this report.

To address the weak control environments of municipalities and improve their service delivery, the provincial executive, councils, MPACs and accounting

General report on the audit outcomes of Eastern Cape local government for 2012-13

officers should focus on the basics required to create a well-functioning public service that delivers services to the public in accordance with its mandate. These basics include the following:

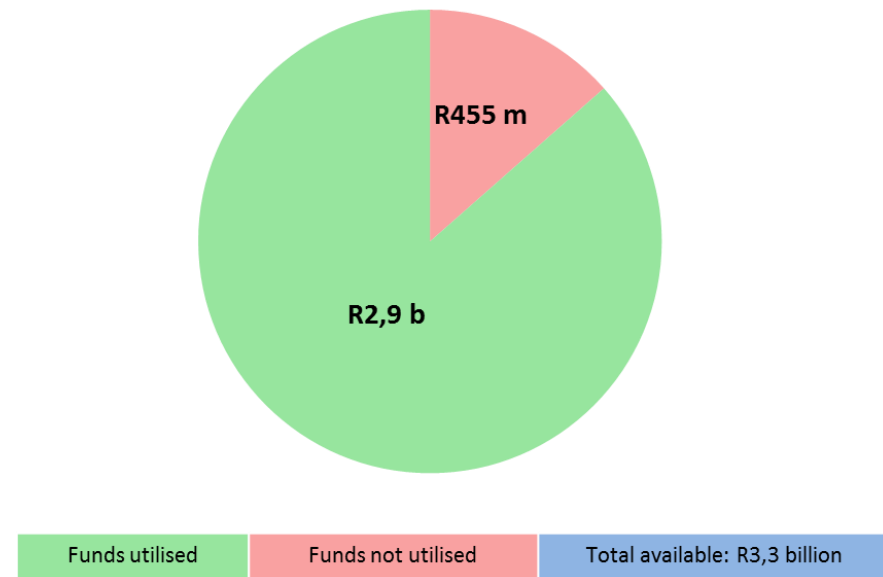
- Implementing **performance reporting systems** that are managed and led by competent personnel with strong technical skills.
- Preparing accurate and empowering **monthly performance reports** that enable audit committees, councils and MPACs to execute their oversight functions with diligence. Improved performance reporting will empower councils to make credible decisions and create an environment that supports improved service delivery.
- Building **internal audit capacity** to enable the internal audit function to verify the credibility of all reports submitted to the audit committee, MPAC and council.
- Taking **corrective action** during the year when it becomes apparent that planned targets will not be achieved and enforcing consequences for poor performance where necessary.

It is very important that all municipalities attend to the service delivery matters relating to water and sanitation and roads infrastructure to improve the lives of all citizens within the province.

Municipal infrastructure grant not effectively managed to improve service delivery

The municipal infrastructure grant (MIG) is a conditional grant allocated to municipalities to ensure that all households have access to a basic level of infrastructure services.

Figure 17: Amount of funds utilised



Of the amounts available for spending, R491,8 million was rolled over from the previous year and R2,9 billion was received by municipalities during the year under review. Figure 17 indicates that 14% of the funds available through the MIG were unspent at year-end. As a result, communities did not receive all of the benefits of upgraded infrastructure despite funds being available to improve service delivery.

Municipalities are unable to spend their full allocations each year due to skills shortages and vacancies, as discussed in the HR section later on in this report, as well as poor project management of funds and responsibilities. This situation is becoming worse, as R454,9 million was available at the end of 2012-13 for rollover to the next year.

Municipalities intended spending the money allocated to them, as 90% of the municipalities included targets relating to MIG funding in their annual reports, as can be seen in figure 18.

Figure 18: Targets included in the annual report

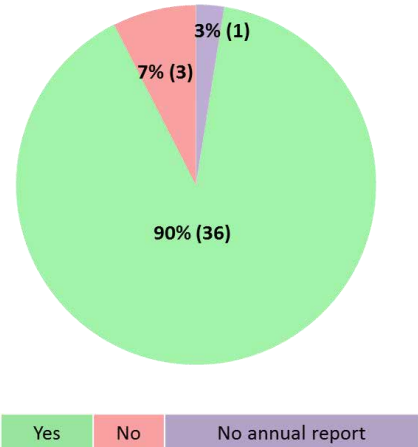
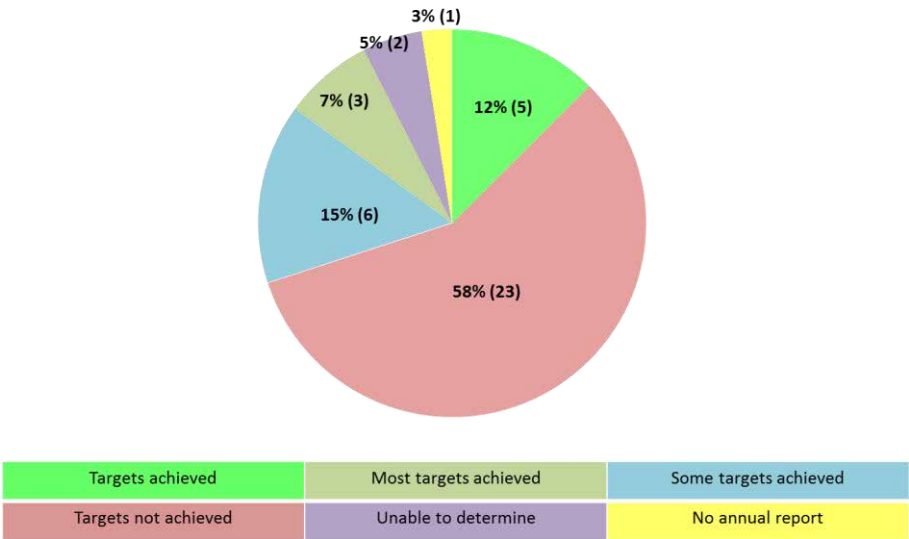


Figure 19: Achievement of municipal infrastructure grant targets



As can be seen in figure 19, 58% of the municipalities did not achieve their MIG targets, although 86% of the budget relating to this grant had been spent, as indicated in figure 17. This means that municipalities did not effectively manage money allocated to improve service delivery infrastructure and ultimately the lives of citizens. It also indicates that municipalities used funds for purposes other than those for which they were intended and did not adequately monitor the implementation of service delivery projects in the communities. The fact that 90% of the municipalities made promises through their targets and only 13% were able to fully deliver on these, means that municipalities did not live up to the promises that they had made to their citizens.

As shown below, nine municipalities managed to spend 100% of the MIG funds available to them during the year. None of these municipalities were able to achieve their targets for the year relating to this funding, other than the Chris Hani District Municipality that had achieved most of its targets.

Achievement of targets	Number of municipalities who spent 100% of budget
Most targets achieved	1
Some targets achieved	3
Targets not achieved	5

This failure was primarily due to poor project management, as officials without the necessary competencies managed projects and the leadership and senior management did not implement corrective action against officials who failed to perform their duties.

Municipalities must ensure that they have a proper plan for the implementation of MIG projects. This plan should detail spending and project milestones. The details of the plan should form the responsibilities of the municipal manager, while the mayor, council and audit committee should put proper oversight procedures in place to ensure that the plan is carried out effectively and that value for money is received for the funds spent on the projects.

SUMMARY OF KEY RISK AREAS

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Six risk areas should continue to receive attention

Our audits of the six risk areas, as outlined in figure 1 of this report, show that our recommendations to address these risks to good financial and performance management have not yet been implemented. Significant aspects of five of these risk areas are summarised below, while the quality of performance information has been covered as part of the section on audit outcomes above. A view on the effective use of consultants is given as part of the HR management risk area included below.

Improvement in timely submission of financial statements but quality remained poor

The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the key financial information for the reporting period in accordance with the financial framework and applicable legislation. The audit provides the users with reasonable assurance on the degree to which the financial statements are reliable and credible, on the basis that the audit procedures performed did not identify any material errors or omissions in the financial statements. We use the term *material misstatement* to refer to such material errors or omissions.

Most auditees submitted their financial statements for auditing on time. Two municipalities, Elundini and Senqu – both located in the Joe Gqabi district, submitted financial statements that were free from material misstatements.

The Joe Gqabi District Municipality has coordinated interventions to assist local municipalities within this area to achieve positive audit outcomes going forward. If these interventions are implemented and monitored appropriately, they should yield positive results. These practices should be shared with other districts and municipalities in the province.

Figure 20: Quality of submitted financial statements

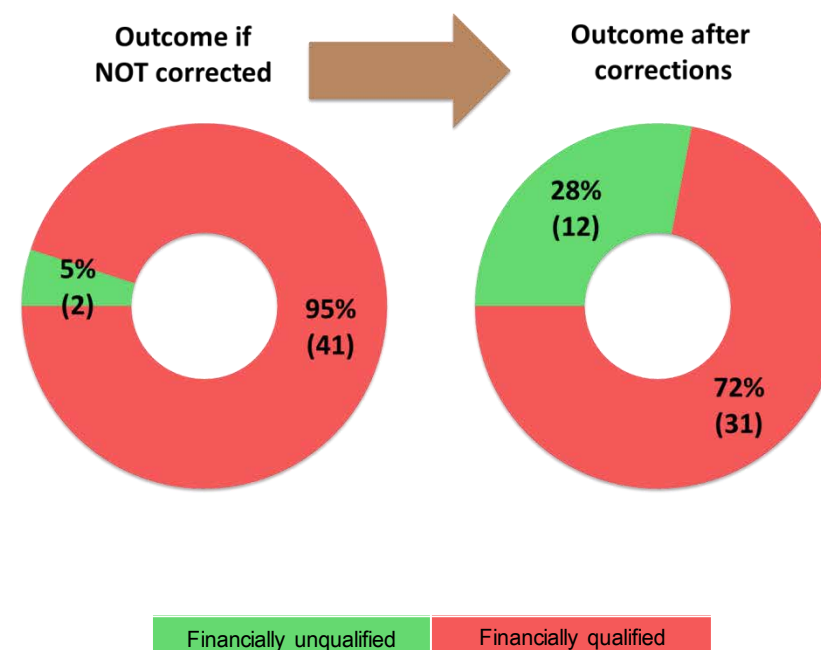


Figure 20 shows that 10 auditees (23%) received a financially unqualified audit opinion only because all the misstatements we had identified during the audit were corrected. This continued reliance on the auditors to identify corrections is not a sustainable practice. It places undue pressure on legislated deadlines and increases the audit fees.

In total, 31 auditees (2011-12: 36) could not make the necessary corrections to the financial statements, even though the material misstatements were reported to management. This resulted in modified audit opinions and was the result of either the municipality not having the capacity to evaluate the full extent of the error or there being a lack of documentation to determine the extent of the error. The following were the three most common financial statement qualification areas:

- **Unauthorised, irregular as well as fruitless and wasteful expenditure**, which was reported in the audit report of 28 (90%) of the

auditees that obtained modified audit opinions, compared to 33 (92%) in 2011-12.

- **Non-current assets**, which was reported in the audit report of 24 (77%) of the auditees that obtained modified audit opinions, compared to 31 (86%) in 2011-12.
- **Other disclosure items**, which was reported in the audit report of 23 of the auditees (74%) that obtained modified audit opinions, compared to 25 (69%) in 2011-12.

Most auditees appointed consultants to assist with financial reporting. These consultants had little or no impact on the audit outcomes within the province. The reasons for this are analysed in more detail in the section on the effective use of consultants later on in this report.

To ensure a sustainable improvement in the quality of submitted financial statements, municipalities need to create a culture of transparent financial management and reporting throughout the year. Staff with strong technical skills and experience must lead and manage this process and ensure that the monthly financial disciplines are consistently implemented and monitored.

This, together with a strong accountability process, will create an environment that supports good governance and effective oversight, which will ultimately result in the professionalisation of local government.

Little progress on critical risk area of supply chain management

As part of our audits of SCM practices, we tested 1 054 contracts (with an approximate value of R9,6 billion) and 1 765 quotations (with an approximate value of R83 million), also referred to as *awards* in this report.

We tested whether the prescribed procurement processes had been followed, which would have ensured that all suppliers were given equal opportunity to compete and that some suppliers were not favoured above others. We also focused on contract management, as shortcomings in this area can result in delays, wastage as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

We further assessed the financial interests of employees and councillors and their close family members in suppliers to the auditee as well as the interests of other state officials, as legislation prohibits awards to such suppliers. We also evaluated

whether auditees had implemented adequate internal controls to prevent, detect or correct irregularities in the SCM processes.

We reported all the findings from the audit to management in a management report, while we reported the material non-compliance findings in the audit report.

Although the overall number of auditees with procurement findings remained similar to the previous year, the total number of auditees with material SCM findings has increased slightly. This was due to control weaknesses that gave rise to the non-material findings being ignored and these findings then escalating to become material findings.

Only three municipalities had no findings on procurement and contract management at all, namely Cacadu District Municipality, Joe Gqabi District Municipality and Ingquza Hill. A further three municipalities did not have material SCM findings, namely Amathole District Municipality, Elundini and Kouga.

The lack of positive movement in this area was due to an inappropriate leadership tone, characterised by a general lack of monitoring and enforcement. In addition, the critical position of head of the SCM unit was vacant at many municipalities (refer to the section on HR management of this report for further details regarding vacancies). This created an environment favourable for corrupt SCM practices, including councillors, management, other employees and state officials doing business with their municipalities without declaring their interests.

Figure 21: Findings on supply chain management

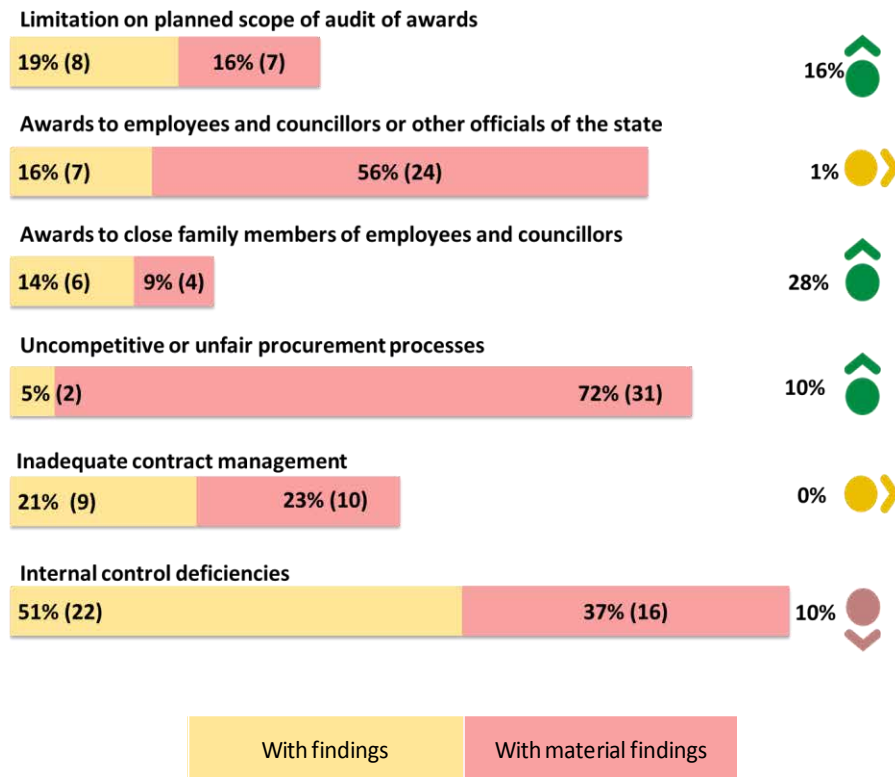


Figure 22: Irregular expenditure resulting from most common non-compliance areas

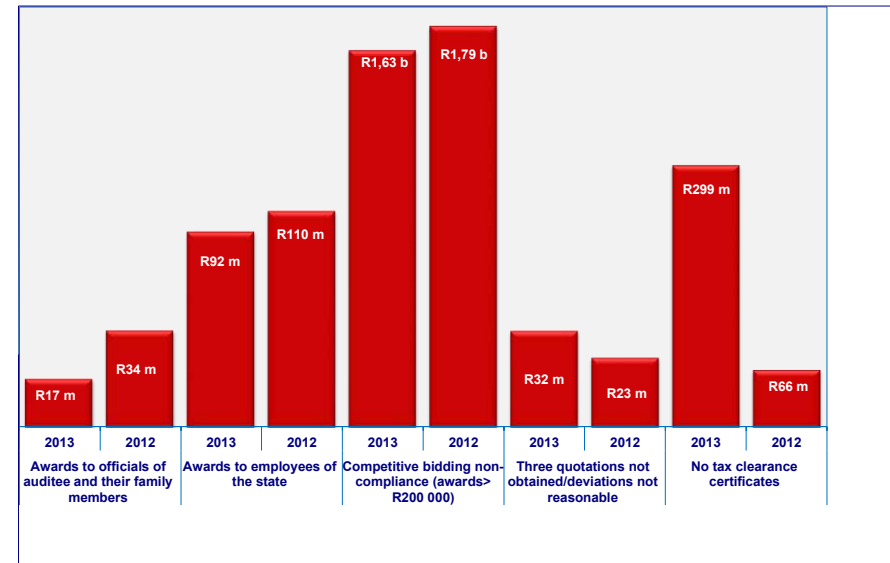


Figure 21 indicates the extent of findings in the areas we report on and the movement since the previous year, while figure 22 shows how much irregular expenditure was incurred as a result of the five most common non-compliance findings in the current and previous year.

The following were the most common findings:

- Limitations** were once again experienced in the SCM audits. We could not audit awards with a value of R1 183 million at 15 auditees, as they could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. We could also not perform any alternative audit procedures to obtain assurance that the expenditure incurred in this regard was not irregular. The main reasons for the limitations included **documentation taken by law-enforcement authorities** for further investigation as well as **inadequate record**

keeping. The possibility that the required documentation was withheld deliberately to conceal fraudulent activities can also not be excluded.

- There were 109 instances of awards with an overall value of R7,2 million to suppliers in which **employees and councillors** of the auditees **had an interest**. In 38% of these instances, the supplier did not declare the interest, while the employee or councillor did not declare the interest in 44% of the cases. The persons involved included councillors, accounting officers, senior management and other employees.
- There were 71 instances of awards with an overall value of R10,3 million to suppliers in which **close family members of employees and councillors** of the auditees **had an interest**. In 71% of these instances, the supplier did not declare the interest, while the employee or councillor did not declare the interest in 13% of the cases. The persons involved included councillors, senior management and other employees.
- There were 497 instances of awards with an overall value of R92 million to suppliers in which **other state officials had an interest**. In 80% of these instances, the supplier did not declare the interest.
- The most common findings on **uncompetitive and unfair procurement processes** were the following:
 - **Three written price quotations** were not invited, or deviations were not approved or justifiable: 26 auditees (79%).
 - Procurement took place without **tax clearance certificates** from the South African Revenue Service: 19 auditees (58%).
 - A **prospective supplier list** was either not maintained or not administered in accordance with the prescribed requirements: 18 auditees (55%).
 - **Competitive bids** were not always invited and the required deviations were either not approved or justifiable: nine auditees (27%).
- The most common findings on **contract management** were the following:
 - Contracts were **amended or extended** without the approval of a delegated official: 10 auditees (53%).
 - Contract **performance measures and monitoring** were **inadequate**: six auditees (32%).
 - The **performance** of contractors **was not monitored** on a monthly basis: five auditees (26%).

- The most common findings on **internal control deficiencies** relating to SCM were the following:
 - The **risk assessment process** did not adequately address the SCM risks, and plans to address the risks either did not exist or were not monitored regularly: 22 auditees (58%).
 - **Proper records** (including bid registers, bid documentation, quotations and other evidence required to support a fair, equitable and transparent procurement process) were **not kept**, or available records did not contain all of the required information: 14 auditees (36%).
 - SCM **officials** were **not** adequately **trained** to enable them to perform their responsibilities competently: 12 auditees (32%).

In the previous year, all role players responded to our SCM messages by providing commitments to address the upward trend in irregular expenditure. We also reported last year that we had assisted the Department of Local Government and Traditional Affairs to develop an SCM monitoring tool, which the department had committed to roll out by June 2013. Unfortunately this tool has to date not been rolled out.

Most of the commitments made in the previous year to deal with the SCM challenges were not implemented or were still in progress at the end of the year under review and had therefore not yet had the desired effect on the SCM outcomes. This slow response to our SCM messages was due to neither the political nor the administrative leadership taking ownership and accountability for the implementation of our recommendations.

The application of an SCM monitoring tool, together with a commitment from the provincial executive, councils, MPACs and accounting officers to build a culture of low tolerance for inadequate execution of controls and deviations from legislation, should assist in eliminating SCM malpractices. Only when the leadership sets an appropriate, progressive and decisive tone regarding SCM malpractices, will there be improvement in this area.

We will continue to hold workshops to discuss these findings and provide useful and relevant information and insights to the leadership. This should enable them to address the weaknesses identified effectively and restore public confidence in the province's ability to manage the resources it has been allocated in the best interest of its citizens.

Poor human resource management

HR management is effective if adequate and sufficiently skilled staff members are in place and if their performance and productivity are properly managed.

Our audits included an assessment of HR management that focused on the following areas: ■ HR planning and organisation ■ management of vacancies ■ appointment processes ■ performance management ■ acting positions ■ management of leave ■ overtime ■ suspensions.

Our audits specifically looked at the management of vacancies and stability in key positions, competencies of key officials, performance management, and consequences for transgressions. We reported all the findings from the audit to management in a management report, while we reported the material non-compliance findings in the audit report.

There has been no change in the number of auditees with audit findings on HR management since the previous year. It is further concerning that the number of auditees with material findings has increased from 23 to 28. This means that 65% of the municipalities did not comply with HR-related legislation. This lack of movement was a result of the leadership not paying attention to our message of prioritising skills to empower the municipalities so that they can deliver on their mandate.

Management of vacancies and stability in key positions

Figure 23: Vacancies in key positions

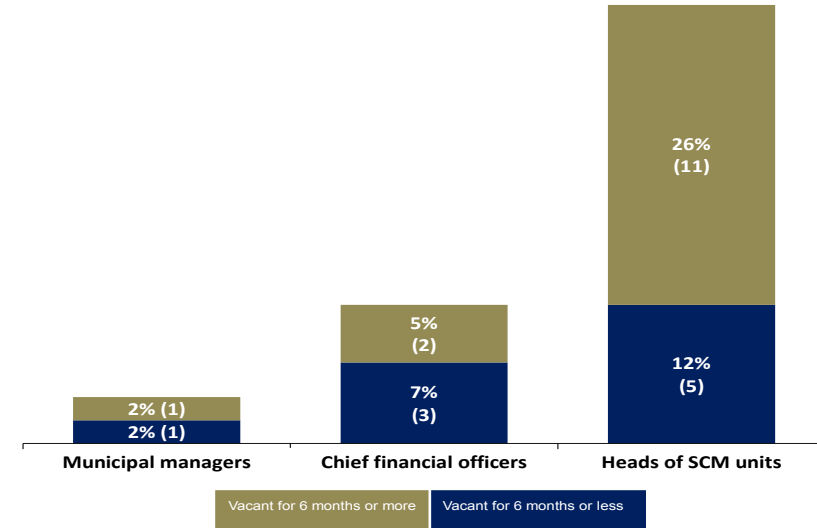


Figure 24: Audit outcomes of auditees with high vacancy rate in the finance section

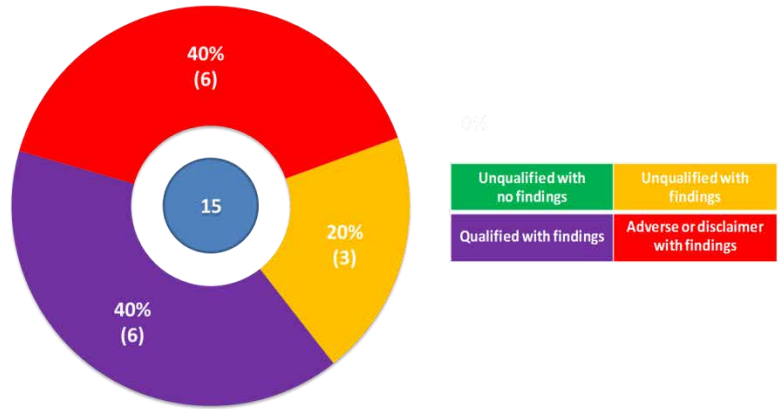


Figure 25: Stability in key positions (average number of months in position)

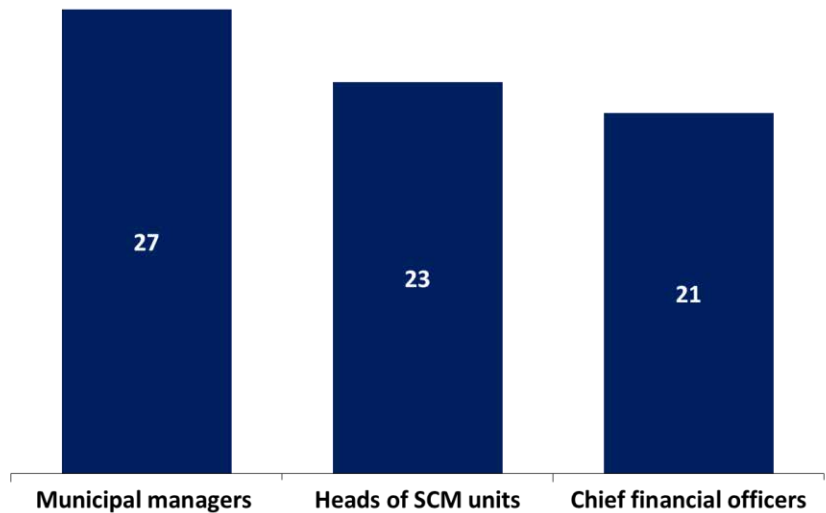


Figure 23 shows the number of auditees where key positions were vacant at year-end as well as whether these positions had been vacant for more than six months. Figure 24 reflects on the audit outcomes of auditees where there were vacancies of more than 20% in the finance section. Figure 25 shows the average number of months key officials had been in their positions.

The average period that municipal managers had been in their positions was 27 months. When analysing the average period of a municipal manager in office compared to the audit outcomes, we found that municipal managers whose auditees achieved unqualified outcomes were in office for an average of 45 months. The average term of office of municipal managers at auditees with qualified outcomes was 25 months, while for disclaimed and adverse outcomes it was only 13 months. This underlines the importance of stability at the leadership level, and the impact this has on audit outcomes.

The position of the head of the SCM unit was vacant at 16 municipalities (38%). When evaluating the impact of these vacancies, we found that challenges with irregular expenditure led to qualifications at 56% of these municipalities and that irregular expenditure was recorded in the financial statements of 14 of these municipalities (88%). This highlights the importance of filling these critical vacancies.

There was no permanently appointed chief financial officer at five municipalities (12%). At the remaining 38 municipalities, the average length of time officials had been in this position was less than two years, while 63% of them had only been in the position for a year or less. This indicates that there is high turnover rate at this level. This creates instability in the finance sections and has a direct impact on the rigour with which internal controls are overseen regularly as well as the quality of the financial statements.

A further analysis of vacancies in the finance section shown in figure 24 indicates that general instability in the finance sections has a negative impact on audit outcomes. Modified audit opinions were expressed at 80% of the auditees that had high vacancy rates in the finance section. Of these modified outcomes, 40% were disclaimed or adverse. Qualified outcomes in the other 40% were only achieved by using consultants.

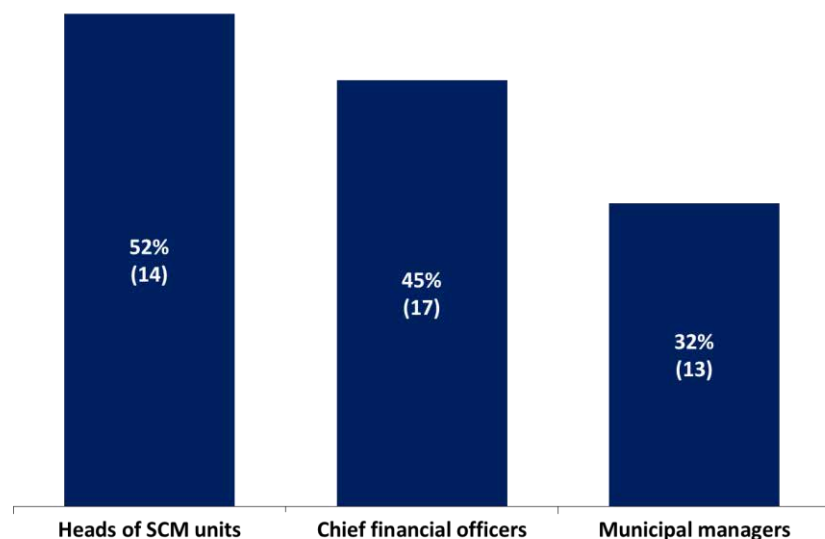
At the remaining 20% that received unqualified outcomes, two auditees had a zero vacancy rate at senior management level. This helped lessen the effect of the vacancies in the finance section.

The most common findings on the management of vacancies and acting positions were that at 13 municipalities (30%), the overall vacancy rate had increased from 2011-12; and at 10 municipalities (23%), senior management positions remained

vacant for longer than 12 months. The failure of the leadership to prioritise the filling of critical vacancies points to their lack of commitment to change.

Competency of key officials

Figure 26: Key officials that did not have the minimum competencies



The *Municipal regulations on minimum competency levels* issued by the National Treasury on 15 June 2007 define the minimum competency levels of accounting officers, chief financial officers, senior managers, SCM officials and other financial officials, taking into account the size and scope of municipalities.

Figure 26 shows the percentage and number of auditees where key officials did not meet the competency levels as defined in the regulations at year-end. While 55% of the chief financial officers had achieved the minimum competencies, 84% of the auditees still made use of consultants. This indicates that municipalities did not take ownership of the preparation of financial statements, or that they still lacked the skills required to apply the reporting framework properly and to prepare financial statements that complied with this framework. Municipalities should

consider collaborating with local universities and further education and training colleges to assist them with specific skills gaps.

The most common non-compliance findings relating to the competencies of key officials were that the competencies of key officials were not assessed and that the auditees did not submit a report on compliance with the prescribed competency levels to the treasuries.

Performance management

To improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences and that good performance is rewarded. Where a shortage of skills is identified as the cause of poor performance, appropriate training should be given to empower staff to perform their duties effectively.

Common performance management findings included 19% of the accounting officers not having a signed performance contract; and 26% of the performance contracts of those that did have signed agreements not containing performance measures linked to audit outcomes.

Although only 16% of the auditees did not have signed performance contracts for senior management, we found that performance contracts that had been signed were not actively monitored and that there was inadequate consequence management for poor performance.

Consequences for transgressions

Legislation prescribes how financial misconduct, improper conduct in the SCM processes as well as unauthorised, irregular or fruitless and wasteful expenditure should be dealt with through an investigative and disciplinary process, with possible sanctions and criminal proceedings. The following indicates that there continued to be a lack of consequences at some auditees:

- Unauthorised, irregular or fruitless and wasteful expenditure was **not investigated** to determine whether any person was liable for the expenditure at 37% of the auditees.
- Unauthorised, irregular or fruitless and wasteful expenditure was **not recovered** from the liable official at 26% of the auditees.
- Investigations were **not conducted** into allegations of financial misconduct against officials at 12% of the auditees.

- Where investigations were conducted, there were **no consequences** arising from the investigations or the investigations were not finalised in a reasonable time. As a result, consequence management was poor and did not have the desired impact.

Good HR management is critical for any municipality, as it is the foundation for creating a sound control environment that can foster accountability. It is therefore essential that these issues be addressed as a matter of urgency for the municipalities to move forward and create a platform where they can deliver on their mandate.

Return on investment in the use of consultants

As in previous financial years, auditees continued to engage consultants to assist them with financial reporting as well as the preparation of performance information.

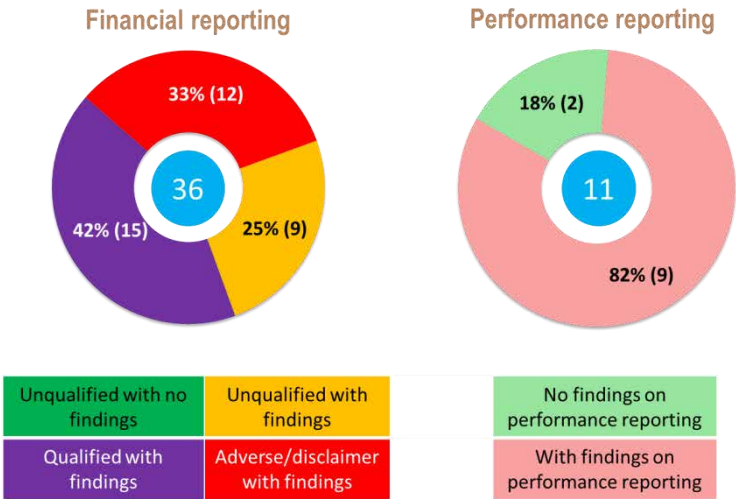
The reasons indicated by auditees for the continued use of consultants were as follows:

	Financial reporting	Performance reporting
Municipal officials lacked the required skills	69%	55%
Positions were vacant	9%	0%
A combination of a lack of skills and vacancies	22%	45%

The main reason for the high use of consultants was the lack of skills within municipalities, which is also one of the root causes of municipalities receiving unfavourable audit outcomes. The cost of consultants assisting with financial reporting was R69,8 million during the year (2011-12: R58,4 million). This excludes amounts spent by the National Treasury, the Provincial Treasury and the Department of Local Government and Traditional Affairs on interventions to assist municipalities with financial and performance reporting. The cost of consultants assisting with performance reporting was R7,7 million (2011-12: R1,2 million).

Figure 27 analyses the audit outcomes of the 36 auditees (84%) assisted by consultants with financial reporting and the 11 auditees (26%) assisted by consultants with performance reporting.

Figure 27: Audit outcomes of auditees assisted by consultants



Most municipalities that made use of consultants for financial reporting achieved either qualified, adverse or disclaimed opinions. This pattern repeated itself at those municipalities that used consultants for performance reporting, as most of them had findings on reporting on performance information in their audit reports.

Even though municipalities use consultants to assist in improving the audit outcomes, factors such a poor control environment and the poor quality of the information provided to the consultants can have a negative impact on the work they perform.

Figures 28 and 29 further analyse the impact that the consultants had on the outcomes of municipalities.

Figure 28: Impact of consultants on outcomes – financial reporting

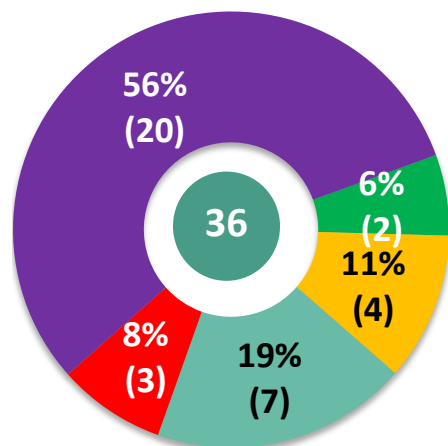
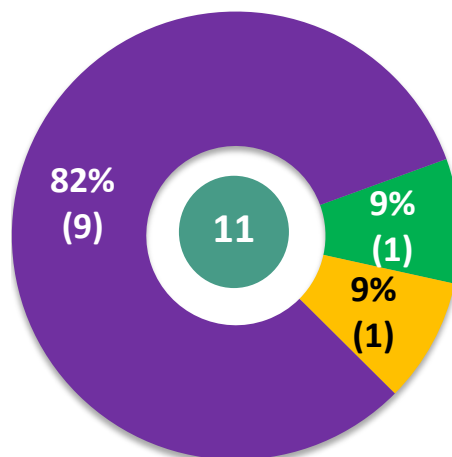


Figure 29: Impact of consultants on outcomes – performance reporting



The need for these matters to be addressed urgently is demonstrated by the fact that 72% of the municipalities who used consultants had chief financial officers but only 15% could improve their audit outcomes.

The figures below further analyse the reasons for the lack of a positive impact of consultants on the audit outcomes.

Figure 30: Reasons for misstatements in work of consultants – financial reporting

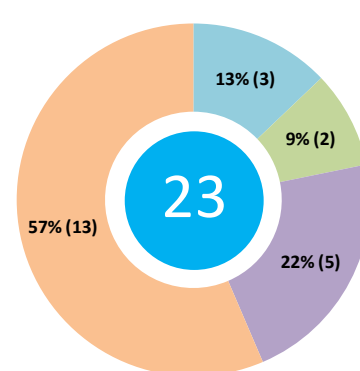
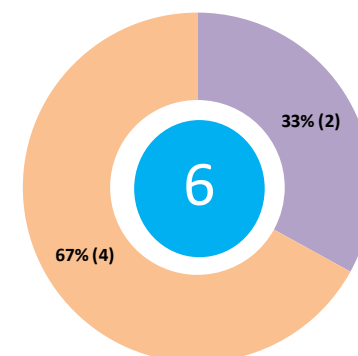


Figure 31: Reasons for misstatements in work of consultants – performance reporting



Lack of records and documents	Consultant did not deliver	Poor project management	Consultant appointed too late
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The figures above show that 23 municipalities that used consultants for financial reporting and six municipalities that used consultants for performance reporting had misstatements in the financial and performance reports submitted for auditing.

Poor document management and the resultant lack of supporting documentation were the main reason for misstatements in the work that the consultants produced.

Where there is a lack of controls or where controls are not functioning adequately, it is unlikely that consultants will have an impact on improving the audit outcomes.

Another contributing factor was the late appointment of consultants due to inadequate planning by municipalities. Consequently, the consultants did not have enough time to correct the inaccurate accounting records supporting the

Remained modified/Remained with findings	Unqualified with no adjustments/No findings and no adjustments
Unqualified with adjustments/No findings with adjustments	Outcome improved
Outcome regressed	

Only seven of the 36 municipalities that made use of consultants for financial reporting managed to improve their audit opinion on financial reporting, while no municipalities that used consultants for performance reporting improved their outcomes in this area. This is quite concerning considering that R11,4 million and R6,6 million more than in the previous year were spent on consultants assisting with financial reporting and performance reporting, respectively.

The increased use of consultants confirms that there was no transfer of skills from the consultants to the municipalities. This can only be addressed by the appointment of skilled individuals in vacant positions as well as through training and capacity building of finance officials who do not have the required competencies.

In addition, proper consequence management should be implemented to ensure that these individuals perform their duties effectively to avoid the continued reliance on consultants.

financial statements. If consultants had been given more time, misstatements could have been reduced and documentation supporting financial and performance reporting could have been located and made available for auditing.

There were also a few instances of poor project management on the side of both the consultants and the municipality, which in turn affected the quality of the service provided.

The reason that contributed the least to the lack of impact was consultants that did not deliver a quality product in line with their contract.

Further to the above, we identified the following weaknesses in essential consultant management processes that need to be addressed to ensure the effective delivery of consultant services:

Concern in respect of the management of consultants	Percentage of municipalities affected
Inadequate conditions or clauses in service level agreements relating to the transfer of skills	62%
No evidence of the transfer of skills	50%
Measures to monitor contract performance and delivery not defined and/or implemented	50%
No policy or strategy on the use of consultants	69%

Proper project management principles, including formalising expected deliverables in service level agreements and the regular monitoring thereof, must be applied by both parties to handle any challenges that may arise during the term of appointment.

Slight improvement in information technology controls

IT controls ensure the confidentiality, integrity and availability of state information; enables service delivery; and promotes national security. It is thus essential for good IT governance, effective IT management and a secure IT infrastructure to be in place.

Our audits included an assessment of the IT controls that focus on IT governance, security management, user account management and IT service continuity. The analysis that follows is based on IT audits conducted at 40 of the 43 municipalities. In respect of the three municipalities not included in the analysis, either the data obtained was not consistent with our knowledge of the municipality or there were no appropriately qualified municipal officials to assist with data collection.

Figure 1 shows that there has been a reduction in the number of auditees with audit findings on IT controls since the previous year. This reduction was largely due to an increase in the number of assessments completed (40) to assess IT controls at low- and medium-capacity municipalities that had been not covered in the previous year.

We classified the findings on IT controls in the pie graph in figure 1 as red, yellow or green as follows:

- If a municipality had **design** weaknesses in the IT controls over two or more of the IT focus areas, it was classified as having material (red) IT findings.
- If a municipality had **control implementation** weaknesses in two or more of the IT focus areas, it was classified as having significant (yellow) IT findings.
- If **no findings** were identified relating to the design or implementation of IT controls over any of the three focus areas, it was classified as having no (green) IT findings.

Please note that IT governance findings had no impact on the foreword graphic on the management of IT controls. In all assessments, the focus areas used were security management, user access controls and IT service continuity.

Figure 32: Status of information technology controls

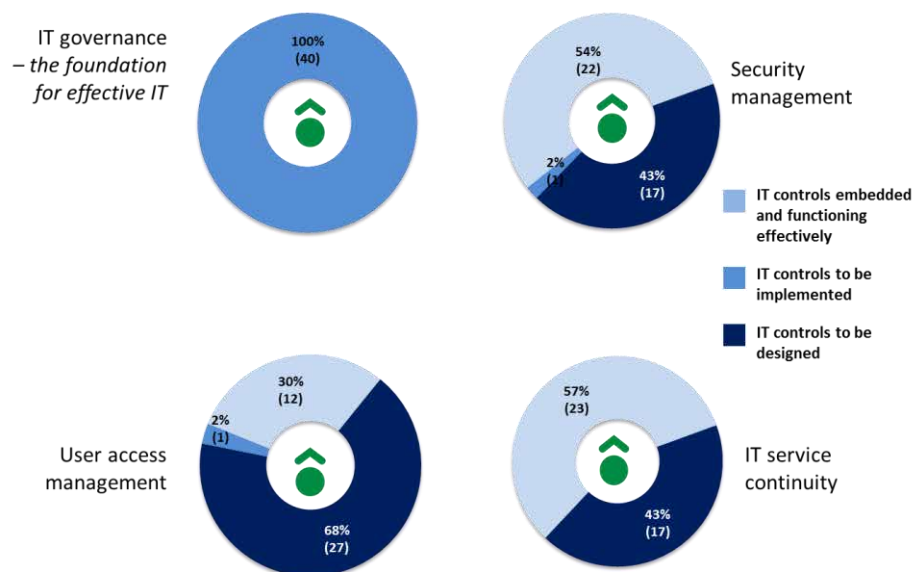


Figure 32 indicates the status of the IT controls in the areas we audited and the movement since the previous year. It shows the number of auditees where the IT controls were either not in place (not designed) or not implemented, as well as those where IT controls were functioning effectively.

Information technology management

Effective IT governance ensures that the auditee's IT control environment functions well and enables service delivery. The IT governance framework developed for government has not yet been implemented. All auditees are, however, required to adopt and implement this IT governance framework and guidelines for local government in phases over the next three financial years. In 2013-14, the implementation of phase 1 should be prioritised. The minister of cooperative governance and traditional affairs has established a task team to guide municipalities to, amongst others, implement the governance framework.

Most auditees did not have adequately designed and implemented IT controls for security management, user access management and IT service continuity. The following were the most common findings in this regard:

Security management

Security-related findings mostly centred on the lack of approved IT policies and procedures as well as inadequate password controls.

User access management

There was a lack of approved user access management procedures and inadequate processes for creating user accounts and terminating former employees' accounts. Processes for reviewing and monitoring the activities of administrators and the appropriateness of users' access privileges were also found to be inadequate.

Information technology service continuity

Approved disaster recovery plans either did not exist or were of a poor quality, while backups were not consistently performed and tested for restorability.

The lack of appropriate IT skills and competencies was at the core of the IT findings referred to above. Only 40% of the municipalities audited have appointed chief information officers. Furthermore, in most of these cases, this appointment was at a level lower than that of a section 57 manager. As result, the chief information officers were unable to adequately influence the strategic direction of the IT services within municipalities.

In order to address the root causes of IT findings, it is very important that municipalities plan for, budget for, and attract the required IT skills. The Department of Local Government and Traditional Affairs together with the Provincial Treasury should assist municipalities to address their IT findings by providing appropriate support in the form of skilled personnel, grants and training. The South African Local Government Association should assist municipalities in improving the skills of their existing IT personnel by providing appropriate training to them.

In addition to the above, management should prioritise the design and implementation of the security management, user access management and IT service continuity controls. This will lessen the risk of unauthorised access to, and the unavailability of, IT systems as well as incomplete data in the event of major system disruptions or data loss.

Deficiencies in financial health

Our audits included a high-level analysis of auditees' financial health indicators to provide management with an overview of selected aspects of their current financial management and to enable timely corrective action where the auditees' operations and service delivery may be at risk. We also performed procedures to assess whether there are any events or conditions that may cast significant doubt on auditees' ability to continue as a going concern.

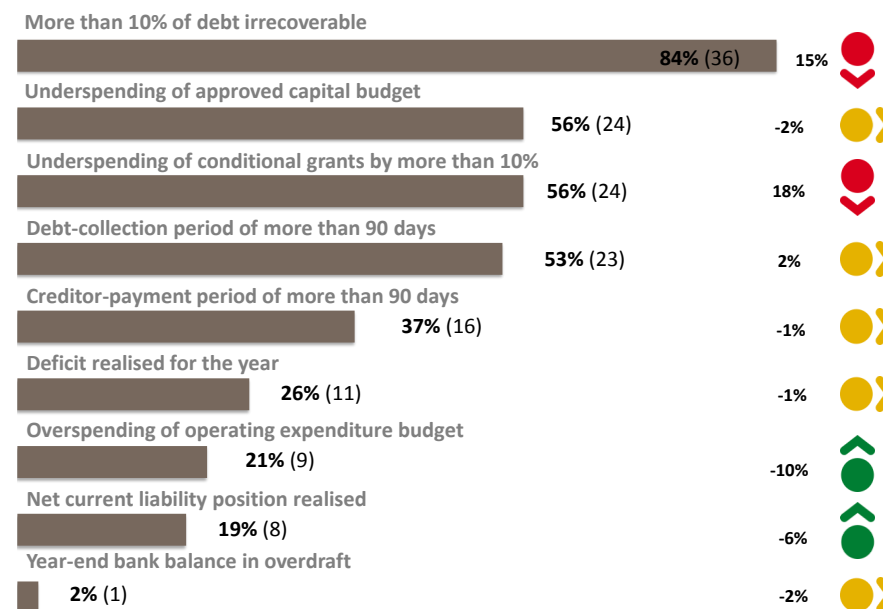
Figure 33 shows the number of auditees that had more than two of the indicators that could point to financial health concerns. There has been an increase in the number of auditees that had findings on financial health since the previous year.

Twelve municipalities (28%) had material going concern uncertainties that may have a significant impact on the financial sustainability of their day-to-day operations, which is a 10% regression from the previous period. Of these 12 municipalities, four are of even greater concern: Ikwezi was the only municipality that had a bank overdraft and a net current liability position at year-end, while Kou-Kamma, Maletswai and Nkonkobe had a net current liability position at year-end and also incurred an operating deficit for the year.

In total, 53% of the municipalities had material findings due to the additional 11 municipalities that received disclaimed or adverse audit opinions. The municipalities with findings (33%) and with no findings (14%) have not changed significantly from the previous period.

Both metropolitan municipalities are categorised as having findings, since they each had findings on six of the indicators shown in figure 33. Although four of the district municipalities (namely Amathole, Cacadu, Chris Hani and Joe Gqabi) had no findings on financial health, unfortunately the same cannot be said for the local municipalities in these districts. There is thus an opportunity for the district municipalities to assist the local municipalities to improve their financial health.

Figure 33: Areas of financial health concerns



Almost all the municipalities (84%) in the province had difficulty in recovering their outstanding debt. Although 10% was used as a risk measure for purposes of this report, more than 50% of the debts of 63% of the municipalities were irrecoverable. We are also concerned as this indicator has regressed from the previous period and because this was a finding at all of the municipalities with material going concern uncertainties.

The other two indicators that had an impact at more than half of the municipalities were the significant underspending of approved capital budgets and the underspending of conditional grants, mainly due to a lack of monitoring and oversight. This underspending correlates directly to unspent MIG funds reported on earlier in the section relating to service delivery matters. The capital budget and conditional grant receipts should be used to improve service delivery and it is therefore concerning that not even half of the municipalities delivered on these promised expenditure to improve the quality of life for their residents.

The National Treasury issued a report on the state of local government finances in which they identified municipalities in financial distress. Although this was not

General report on the audit outcomes of Eastern Cape local government for 2012-13

based on the same indicators shown in figure 33, it correlates with our findings. The main concerns highlighted by the National Treasury for municipalities in the province were also the underspending (and reliance) on capital grants as well as the high percentage of debtors to own revenue, indicating the non-recovery of debt.

Going forward, the province should focus on the recovery of debt where debtors have the means to pay – especially regarding government and business debts that remain unpaid in many instances. The leadership needs to ensure that spending against approved budgets and conditional allocations is monitored regularly during the financial year, so that action can be taken if service delivery is not taking place through these types of expenditure.

INTERNAL CONTROL ENVIRONMENT, UNDERLYING ROOT CAUSES AND THE IMPACT ON ASSURANCE LEVELS

The significant deficiencies in internal controls and root causes should be addressed to improve audit outcomes and ensure adequate levels of assurance

Movement in internal controls indicates marginal progress but decisive action still needed

As part of our audits, we assessed internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation.

Figure 34: Status of drivers of key controls

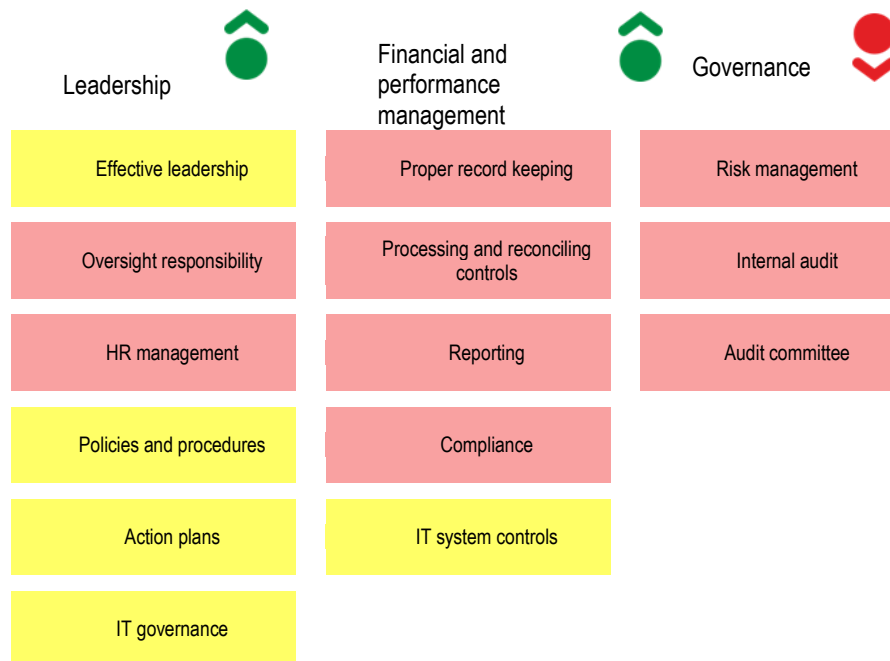


Figure 34 show the status of the different areas of control and the overall movement since the previous year. At this basic level, the distinction between those auditees that heeded our messages and recommendations over the past years and those who did not, becomes very clear.

Those auditees that displayed the correct leadership tone at the top and took action to improve the control environment, underpins the high-level improvement in the leadership category. However, it should be noted that this tone has not necessarily filtered down to all levels of management and staff and that there is still room for further improvement in daily, weekly and monthly financial and performance disciplines. The challenge to entrench sustainability and maintain momentum is still relevant.

On the other hand are those auditees that did not respond to our messages and did not react to the numerous interactions we have had with both the political and the administrative leadership on a continuous basis. This casts doubt on the willingness of the political leadership to improve the situation. The failure of these auditees to address the very basic elements of internal control did not only contribute to the negative picture of the overall provincial control environment, but also directly correlates with those auditees with stagnant disclaimed and qualified audit outcomes.

To improve the status of internal controls in a sustainable manner, the leadership must:

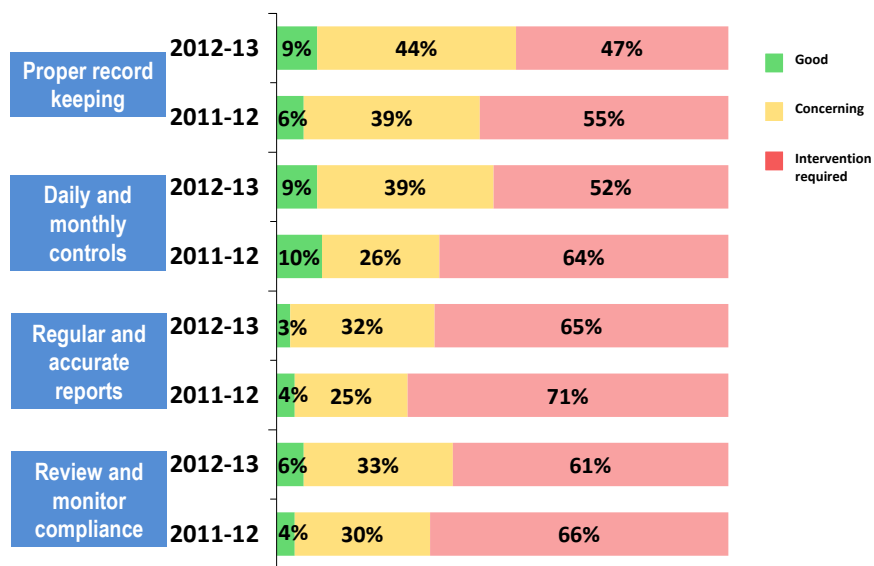
- show an appreciation of the role that **consequence management** plays in restoring accountability, integrity and public confidence in the system of local government
- design and implement **daily, weekly and monthly controls** and reconciliations
- insist on the regular **maintenance of accounting and performance records**.

The regression in governance can be attributed to the lack of staff with the necessary skills and competencies in the internal audit units. In addition, in cases where the governance structures did have the necessary skills, the municipalities did not take these structures seriously and did not implement their recommendations. As a result, these units could not adequately perform their functions. Furthermore, other governance structure such as MPACs could not execute their duties, as the information supplied to them was not credible.

Risk management was also not adequately performed at municipalities and risks were not proactively and consistently managed to reduce their impact on the control environment.

The figure below highlights the most deficient key controls that have contributed to the poor outcomes in the province. These controls should be strengthened and form part of the day-to-day culture of all municipalities.

Figure 35: Four most deficient key controls



1

Municipalities did not have policies, procedures and controls for **document management**. Without an adequate document management system, limitations will continue to plague municipalities, resulting in disclaimers and findings on performance information and non-compliance.

Daily and monthly controls such as transactions and registers being processed, reviewed, reconciled and reported on are the basics of any control environment. These controls were not functioning well enough due to a lack of sufficiently skilled staff, inadequate oversight and ineffective performance management systems.

Municipalities continued to see **reporting** as a year-end process rather than processes that should form part of their daily and monthly controls. Where reporting took place, it was often done only to ensure compliance with deadlines with no emphasis on quality. Daily and monthly reports were not adequately **reviewed**, which meant that information used for decision-making was not always reliable. This poses a huge risk for the administrative and the political leadership, as they can make incorrect decisions based on such unreliable information – even if they had the correct intentions during the decision-making process.

The **monitoring of compliance** with legislation continued to be neglected, as there were insufficient processes to support this. Furthermore, the leadership did not adequately oversee compliance processes.

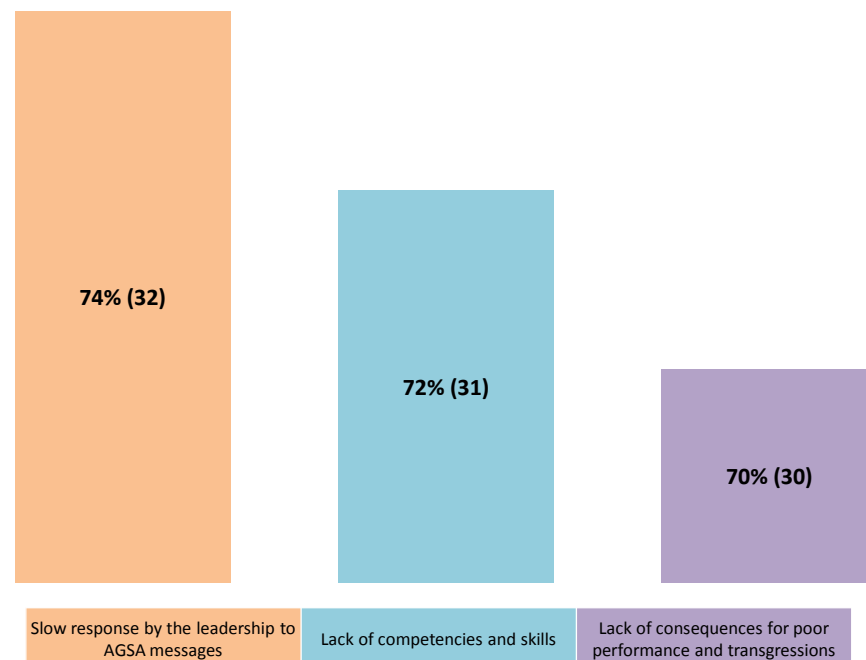
The leadership needs to ensure that adequate policies and procedures are developed, implemented and monitored. This will only be effective if the municipalities address their skills challenges and start holding officials accountable for poor performance. In addition, staff who prepare reports only to comply maliciously while compromising quality must be dealt with decisively.

The leadership and governance structures should complement this by strengthening monitoring and oversight to create a high-performance culture that promotes accountability.

Most municipalities failed to address root causes to improve outcomes and ensure sustainability

Most municipalities failed to address the root causes of poor audit outcomes.

Figure 36: Percentage of root causes at auditees



As mentioned earlier in the report, there has not been much movement in audit outcomes over the past five years. This is largely as a result of the root causes illustrated in figure 36. We further detail these top three root causes and actions to be taken to address them below.

Slow response by the leadership to our messages

We regularly interact with all levels of leadership at the municipalities and within the province. At these interactions, we provide feedback through our audit

reports, management reports, quarterly key control dashboards and communication of audit findings.

A clear pattern of the political and administrative leadership's slow response to the audit messages and root causes was still evident. At 74% of the municipalities, our messages had not been taken seriously and commitments made had not been implemented adequately. This was due to a lack of will by both the political and the administrative leadership to make the necessary changes. Going forward, the following should be done to address this root cause:

- The council, MPAC, audit committee and mayor must **oversee the implementation of our messages** by making commitments and then translating these commitments into an action plan. Such a plan must be adequately and regularly monitored to ensure that progress is taking place. Corrective action must be taken against employees who do not perform the necessary actions to implement the plan.
- District municipalities must **provide assistance**, including the transfer of skills, to local municipalities in drawing up and monitoring their action plans and commitments.
- Mayors and the MEC for local government and traditional affairs must ensure that **all issues raised by us are adequately addressed**. Any omissions by municipalities should be reported to the Provincial Legislature in line with section 131 of the Municipal Finance Management Act (MFMA).
- The political and technical MUNIMEC must ensure that **best practices are shared and that transversal challenges are addressed and monitored**. In addition, municipalities that do not keep to their commitments must be held accountable.

We will continue to follow up the commitments made and evaluate their progress. Municipal managers need to drive this change by implementing actions through action plans and making actionable commitments for all our findings. These need to be monitored regularly to ensure that municipal officials are living up to their promises.

Lack of competencies and skills

The lack of staff with minimum competencies and skills to perform their responsibilities was a root cause at 72% of the municipalities. This included employees that were appointed without the minimum competencies, current employees who did not keep up to date with ongoing training and development,

and critical positions that were vacant and resulted in a skills gap. Going forward, the following should be done to address this root cause:

- The council, MPAC, audit committee and mayor must ensure that there is a properly **approved organisational structure** and that properly approved recruitment, retention and performance management policies are in place. Regular oversight of these policies and the structure must be performed to ensure that the structure is adequately filled and that the policies are implemented.
- In addition, the municipal leadership must undertake a process to **identify those employees that lack the necessary skills and competencies** in their current positions. These employees should then be subject to training and development initiatives that will see them close their current skills gap.

Lack of consequences for poor performance and transgressions

We identified a lack of consequence management for poor performance and transgressions as a root cause at 70% of the municipalities. Employees tended to be at work but did not necessarily perform all of their responsibilities. These employees were not held accountable when they did not perform their duties or when they transgressed the policies and procedures of the municipality. This created a culture of non-performance and the perception that transgressions were an accepted norm within the municipality. As a result, municipalities continued to be plagued by the same misstatements and findings on non-compliance and performance reporting. Going forward, the following should be done to address this root cause:

- The council, MPAC, audit committee and mayor must ensure that municipalities **develop and implement a robust performance management system** that is linked to the integrated development plan.
- Municipal managers must ensure that this system is **implemented throughout the municipality for all levels of employees**. To ensure its success, they must regularly monitor and review this system.
- The mayor must also ensure that the **performance of the municipal manager** is managed in terms of this system.
- The leadership must clearly communicate the message that **‘poor performance and transgressions will not be tolerated’**. Appropriate action must be taken against employees who are not performing in terms

of the performance management system, while those that are performing well should be rewarded.

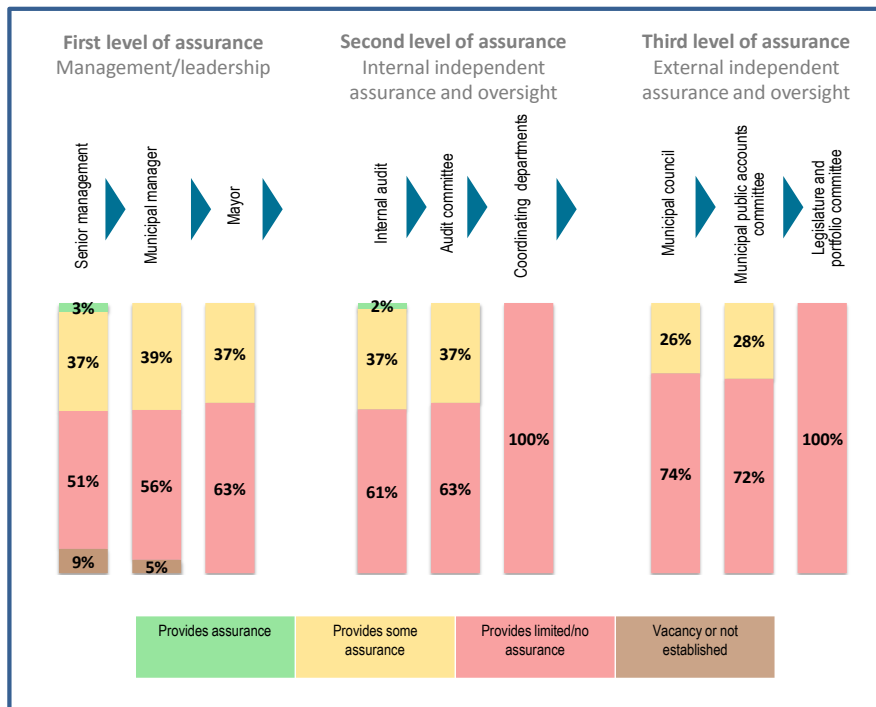
The level of assurance provided by key role players needs to be improved

The poor status of the drivers of internal control highlighted above reflects the inadequate assurance provided by those role players that have a direct impact at the municipalities. The strong correlation between the low levels of assurance provided and the poor audit outcomes points towards a lack of seriousness on the part of the first-level assurance providers to make a difference in the lives of the citizens in the province.

The management and leadership of the auditees and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the six key risk areas, thereby providing assurance on the quality of the financial statements and performance reports as well as compliance with legislation. Only when this has been done, can all role players and decision-makers take comfort in the knowledge that all information presented to them to execute their management and oversight responsibilities is credible and that their decisions are based on accurate information.

Based on our assessment as shown in figure 37 and as evidenced by the poor status of the drivers of internal control, role players are not providing the assurance needed for sound financial management and decision-making purposes.

Figure 37: Assurance provided by key role players



An overview of the assurance provided by each of these assurance providers follows.

Senior management

Model scenario: Senior management, which includes the chief financial officer, chief information officer and head of the SCM unit, provides assurance by implementing basic financial and performance controls.

Only a very limited number of role players at this first level were able to fully provide the required level of assurance. As this forms the foundation for providing the required level of assurance overall, this level needs the most improvement. Municipal managers and mayors rely on senior management for implementing basic financial and performance management controls. These controls include the following:

- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with legislation.
- Design and implement formal controls over IT systems.

We evaluate the state of these internal controls earlier on in this section, and there is a correlation between the state of internal controls and the assurance that can be provided. The poor internal control environments are not favourable for producing accurate and reliable information. There is also a resultant risk that the leadership is using information for decision-making that may not be credible, which can have a negative impact on the quality of such decision-making.

Going forward, the HR management challenges outlined in this report should be addressed as a matter of urgency. This includes filling all critical vacancies with people who have the appropriate skills and competencies and holding senior management accountable for the execution of their responsibilities through a strict system of performance management.

Municipal manager

Model scenario: Municipal managers are responsible for auditees' internal controls, including leadership, planning, risk management, oversight and monitoring. While municipal managers depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that helps to improve such controls. They should also implement consequence management to ensure accountability.

The assurance provided by municipal managers is not at the level required to create an environment favourable for credible decision-making. In exceptional cases, some municipal managers were able to provide some assurance due to the assistance received from consultants and compensating controls that were in place to validate information.

This is not a sustainable practice, however, as it addressed the symptoms rather than the root causes. The present weaknesses in effective leadership, planning, risk management as well as oversight and monitoring functions do not support sustainable practices that will lead to improved audit outcomes.

Going forward, the leadership should create an environment that enhances the improvement in controls by focusing on the following:

- Provide effective and ethical leadership, and oversee financial and performance reporting and compliance with legislation.
- Implement effective HR management to ensure that adequate and sufficiently skilled staff are employed.
- Set the correct tone to improve the performance and productivity of staff by implementing sound performance management processes, evaluating and monitoring performance, and imposing proper consequences for poor performance.
- Establish policies and procedures to enable sustainable internal control practices, and monitor the implementation of action plans to address internal control deficiencies.
- Establish an IT governance framework that supports and enables the achievement of objectives, delivers value and improves performance.
- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to.
- Support the audit committee and ensure that its reports are responded to.

Mayor

Model scenario: Mayors have a monitoring and oversight role at both municipalities and municipal entities. They have specific oversight responsibilities in terms of the MFMA and the MSA, which include reviewing the integrated development plan and budget management as well as ensuring that auditees address the issues raised in audit reports. Mayors can bring about improvements in the audit outcomes of their auditees by being actively involved in key governance matters and managing the performance of the accounting officers and authorities.

As information presented by senior management was not credible, mayors were unable to make informed decisions based on sound financial information. Mayors have therefore not provided the required level of assurance, which was also confirmed through our interactions with them. The mayors should implement

corrective action where necessary, as it remains their responsibility to enforce accountability from the top down.

Over the past three years, we have increasingly engaged with mayors on how they can improve the audit outcomes of their municipalities. This includes discussing the status of key controls and mayoral commitments to improve audit outcomes, while also sharing identified risks. At an overall level, these interactions were well received but their impact depended on the political will of the mayors concerned and their commitment to change. Those mayors who were responsive towards our messages and implemented our recommendations made improvements in the levels of assurance provided and ultimately their audit outcome.

Going forward, a decisive and proactive leadership tone is required to instil a culture of accountability and good governance.

Internal audit and audit committee

Model scenario: Internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation.

Model scenario: An audit committee is an independent body that advises the council, mayor, accounting officer or authority and senior management on matters such as internal controls, risk management, performance management, evaluation and compliance with legislation. The committee is required to provide assurance to the council on the adequacy, reliability and accuracy of financial reporting and performance information.

While we previously credited the province for the establishment of, and investment in, internal audit units and audit committees, the impact on audit outcomes and the assurance provided by these very important role players have been fairly limited.

It is clear that the effectiveness of these structures is hampered by poor resourcing relating to the availability and competence of people serving in these structures and the lack of reaction to the work and reports of these structures by the assurance providers on the first level.

In many instances, we have seen the positive effect that well-resourced and active internal audit units and audit committees can have on the improvement of internal controls within an auditee. Mayors, municipal managers and senior management are urged to recognise these structures as key partners in the

accountability chain, to resource these structures appropriately, and to react seriously to their work.

Provincial Treasury, Office of the Premier and Department of Local Government and Traditional Affairs

The Constitution stipulates that provincial government must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers, and to perform their duties. The MFMA further requires provincial government to assist municipalities in building capacity to support efficient, effective and transparent financial management. Both the MFMA and the MSA define responsibilities to monitor financial and performance management in compliance with these acts.

The provincial departments that have a direct role to play in supporting and monitoring local government, and thereby providing a level of assurance, are the Provincial Treasury, the Department of Local Government and Traditional Affairs and the Office of the Premier. Our assessment of the assurance provided by these departments is based on their initiatives to support and monitor local government and the impact they have had on improving the internal controls of auditees.

The principal role player in the drive towards clean administration is the Department of Local Government and Traditional Affairs. The department has focused on municipalities through its operation clean audit (OCA) unit, specifically at those municipalities that had previously received adverse and disclaimed audit opinions. The outcomes of OCA interventions are detailed further on in this report.

Municipal council and municipal public accounts committee

Model scenario: *The council is required to provide assurance through monitoring and oversight. This includes approving or overseeing certain transactions and events as well as investigating and acting on poor performance and transgressions, such as financial misconduct and unauthorised, irregular as well as fruitless and wasteful expenditure.*

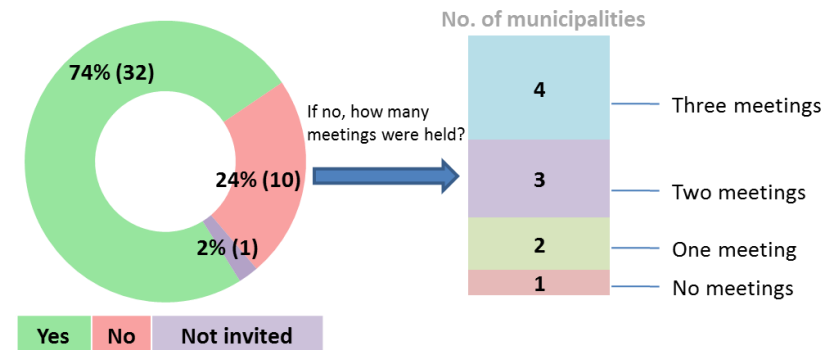
Model scenario: *MPACs were introduced as a committee of the council to deal specifically with the municipality's annual report, financial statements and audit outcomes, and to improve governance, transparency and accountability. The committee is an important provider of assurance, as it needs to give assurance to*

the council on the credibility and reliability of financial and performance reports, compliance with legislation as well as internal controls.

Councillors did not adhere to their basic responsibilities, which calls into question their effectiveness. Councillors lacked the necessary training to perform their duties effectively and as a result did not fulfil the roles expected of them by legislation and the citizens of their constituencies. The Standing Committee on Public Accounts opened its doors to any MPAC member who wanted to observe hearings and learn from experience how they should conduct MPAC hearings. The Association of Public Accounts Committees has also been active in training councillors on oversight functions. These interventions are relatively new and have thus not yet achieved their full impact.

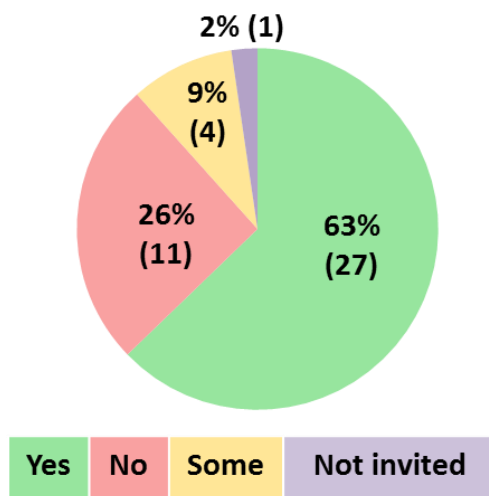
We further analysed MPACs to determine why they were not able to provide the required level of assurance. MPACs must hold four meetings per year, but figure 38 indicates that almost a quarter of MPACs did not hold the required number of meetings.

Figure 38: Number of municipal public accounts committees that held four meetings



In addition, financial reporting, performance reporting and compliance matters are supposed to be discussed at MPAC meetings. However, our analysis of these meetings showed that not all MPACs discussed all three areas, as shown in figure 39.

Figure 39: Number of municipal public accounts committees that discussed all three areas



We also assessed the impact that MPACs has had on the audit outcomes of municipalities and determined that 81% of MPACs did not have a positive impact. This was due to the assessments in figures 38 and 39 above as well as the following:

- MPACs did not always receive credible information on which to base informed decisions.
- Some MPACs were relatively new.
- Members of MPACs did not always understand their role.
- Not all MPACs had skilled and competent members.
- Municipalities did not always implement MPAC resolutions.

All MPACs need to meet regularly throughout the year and ensure that they cover all the required areas in their meetings. If they have problems with information or the implementation of their recommendations, they should escalate this. Members also have to be empowered and skilled to execute their responsibilities with excellence.

Provincial Legislature and portfolio committee on local government and traditional affairs

In terms of the Constitution, the Provincial Legislature must maintain oversight of the executive authority responsible for local government. This executive authority includes the MEC for local government and traditional affairs and other executives involved in local government, such as the MEC for finance. The mechanism used to conduct oversight is the portfolio committee on local government and traditional affairs.

Members of this portfolio committee have been visiting some municipalities to get first-hand knowledge of the status of the municipalities and to act on this knowledge from the legislature's side. This intervention was new and was not in place for most of the year, and thus had no impact on improving the assurance provided.

EXECUTIVE ROLE PLAYERS AND SUPPORTING DEPARTMENTS

Provincial executive role players

Commitments of executive role players

Throughout the year, we also obtain and monitor the commitments of provincial executive role players in the municipal sphere to implement initiatives that can improve audit outcomes.

The role players highlighted in this report, together with other role players such as the South African Local Government Association, all offer some form of support to the municipalities in the province. We raised a concern during 2011-12 about the lack of coordination between these role players in terms of the nature and timing of their support. This lack of coordination has resulted in a lack of ownership and accountability as well as the ineffectiveness of the support provided. As these role players have limited financial and skills capacity, it is very important that they work together and pool their resources to have a greater impact and to avoid a duplication of efforts.

This concern led to a critical transversal commitment by the role players to put measures in place to coordinate support and to meet regularly to monitor effectiveness and progress. Unfortunately, the commitments in this regard were not honoured. During our interactions with executive members and municipalities, it became very clear that all parties still share this concern.

MEC for local government and traditional affairs

During our interactions with the MEC for local government and traditional affairs, the following commitments were made:

- The MEC will drive a process to achieve leadership stability at the highest level within the municipalities that are politically unstable.
- The MEC will enforce adherence to compliance with legislation as a province.
- The MEC will conduct monthly meetings between his department, the Provincial Treasury and the South African Local Government Association as well as bimonthly meetings with the municipal managers of metros and districts to monitor the status at municipalities and to identify areas where assistance is required.
- A tender for software to assist municipalities to control irregular expenditure will be issued during May 2013. The purpose of this

software is to make tools available that can curb the ever-increasing irregular expenditure as a result of non-compliance during the procurement cycle (as also highlighted in the section on focus areas dealing with SCM earlier on in this report).

The MEC intervened at various municipalities where there was political and administrative instability during the period under review. We take note of these interventions and deem them encouraging, but they did not have the desired impact on financial and performance reporting and compliance with legislation.

The MEC and his department continued to drive the political and technical MUNIMEC within the province. These forums did not have the desired impact, however, as commitments were not adequately monitored and municipalities were not held accountable when they did not honour the commitments made to the forums.

We also take note of the interventions of the Department of Local Government and Traditional Affairs with regard to municipalities' compliance with legislation. However, the instances of non-compliance highlighted in this report indicate that these interventions have not had the desired impact. The department's interventions are closely linked to the commitment of the MEC to develop and roll out software to be used by municipalities to curb irregular expenditure. This commitment is still in progress and the dramatic rise in irregular expenditure should motivate role players to fast-track this commitment.

MEC for finance

During our interactions with the MEC for finance, the following commitments were made:

- Empower the district municipal support unit to provide hands-on support to improve and strengthen financial management and municipal institutional capacity for service delivery.
- Improved liaison between the Provincial Treasury, the Department of Local Government and Traditional Affairs and the OCA unit, who together will make up district support teams.
- The Provincial Treasury to set up a project management office to define and maintain standards and processes related to project management within the district support teams.

These commitments, with the exception of the one on improving liaison, have been honoured but have had only minimal impact up to now. We further analyse the impact that the Provincial Treasury has had on the audit outcomes elsewhere in the report.

Premier

During our interactions with the premier, the following commitments were made:

- OCA will become a more prominent standing agenda item at all Exco meetings with reporting from the Provincial Treasury and the Department of Local Government and Traditional Affairs as well as robust debate by the role players.
- In 2013-14, all districts and metros will be visited as part of the premier's outreach programme. Time will be dedicated to the status of audit outcomes as well as to political instability and infighting.
- Provincial monitoring and support of financial management in municipalities will be increased.

Although the first two commitments have been honoured, it occurred too late in the financial year to have a direct impact on the outcomes, but it will be monitored closely in future. The premier's interventions as well as those of the portfolio committee on local government and traditional affairs after year-end should be seen as stepping stones in bridging the current gap between the two spheres of government. Further interventions and the commitment from all parties are still needed to narrow this gap even more.

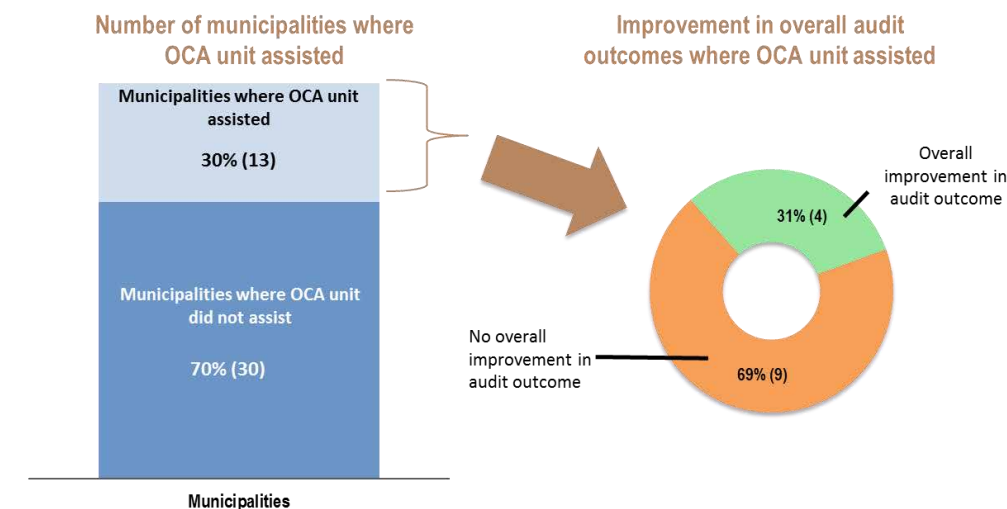
Although we remain optimistic by the level of commitment shown by the role players and believe that the commitments made in response to the 2012-13 outcomes will be implemented and monitored with more vigour than in previous years, it is essential to address the culture of non-accountability before a direct impact will be seen. It is also important that relevant oversight bodies monitor these commitments and deliverables and, where necessary, corrective action is taken to ensure that the desired outcome is achieved. Creating a culture of accountability at all levels within an auditee is vital to drive improvements. It is important that all role players enforce this culture and take appropriate action against people who do not deliver on their commitments.

Support departments

Local Government and Traditional Affairs – operation clean audit unit

This initiative is led by the Department of Local Government and Traditional Affairs to assist municipalities in the areas of financial management, HR management, SCM, oversight, internal audit, environmental management and contract management. The initiative has mainly focused on municipalities that have received disclaimed or adverse opinions in the past. The OCA unit concentrates on action plans, the development of policies as well as assistance with key controls and experts. The unit also provides resources to municipalities in the areas where they require assistance and deploy people to provide the necessary help. Figure 40 indicates the impact that the OCA unit has had on the municipal audit outcomes.

Figure 40: Impact of the OCA unit on audit outcomes



The OCA unit has helped to improve the audit outcomes at four of the 13 assisted municipalities, and has thus contributed to some degree to the improvements in the province. Unfortunately, in many cases municipalities did not implement the OCA unit's recommendations, while in others they did not have the required skills to implement these recommendations. As a result, the expected improvements

have not been achieved. Figure 41 indicates the areas in which improvements have been made.

Figure 41: Improvement areas where the OCA unit intervened



The unit made the biggest impact in the areas of contract management, environmental management (relating to landfill sites) and financial management, but some auditees still need to improve further based on the assistance provided. The areas of internal audit, oversight, SCM and HR management must also still improve for the unit to have the desired impact. These areas also correlate with the key control weaknesses reported in the rest of this report. In addition, problems are often not fixed, but merely corrected for the purpose of the financial statements and will thus not be sustainable, resulting in findings on these areas occurring in the future.

The leadership needs to take responsibility for ensuring that the OCA unit's recommendations are implemented by skilled staff members. The Department of Local Government and Traditional Affairs should put measures in place to monitor the effectiveness of the assistance provided and implement a reporting structure so that a lack of progress or cooperation from a municipality can be escalated to both the municipal and the provincial executive. Such actions will help to improve the impact of the unit's interventions and subsequently the audit outcomes of the municipalities. The Department of Local Government and Traditional Affairs should also coordinate all the support provided to municipalities by provincial and national departments as well as the South African Local Government Association so that the full benefits of this support can be realised.

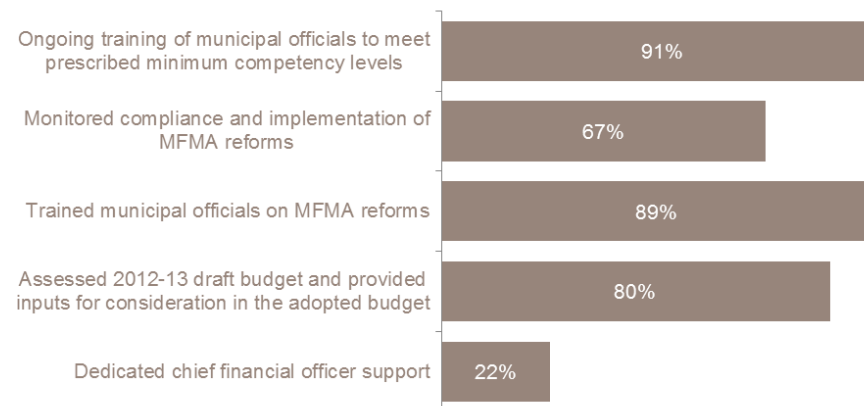
Provincial Treasury

As mentioned earlier, the Provincial Treasury is a critical role player in provincial government and has responsibilities in terms of the Constitution and the MFMA to support and strengthen the capacity of municipalities to manage their own affairs,

to exercise their powers, and to perform their duties. Provincial government, with the Provincial Treasury as custodian, must also assist municipalities in building capacity to support efficient, effective and transparent financial management.

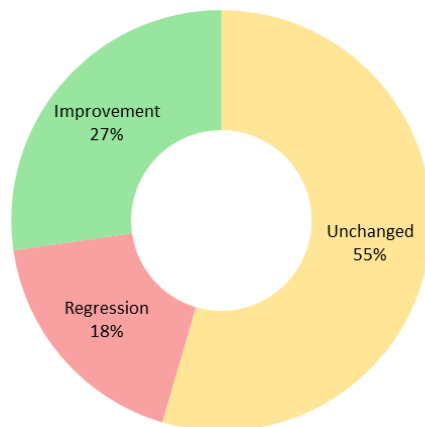
The Provincial Treasury supported municipalities in various fields during the year under review, most notably in the areas depicted in figure 42.

Figure 42: Areas of assistance by the Provincial Treasury to municipalities



In essence, the Provincial Treasury deployed staff members to 11 municipalities to support the chief financial officers. They also provided support relating to budget disciplines, compliance with legislation, and the skills of municipal staff. Figure 43 shows the impact of this support in the province.

Figure 43: Impact of the Provincial Treasury's support at 11 municipalities



Although we acknowledge the initiatives implemented by the Provincial Treasury, we are concerned about the following matters that raise questions about the effectiveness of the support:

- A positive impact on the audit outcomes was evident at only 27% of the municipalities where dedicated chief financial officer support was provided.
- Despite the interventions relating to compliance matters at 89% of the municipalities, there has been no improvement in the non-compliance findings in the province.
- A total of 70% of the municipalities had findings on budget-related matters despite treasury intervention.

It should also be kept in mind that support can only be effective if the municipalities empower themselves with the correct skills and create an environment of accountability. Going forward, the Provincial Treasury should put measures in place to monitor the effectiveness of the assistance provided and implement a reporting structure so that non-implementation or a lack of cooperation can be escalated to both the municipal and the provincial executive.

AUDIT OUTCOMES OF INDIVIDUAL MUNICIPALITIES

This section of the report starts off with statistical information about the province and an illustration of the audit outcomes per district. It then continues by looking at the metropolitan municipalities, followed by each district municipality and the local municipalities in that district.

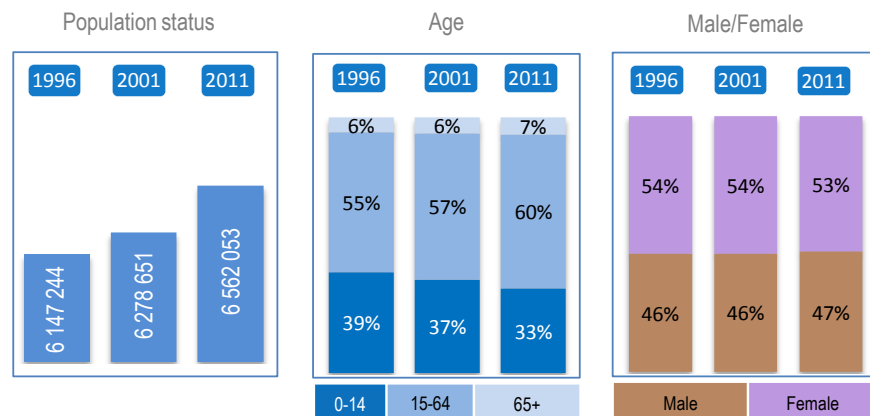
The information on the municipalities is divided into two sections, namely:

- Basic municipal demographical information providing context to, and an understanding of, the environment in which the municipality operates. This includes a graphical illustration of general statistics relating to the population and basic services applicable to the specific municipality. Please note that the statistics used to populate these were obtained from the 2011 census report prepared by Statistics South Africa and have not been audited by us.
- An illustrated overview and one-page narrative on the status of the municipality from an audit perspective, which include the following:
 - Audit outcomes over a three-year period
 - Drivers of key controls
 - Assurance provided by key role players in accountability
 - A reflection on the progress made in a number of critical risk areas
 - Root causes that underpin the audit outcomes and internal control weaknesses
 - Commitments made by key role players in the municipality

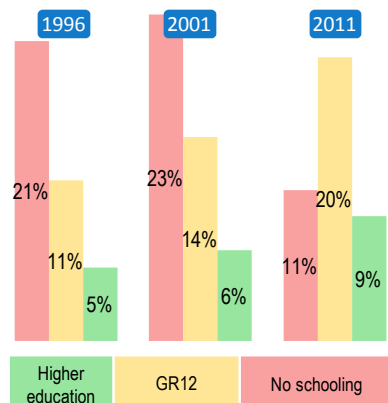
PROVINCIAL OVERVIEW – EASTERN CAPE

The statistics reflected in these graphics were sourced from the 2011 census (STATS SA) and are not information collated or audited by the AGSA. The colours of the legends used for these census graphics do not have the same meaning as those used in the rest of this report.

Population

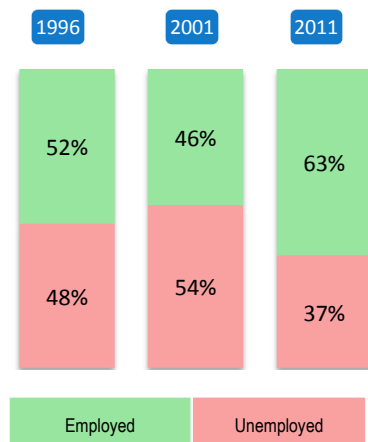


Education

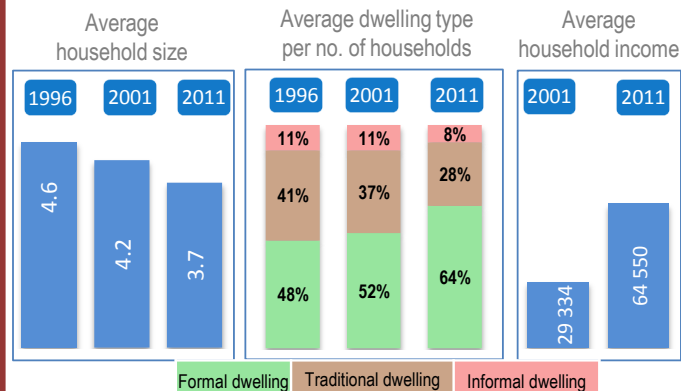


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

Labour



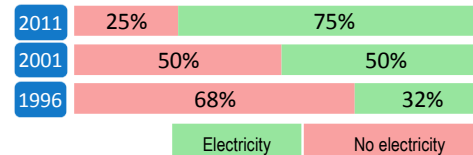
Households



Basic services

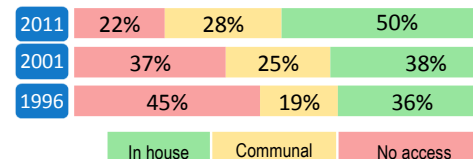
75%

of the households have access to electricity



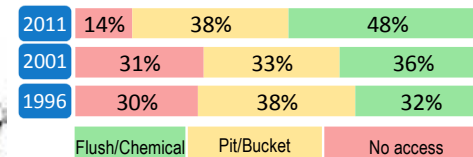
78%

of the households have access to piped water

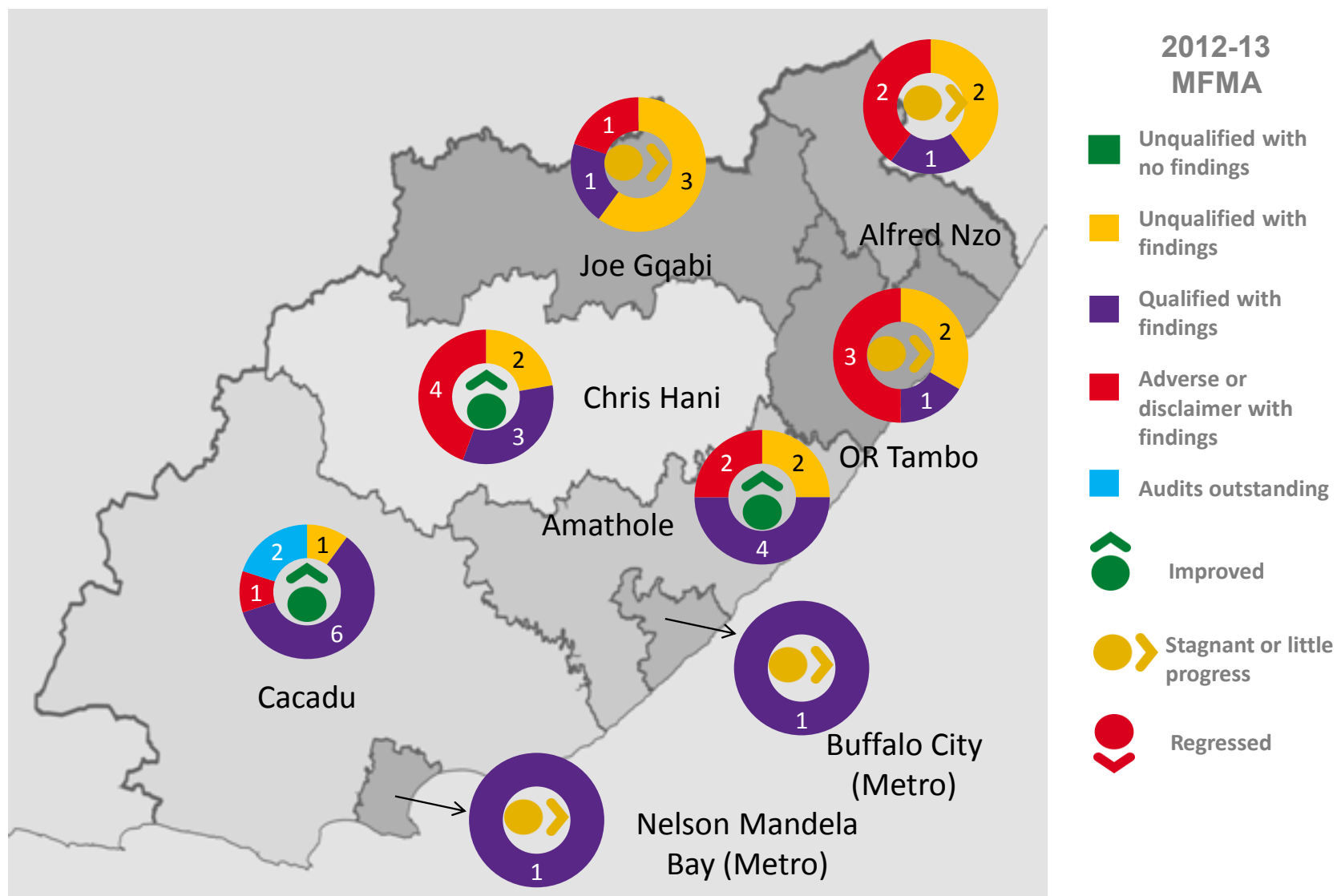


86%

of the households have access to toilet facilities



Municipal audit outcomes per district



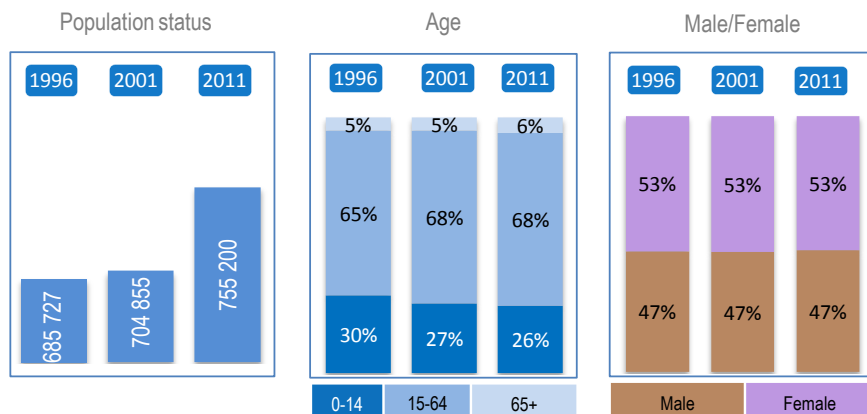
METROPOLITAN MUNICIPALITIES

67

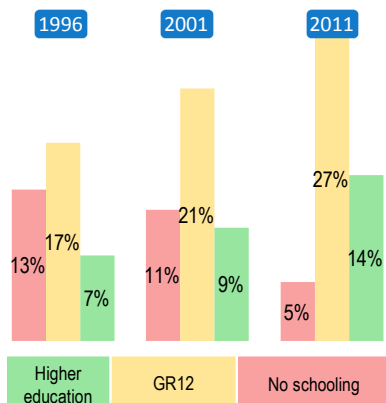
BUFFALO CITY METRO

The statistics reflected in these graphics were sourced from the 2011 census (STATS SA) and are not information collated or audited by the AGSA. The colours of the legends used for these census graphics do not have the same meaning as those used in the rest of this report.

Population

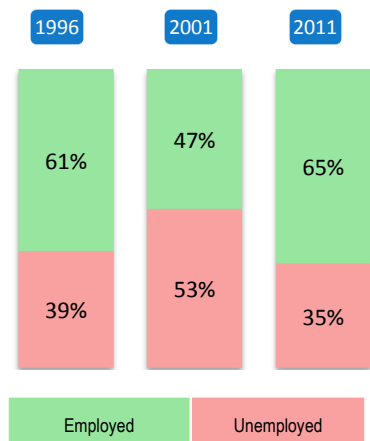


Education

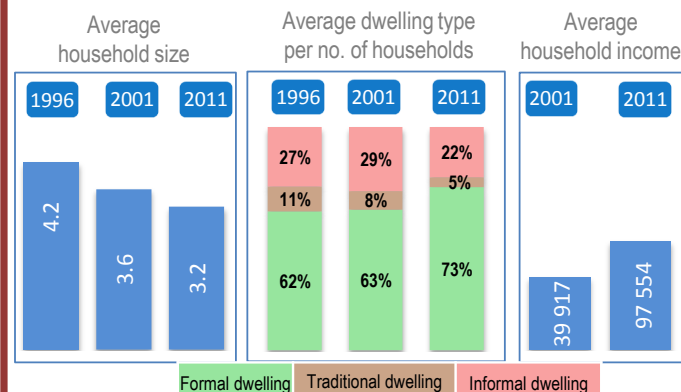


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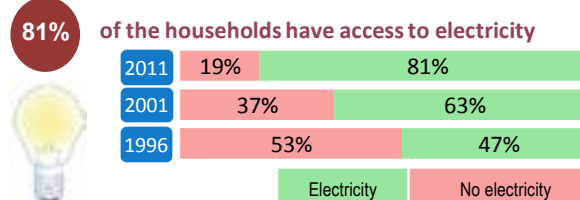
Labour



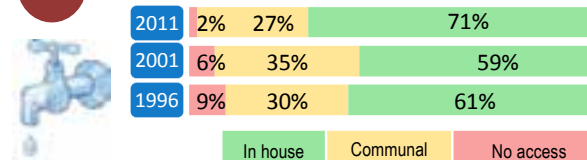
Households



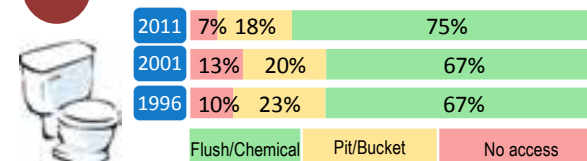
Basic services



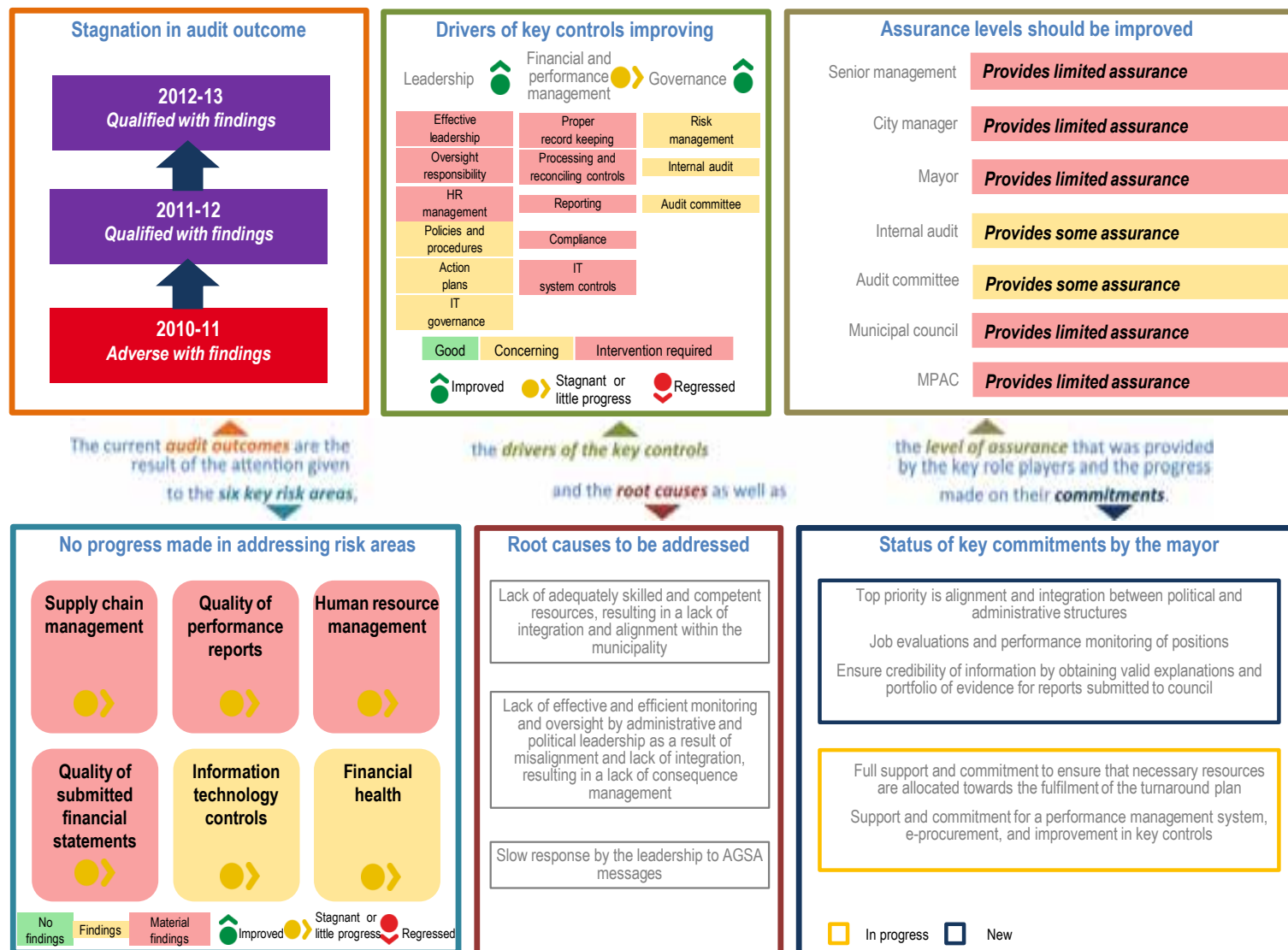
98% of the households have access to piped water



93% of the households have access to toilet facilities



BUFFALO CITY METROPOLITAN MUNICIPALITY



Buffalo City Metropolitan Municipality

■ *Qualified*

No movement in audit outcome

Although the metro managed to address some of the prior year qualification areas, the 2012-13 outcome remained a qualified opinion. The remaining qualifications were largely due to a lack of skills within the municipality, as top and middle management positions were vacant for extended periods. In addition, as reported in previous years, there was a lack of integration and alignment between the political and the administrative leadership. Furthermore, within the municipality, there was a lack of integration and alignment, as the different directorates planned, worked and reported in isolation. This had a negative impact on the performance of the municipality and its ability to prepare financial statements and an annual performance report that were free from misstatements.

As a result of the above, the metro relied a lot on consultants in respect of financial processes and reporting and there was very little skills transfer from the consultants to the municipality. These services cost the metro R7,1 million during the year under review. The sustainability and ultimate improvement of the outcome depend on the above matters being addressed.

Six key risk areas

There has not been a significant change within the six key risk areas, as the leadership did not consistently implement and monitor the required daily and monthly financial and performance disciplines to ensure that transactions were appropriately recorded and reported as required.

A critical area that had not yet been addressed was SCM. This was largely as a result of inadequate capacity within the unit, which resulted in poor record keeping and monitoring throughout the year. This was further aggravated by poor planning, implementation and monitoring by the different directorates as well as a lack of effective and efficient monitoring and oversight by the administrative and political leadership.

Although the chief financial officer position was filled after three years of being vacant, vacancies within senior management increased to nearly 50%. Consequently, there was little movement in HR management, IT controls, financial health and the performance management system.

Key controls and root causes

Although the metro had an audit intervention plan, it was not adequately implemented and monitored. In order for the metro to realise the benefits of a well-functioning administration that delivers quality services to its citizens in accordance with its mandate, the administrative and political leadership will have to perform the following:

- Fill all critical vacancies with competent and skilled professionals according to an approved organogram. This will ensure that there is stability within senior management that can assist in guiding and leading the municipality.
- Implement an effective performance management system that enables the leadership to hold all officials accountable for the work that they perform on a daily basis. The achievement of this depends on alignment within the directorates and between the political and the administrative leadership.
- Implement daily and monthly processes to verify the credibility of in-year financial, performance and compliance reports, thus setting the correct tone for efficient and effective oversight.

Impact of key role players on audit outcomes

We met with the mayor six times during the financial year. Despite the mayor's openness to our messages, these interactions had a minimal impact on the audit outcome, as our recommendations were not adequately implemented and monitored.

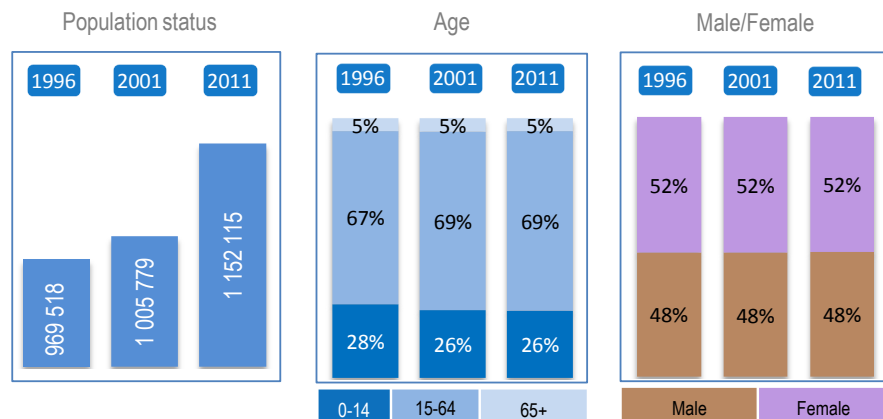
The senior leadership provided limited assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to discharge their responsibilities effectively. This is illustrated by the fact that the established internal audit unit and audit committee could only provide some assurance, as management did not implement their recommendations.

The level of assurance provided by the council and MPAC was also limited by the credibility of the information provided to them. Until senior management focuses on the daily, weekly and monthly disciplines and the monitoring and oversight of such disciplines, the assurance provided will not improve. To pave the way forward, all role players need to work together to build a high-performance environment that promotes accountability.

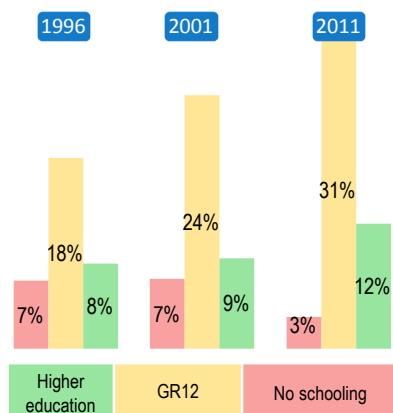
NELSON MANDELA BAY METRO

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Population

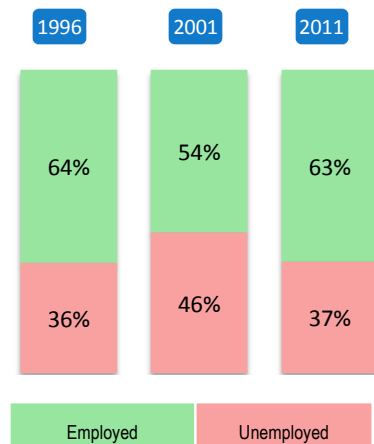


Education

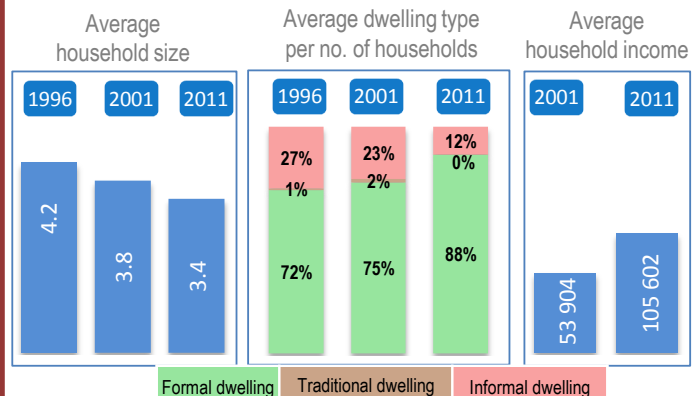


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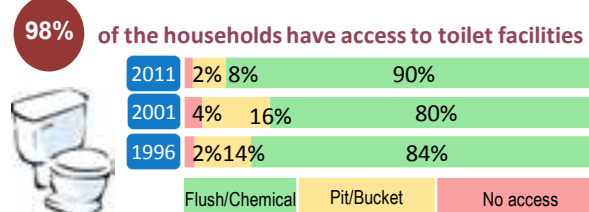
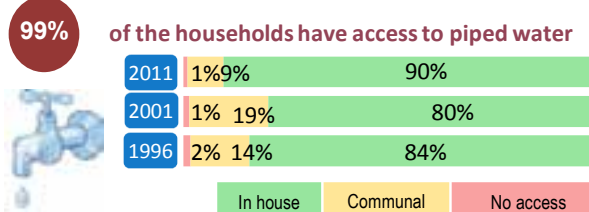
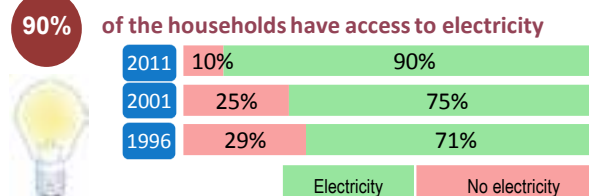
Labour



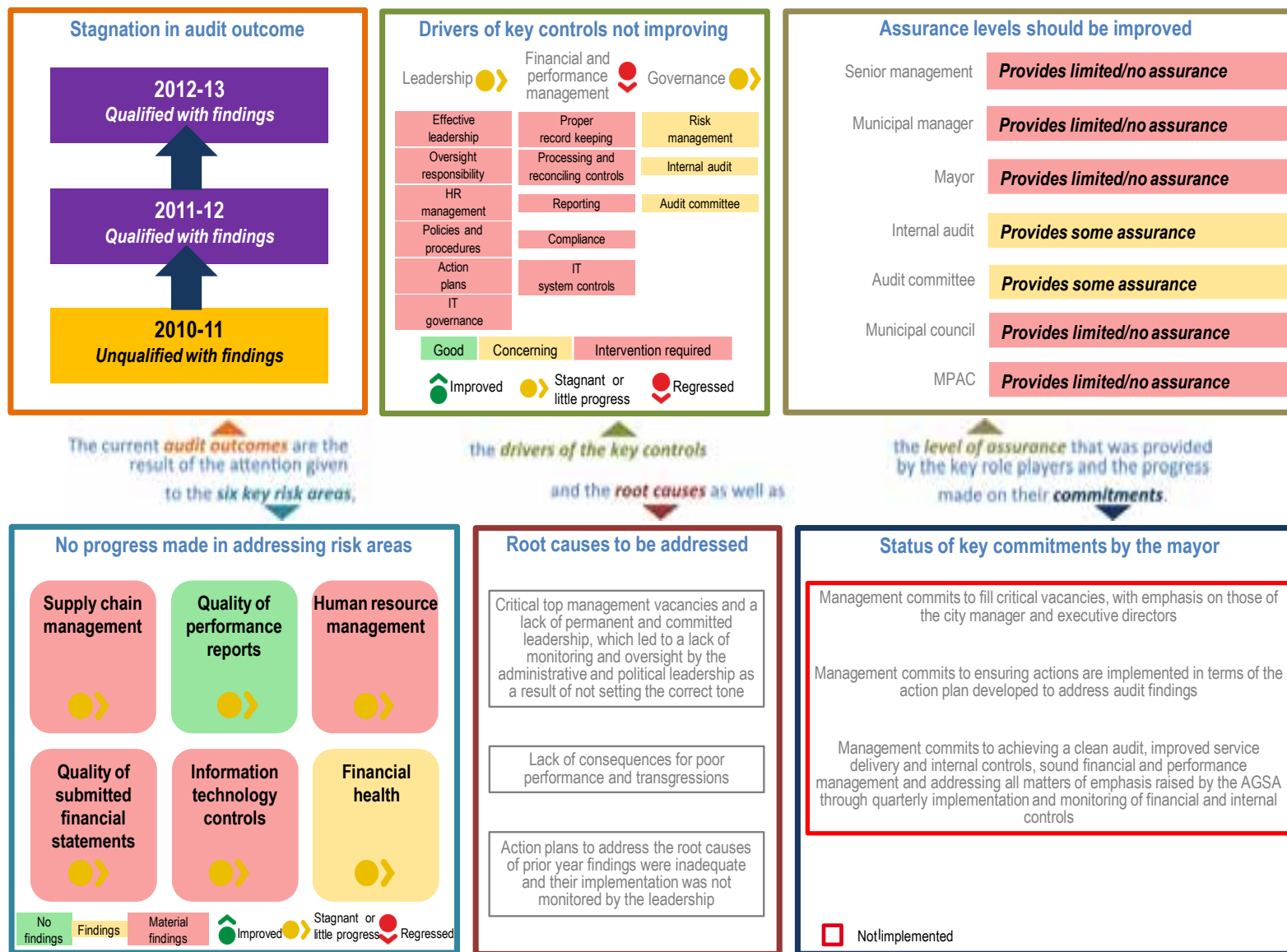
Households



Basic services



NELSON MANDELA BAY METROPOLITAN MUNICIPALITY



Nelson Mandela Bay Metropolitan Municipality

■ *Qualified*

No movement in audit outcome

The stagnation in the audit outcome was due to political and administrative instability, which filtered through to the key functional areas of the municipality. This was evident in the municipality not responding to our recommendations, a weak control environment and a lack of accountability, which resulted in previously reported matters recurring in 2012-13. In addition, key vacancies at senior management level were not filled timeously and practices that promote clean administration were not entrenched within the daily, weekly and monthly activities of the municipality.

Six key risk areas

The metro made little or no progress in the six key risk areas. We reported repeat findings on SCM, HR management, the quality of financial statements and financial health due to a lack of leadership intervention. The lack of consequence management further added to these challenges.

IT-related policies and procedures remained unapproved due to delays caused by the high staff turnover of key officials and a lack of decisive leadership. This also contributed towards the lack of improvement in respect of user access and security controls, as action plans to address deficiencies were not adequately monitored.

Our primary concern in respect of the financial health analysis was the cash flow of the municipality, which was under pressure due to poor debt collection. Furthermore, the municipality was unable to spend its full capital budget and 45% of the targets for the year were not achieved, which had a negative impact on service delivery.

Key controls and root causes

The deterioration or lack of improvement in the key controls was due to a failure to implement daily disciplines over the processing and reconciling of transactions, as well as over the filing and safeguarding of documentation. A lack of consequences for poor performance, particularly relating to SCM, also contributed. Inadequate leadership and the poor status of controls in respect of SCM increased the risk of the municipality's exposure to fraudulent activities.

The following controls must be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Stability is required at the leadership level and a culture of decisive leadership must be embraced. This must be complemented by the correct leadership tone to effectively discharge responsibilities regarding monitoring, oversight and the filling of critical vacancies with appropriately qualified and skilled officials.
- Proper consequence management for poor performance and transgressions should be implemented for all officials as part of the performance management system.
- Daily, weekly and monthly financial disciplines should be entrenched into municipal activities, systems and process, thus promoting a culture of clean administration.

Impact of key role players on audit outcomes

Senior management officials did not create an environment favourable for entrenching clean administration disciplines and facilitating effective oversight. As a result, there were inadequate processes to generate credible information on which to base decisions. Thus, senior management provided limited assurance.

The executive mayor and municipal manager were appointed during the financial year under review. Due to their short time in office, they were unable to have an impact on the control environment, and thus provided only limited assurance. We met with the executive mayor six times during the financial year; however, these meetings had no impact due to the reason mentioned above.

The internal audit unit and audit committee were fully functional, but provided limited assurance, as management did not adequately respond to their recommendations. The Department of Local Government and Traditional Affairs and the Provincial Treasury provided support by seconding an acting city manager in the absence of a permanent city manager, as the newly appointed municipal manager resigned after the financial year-end after only three months at the metro. They also had various meetings with the leadership to assist with resolving the governance and instability issues, but their interventions have not yet positively influenced the audit outcome.

The municipal council and MPAC were not fully committed to implementing the previous year's commitments.

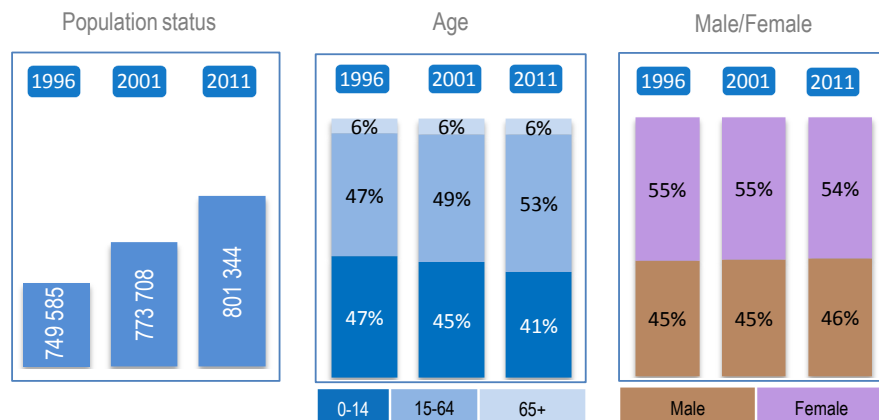
ALFRED NZO DISTRICT

75

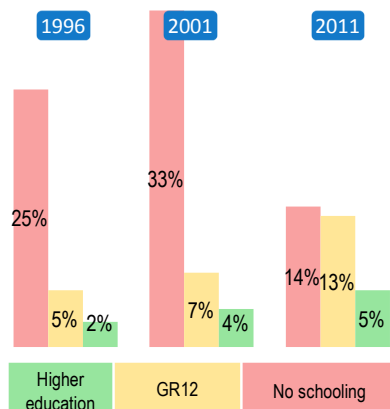
ALFRED NZO DISTRICT MUNICIPALITY

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Population

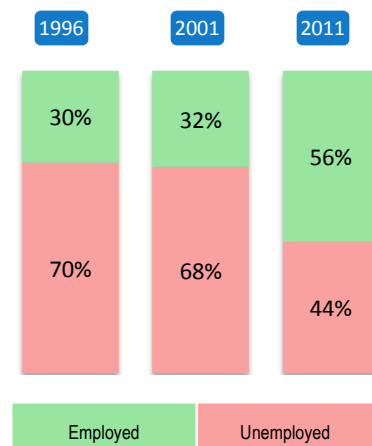


Education

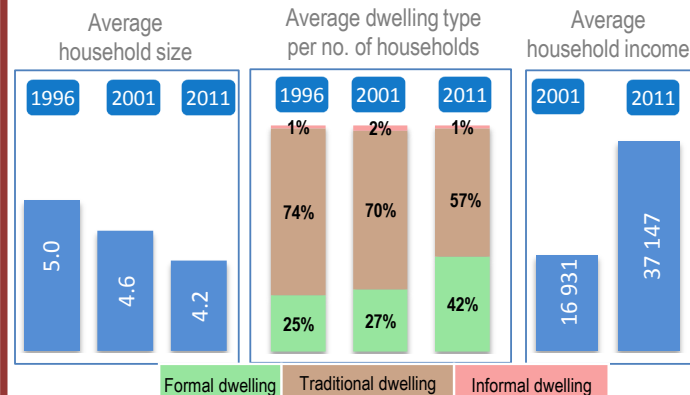


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

Labour



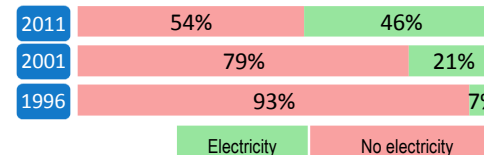
Households



Basic services

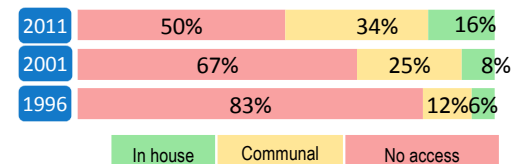
46%

of the households have access to electricity



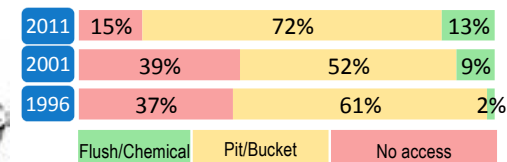
50%

of the households have access to piped water

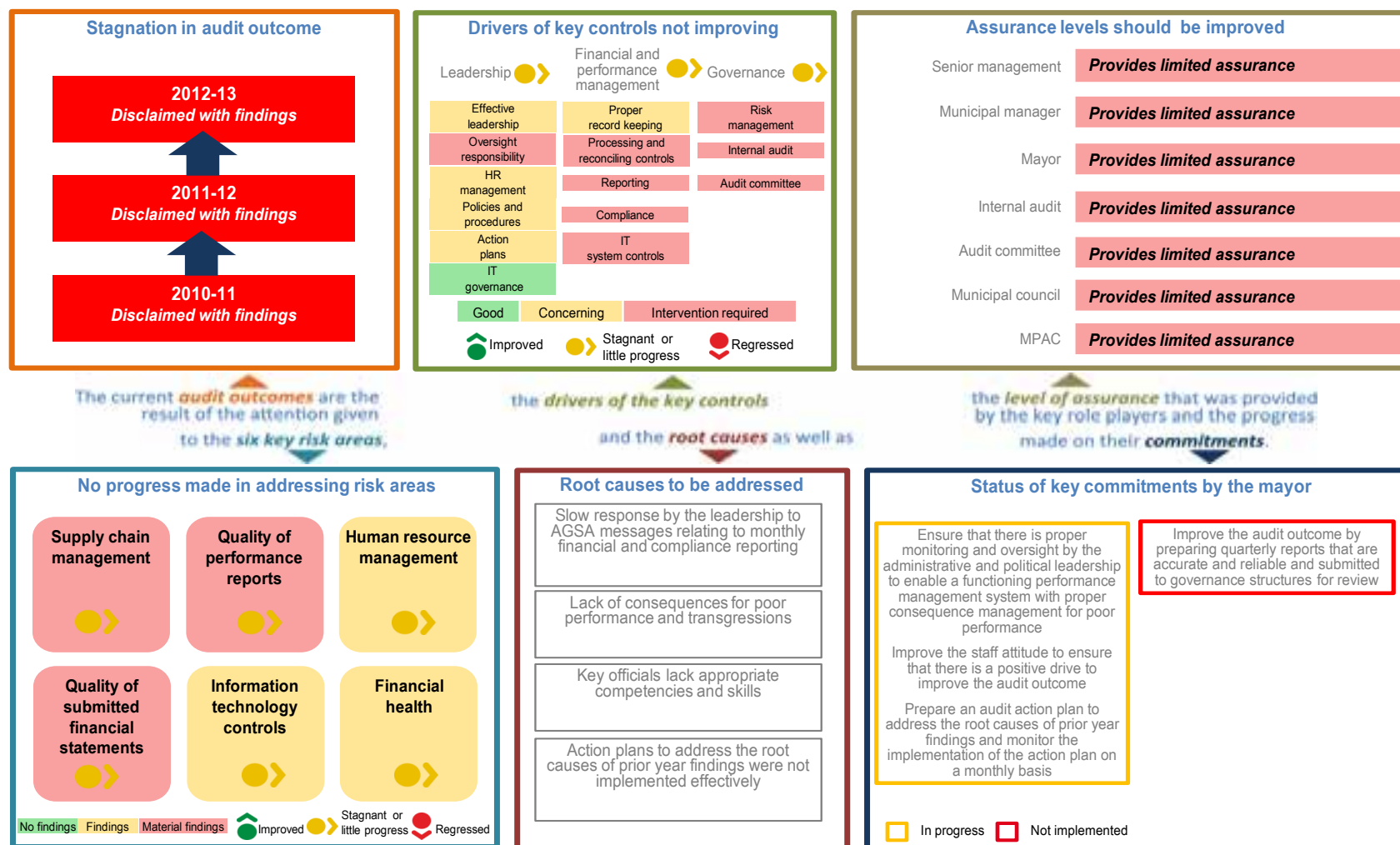


85%

of the households have access to toilet facilities



ALFRED NZO DISTRICT MUNICIPALITY



Alfred Nzo District Municipality

■ *Disclaimed*

No movement in audit outcome

The municipality has remained on a disclaimed outcome for the past three years. This was largely as a result of the slow response to our messages, as the leadership initiated the implementation of our recommendations too late in the year to have an impact on the audit outcome. This included filling some of the critical vacancies. In addition, the leadership did not address the skills gap within the finance unit, which contributed to the poor control environment. As a result, there was a high reliance on the audit process to identify errors, but due to the absence of financial and performance disciplines and poor document management during the year, many of these errors could not be corrected, which ultimately led to the poor audit outcome. Furthermore, the municipality could still not provide supporting documentation for a significant number of transactions and balances in the financial statements, due to a culture of good governance and accountability not being embedded in the municipality, and practices that promote clean administration not being entrenched within the daily, weekly and monthly activities of the municipality.

The municipality's high reliance on consultants, for which they paid R4,8 million (2011-12: R5,2 million), to perform accounting functions and prepare financial statements without the transfer of skills, a weak control environment and reliance on the audit process are preventing the municipality from progressing towards clean administration.

Six key risk areas

Due to the reasons mentioned above, there has been no movement in the six key risk areas. The lack of leadership intervention and no consequence management further heightened the challenges in these critical areas. As a result, there were still deficiencies in respect of performance management, SCM and the quality of the financial statements. Although an IT governance framework was developed, it was not implemented because the council had not approved it. The lack of movement in respect of HR management was due to vacancies at the level of municipal manager and chief financial officer, which were only filled in the latter part of the financial year, as well as capacity constraints within the finance unit, which have not yet been addressed.

The municipality's financial health remained concerning, as a number of indicators require urgent attention, including the late payment of suppliers and the

collection of debt. The main contributing factor in this respect was the weak control environment.

Key controls and root causes

Consistent with the lack of improvement in the audit outcome, was the limited improvement in the key controls in the year under review. This was due to the absence of adequately designed and implemented basic internal controls in respect of record management as well as daily and monthly processing and reporting activities. In order to set a platform for improvement and address the root causes of the poor audit outcome, the leadership, council, MPAC and audit committee must strengthen the following controls:

- Ensure that all information processed and reported is credible and that this is a priority area strictly enforced and monitored by all role players. This can only be implemented effectively if accountability processes are strengthened and proper consequence management is applied.
- Professionalise the municipality by focusing on recruitment and training within the municipality to build competencies and skills.
- Accelerate the implementation and monitoring of the action and turnaround plans already drafted, by entrenching the daily, weekly and monthly disciplines into municipal activities, systems and processes, thus promoting a culture of clean administration.

Impact of key role players on audit outcomes

The senior leadership in this portfolio provided limited assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to discharge their responsibilities effectively. The internal audit unit and audit committee did not receive adequate information and support to execute their responsibilities effectively, and their recommendations were not implemented.

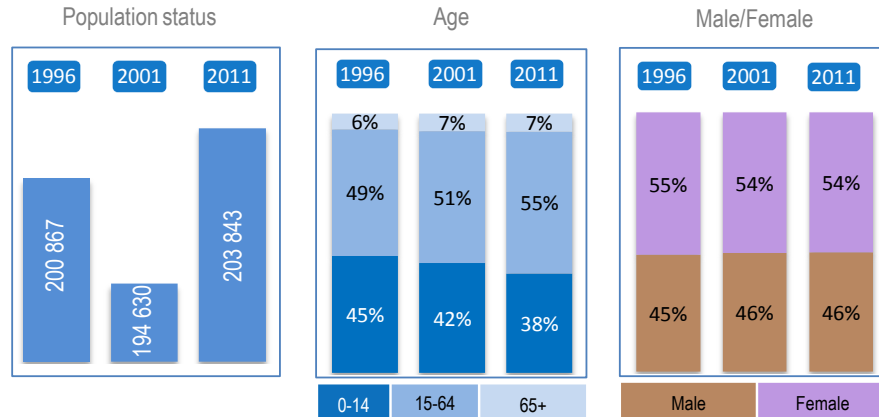
The level of assurance provided by MPAC and the mayor was also limited as a result of the credibility of the information provided to them. In addition, interactions with the mayor had very little impact as a result of the delayed response to our messages.

To pave the way forward, all role players need to work together to build a high-performance environment that promotes accountability.

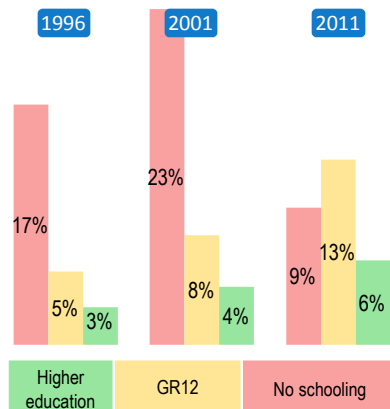
MATATIELE MUNICIPALITY

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Population

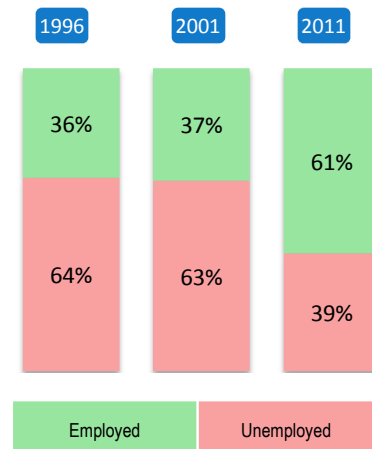


Education

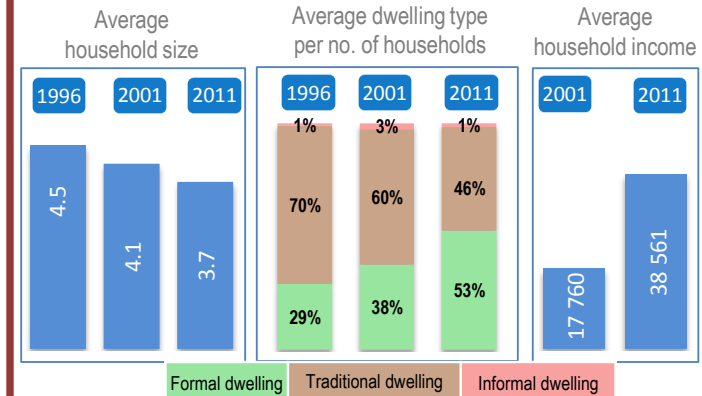


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

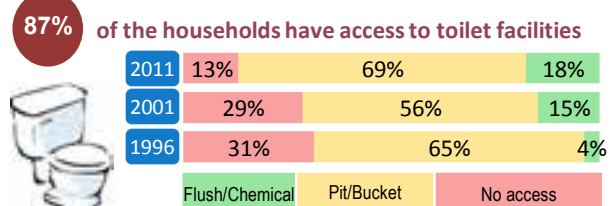
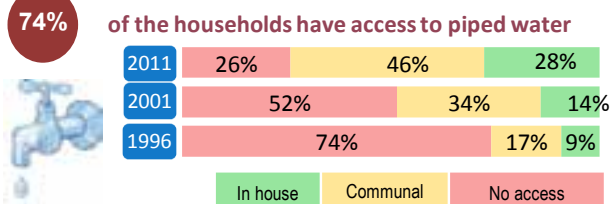
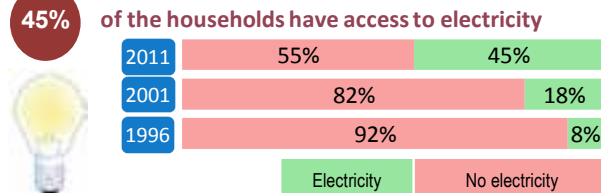
Labour



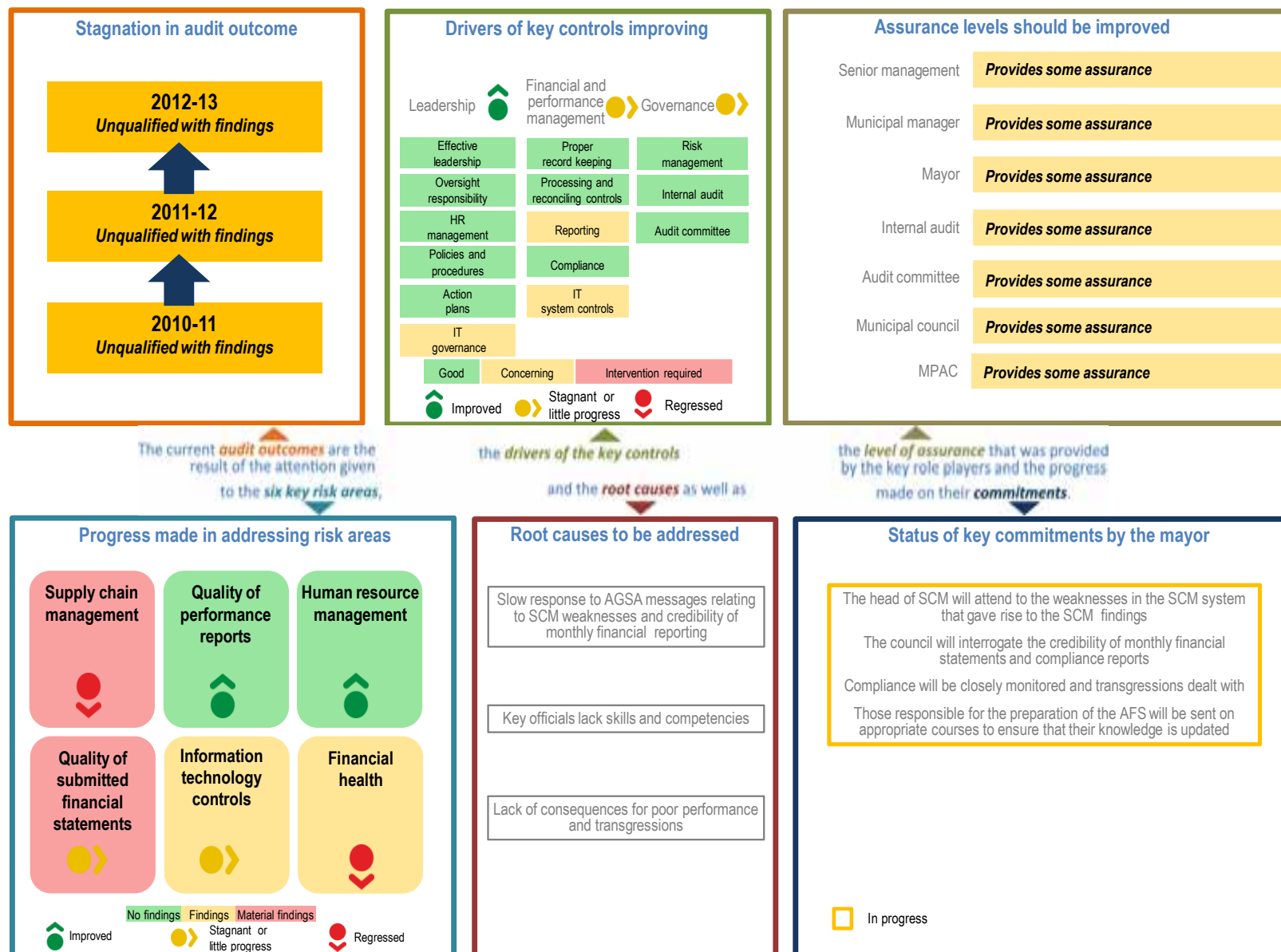
Households



Basic services



MATATIELE LOCAL MUNICIPALITY



Matatiele Local Municipality

■ Unqualified

No movement in audit outcome

Although the audit outcome has not changed from the previous year, the municipality made steady progress towards the ideal of a well-functioning administration, as it maintained its unqualified opinion and managed to address the material findings on its annual performance report. This was due to an improved leadership tone towards reporting where monthly and quarterly reports were prepared and submitted to the council.

We commend the municipality for sustaining an unqualified opinion for the past three years. However, the leadership must continue to take ownership of instilling basic disciplines and institutionalising a culture of daily, weekly and monthly controls.

Six key risk areas

The leadership of the municipality did not respond appropriately to our message relating to the SCM control weaknesses that gave rise to the non-material SCM findings reported in the previous year. As a result, these findings escalated during the year under review into material findings, causing the SCM risk area to regress.

Although the audit opinion was unqualified, this status was only achieved because the municipality processed material adjustments during the audit process. The municipality continued to rely on the audit process to establish the credibility of its financial statements, instead of instilling the daily, weekly and monthly controls and governance processes required to ensure the credibility of its financial statements.

There was no IT position on the staff establishment of the municipality and it continued to rely on consultancy services for its IT requirements. As a result, the IT risks relating to access to the IT system and IT security reported in the previous year were not addressed.

The leadership of the municipality filled key management positions during the period under review, which improved the HR processes.

Although the municipality did not have material health concerns, some indicators require attention. These indicators were the result of weaknesses in the control environment.

Key controls and root causes

At an overall level, the control environment had improved due to the diligence of, and the tone established by, the leadership towards controls. However, the risk areas highlighted above were not effectively addressed by these controls.

The following controls must be strengthened continually to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- An IT manager should be appointed to address the IT risks identified.
- Monthly financial, performance and compliance reports should continue to be prepared and reviewed by the audit committee and internal audit unit to ensure their credibility.
- SCM-related record keeping should be improved to ensure that SCM decisions can be verified against the SCM policy. In addition, consequence management should be applied for all SCM transgressions.
- MPAC and the council should monitor the actions taken by the mayor to ensure that the action plan prepared by the municipality to address the root causes of audit report findings is implemented.

Impact of key role players on audit outcomes

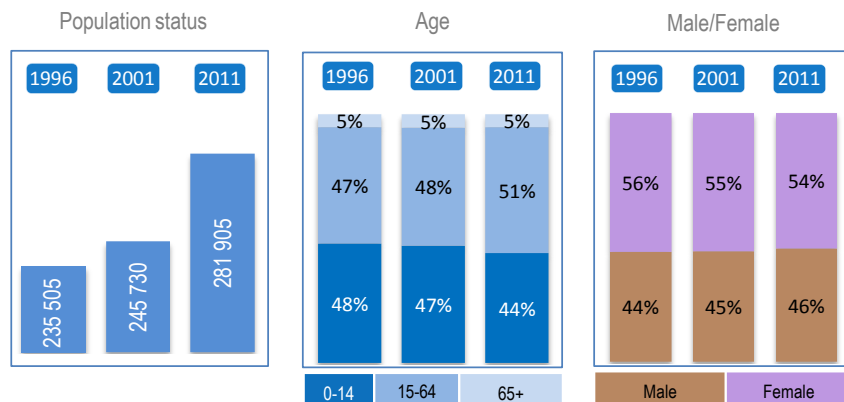
Most role players provided some assurance relating to the significant risk areas of the municipality, as the financial statements were unqualified and the number of findings on performance reporting was reduced. All role players should work together to address the root causes of the remaining findings in the audit report to provide the level of assurance required to achieve a sustained improved outcome.

We met with the mayor twice during the financial year. These interactions had no impact on the audit outcome, as commitments were not fully implemented.

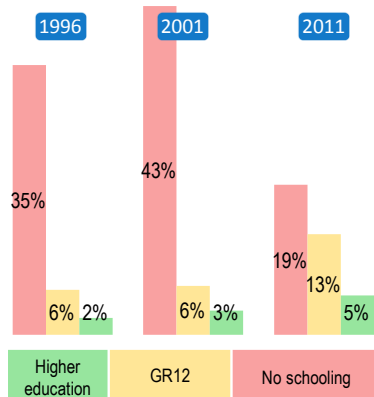
MBIZANA MUNICIPALITY

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Population

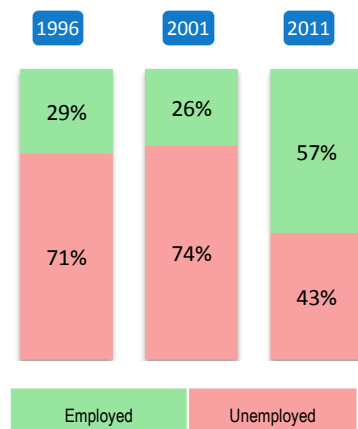


Education

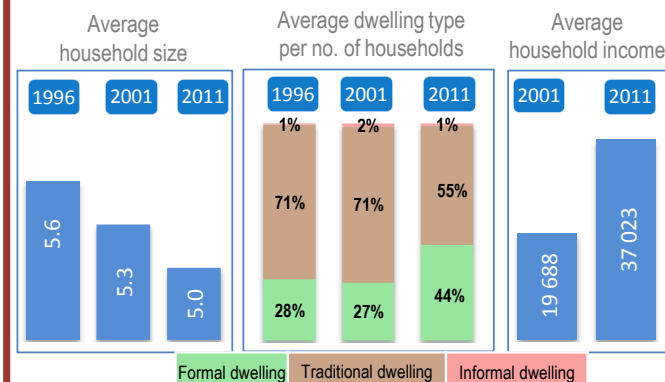


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

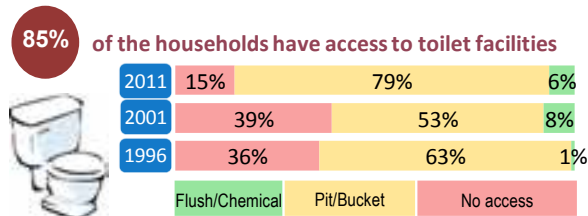
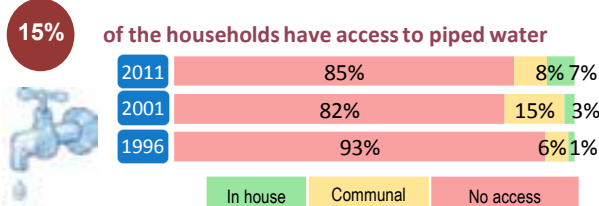
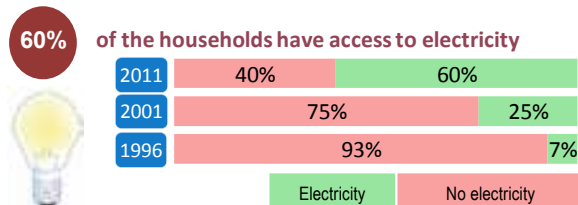
Labour



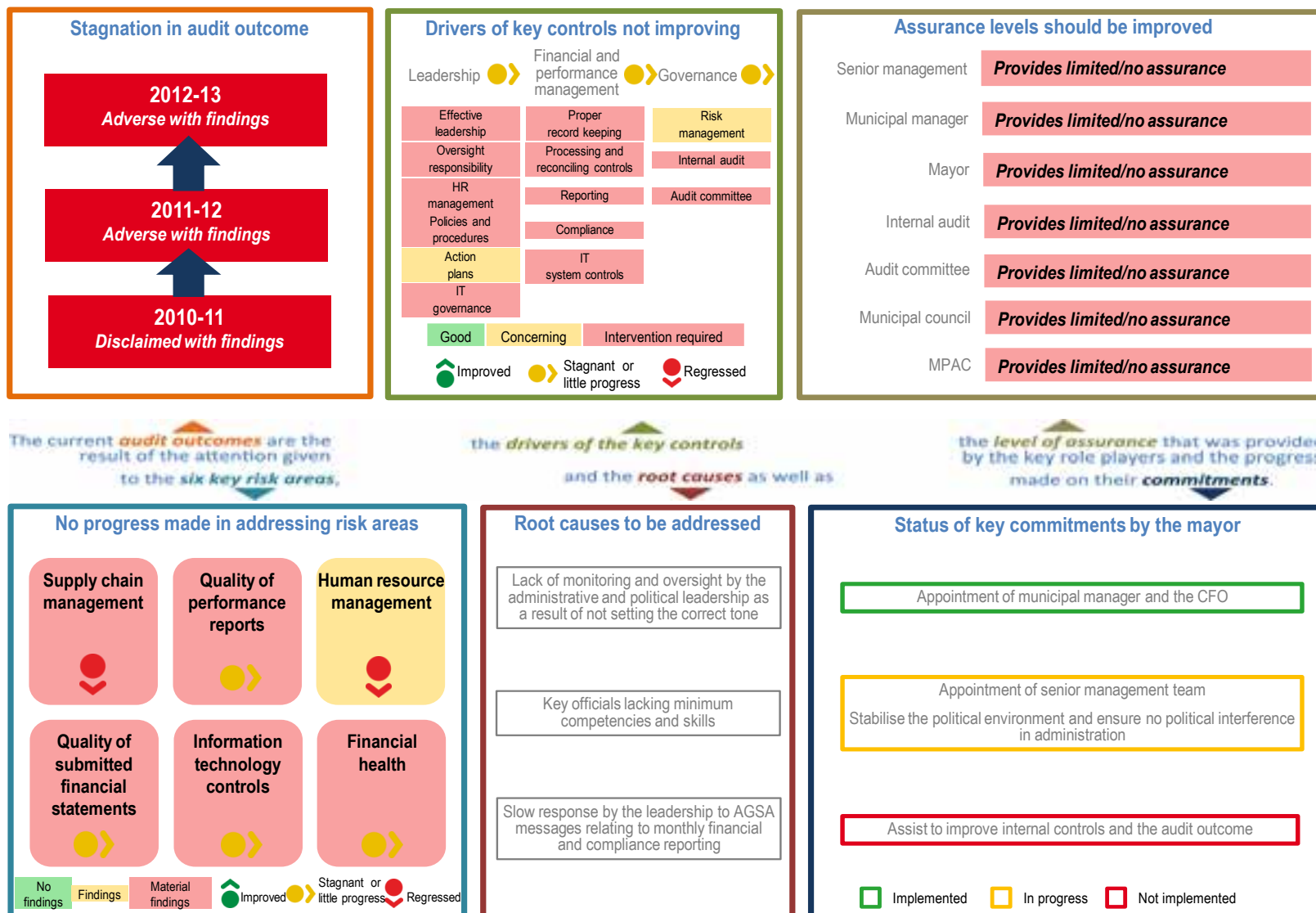
Households



Basic services



MBIZANA LOCAL MUNICIPALITY



Mbizana Local Municipality

■ Adverse

No movement in audit outcome

The stagnation in the municipality's audit outcome for the past three years was as a result of political instability, an inappropriate leadership tone, and indecisive leadership. Even though there was a change in political leadership during the year, it had no impact on the audit outcome. This was evident in the slow response to our messages and the leadership not taking ownership of key controls, resulting in a weak control environment that increased fraud risk within the municipality.

While we expected improvements towards clean administration based on the previous year's commitments, the municipality did not address prior year audit findings at a root-cause level, and deficiencies in the underlying accounting records remained widespread. The appointment of consultants, at a cost of R765 140 (2011-12: R750 000), to assist with the preparation of financial statements had no positive impact on the audit outcome.

Six key risk areas

No actions were taken to address the prior year concerns around the six key risk areas. The lack of leadership intervention and consequence management is cause for further concern in this regard. As the leadership did not ensure that adequate SCM controls had been implemented, a significant amount of irregular expenditure was incurred, which was not detected or prevented by the internal controls of the municipality.

The financial statements submitted for auditing had material misstatements as a result of the underlying financial records being inaccurate. Furthermore, there was no system to monitor performance information and, as a result, the indicators and targets reported in the annual performance report were not reliable.

In terms of HR management, the performance of section 57 managers was not evaluated and key officials did not have the required minimum competencies. Significant deficiencies remained in IT controls and there was no improvement in the financial health of the municipality.

Key controls and root causes

The key controls did not improve. The following controls must therefore be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Ensure stable leadership and governance structures that oversee financial and performance reporting.
- Implement effective HR management, including the filling of vacancies, to ensure that adequate and sufficiently skilled officials are in place, whose performance is monitored and who are held accountable for their actions through consequence management.
- Design and implement effective controls over daily disciplines, prepare and review performance reports, ensure compliance with legislation on a monthly basis, and review IT systems to ensure the credibility of the information produced.

All role players within the municipality should work together to improve the key controls and ensure that adequate processes are implemented to verify the credibility of information, thereby creating an environment of accountability. However, this should start with the leadership setting the correct tone at the top.

Impact of key role players on audit outcomes

We met with the mayor five times during the financial year, but these interactions had no impact on the audit outcome. This was mainly because the commitment to fill senior management vacancies was not honoured. The positions of municipal manager and chief financial officer were filled after year-end.

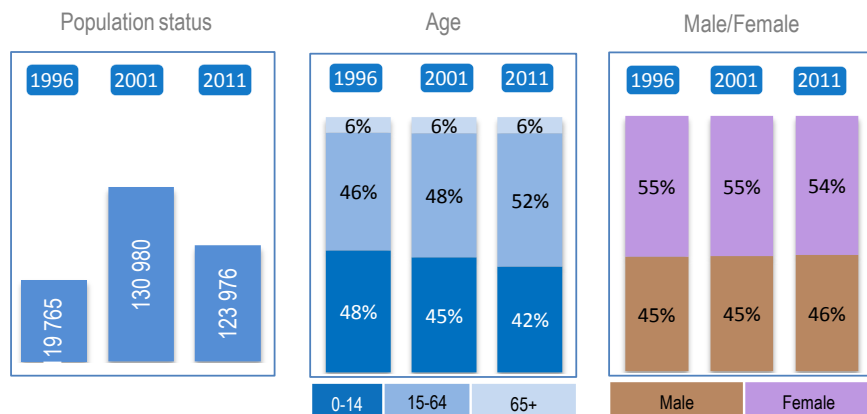
Senior management provided no assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to discharge their responsibilities effectively, including the effectiveness of the internal audit unit and the resultant impact on the audit committee.

Although both the Provincial Treasury and the Department of Local Government and Traditional Affairs provided support to the municipality, this did not have a positive impact on the audit outcome.

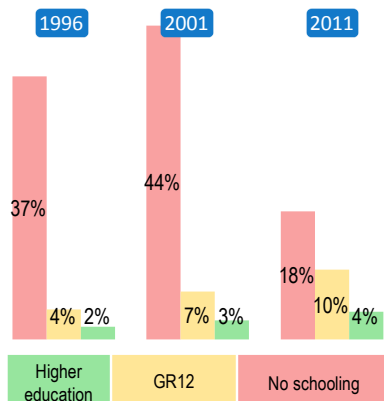
NTABANKULU MUNICIPALITY

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Population

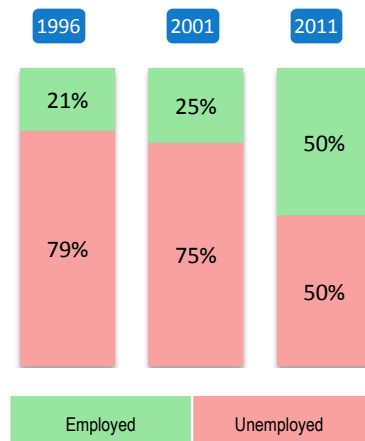


Education

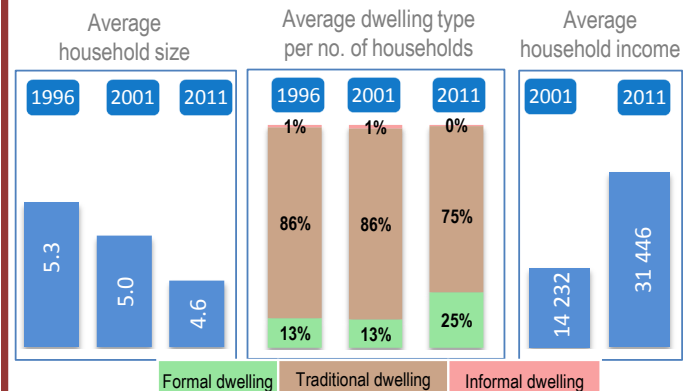


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Labour



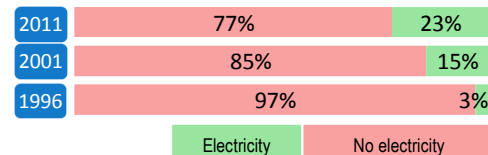
Households



Basic services

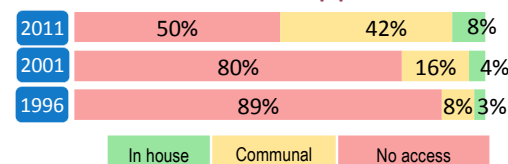
23%

of the households have access to electricity



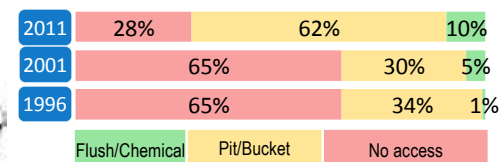
50%

of the households have access to piped water

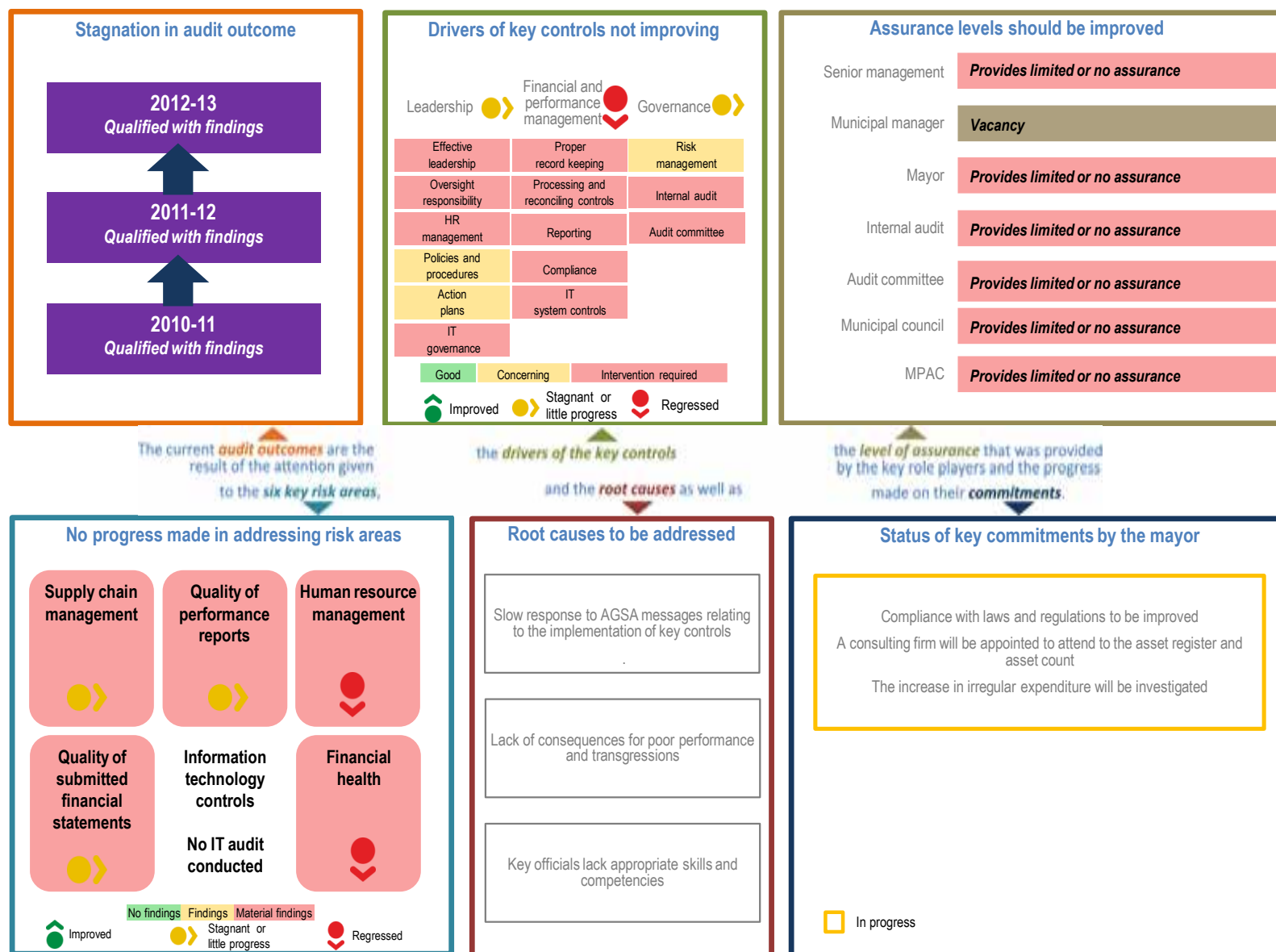


72%

of the households have access to toilet facilities



NTABANKULU LOCAL MUNICIPALITY



Ntabankulu Local Municipality

■ *Qualified*

No movement in audit outcome

The stagnation of the municipality on a qualified audit outcome for the past three years was the result of the inappropriate leadership tone by both the administrative and the political leaders. This was evident in the slow response to our messages and the leadership not taking ownership of key controls, resulting in an all-round weak control environment. As a result, the 2012-13 audit outcome underlines the recurring nature of matters reported in performance and financial management as well as compliance with legislation.

As the municipality did not address prior year audit findings at a root-cause level, deficiencies in the accounting records remained widespread and resulted in the outcome remaining unchanged even with the use of consultants, at a cost of R285 800 (2011-12: R280 000), to assist with the preparation of the financial statements. As skills were not transferred, the municipality will continue to use consultants for this role in the near future.

90 *Six key risk areas*

Basic controls, such as proper record keeping of SCM transactions, were not operating at the required level to ensure compliance with SCM prescripts and to prevent the occurrence of irregular expenditure as well as fraud and corruption.

The lack of proper record keeping and management was evidenced by the numerous deficiencies identified in the financial statements due to insufficient audit evidence. These misstatements resulted in the qualified audit opinion. This situation was further influenced by inadequate oversight and review at a leadership level.

The municipality lacked the necessary skills to enable it to manage critical processes relating to performance reporting. As a result, the quality of the performance report submitted for auditing was poor.

HR management processes were not adequately monitored, resulting in numerous findings in this area. In addition, the skills shortage at the municipality remained a challenge.

The municipality's financial health was a significant risk, as it is faced cash flow challenges, which was made even worse by indicators such as the abnormal debt-collection period. The weak control environment was the main cause of the poor financial health status.

Key controls and root causes

The deterioration in the key controls was caused by poor record management as well as a lack of daily, weekly and monthly disciplines relating to the frequent monitoring of the processing and reconciling of transactions.

The following controls must be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with applicable legislation:

- The leadership and governance structures should design a system of record keeping to ensure that information is available when required. The key controls need to be expanded to make sure that all critical areas are addressed by daily and monthly controls that ensure full oversight and monitoring.
- Effective HR management should be implemented to ensure that the municipality has an approved code of conduct, which should be communicated to staff and supported by annual declarations.
- The municipality should prepare a full set of financial statements and performance reports, and review these in detail to ensure the credibility of the information produced. Compliance with legislation should also be monitored on a monthly basis.
- The council, accounting officer, MPAC and audit committee should address the root causes of the poor audit outcome and inadequate controls through their oversight responsibilities.

Impact of key role players on audit outcomes

We met with the mayor four times during the financial year, but these interactions had no impact on the audit outcome. Furthermore, the commitments of the mayor were not honoured.

Senior management provided some assurance, but weaknesses in supporting information and financial and performance reporting minimised the impact of management.

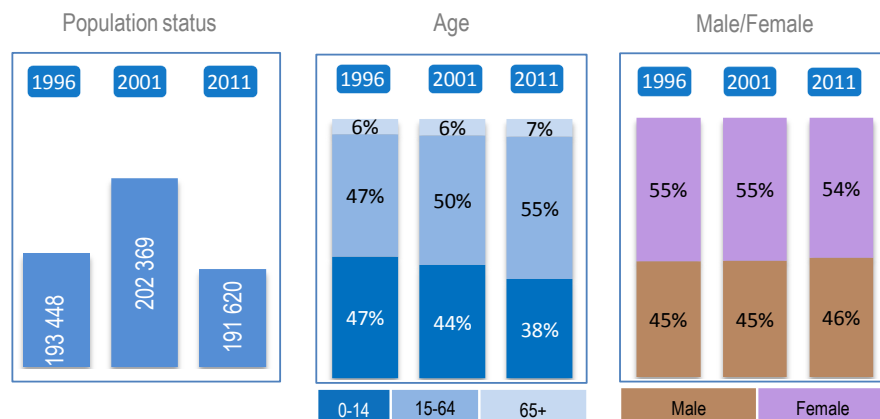
The audit committee did not adequately review the financial statements before their submission for auditing. The internal audit unit's focus deviated from their internal control responsibilities to ad hoc assignments to provide financial management support.

MPAC's impact was limited by the non-availability of information caused by poor record keeping.

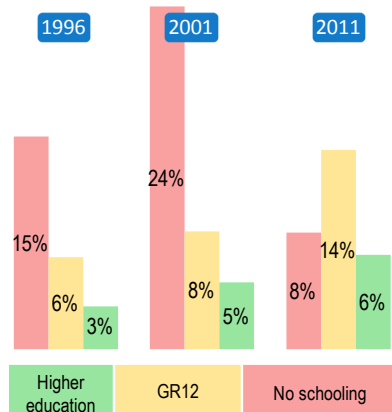
UMZIMVUBU MUNICIPALITY

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Population

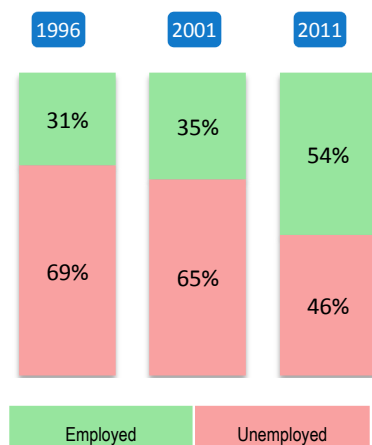


Education

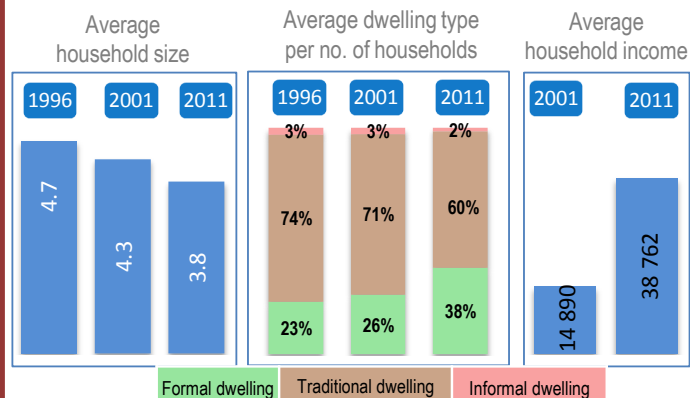


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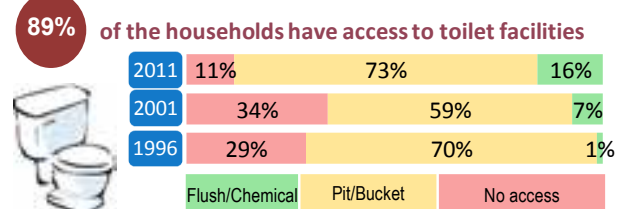
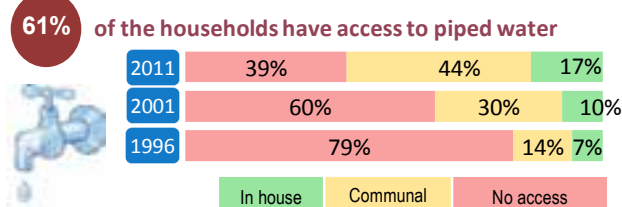
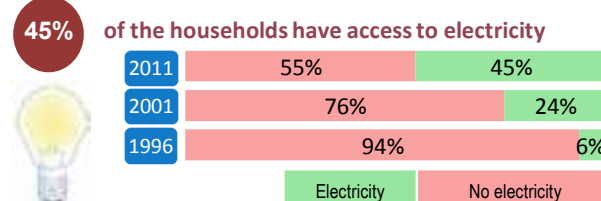
Labour



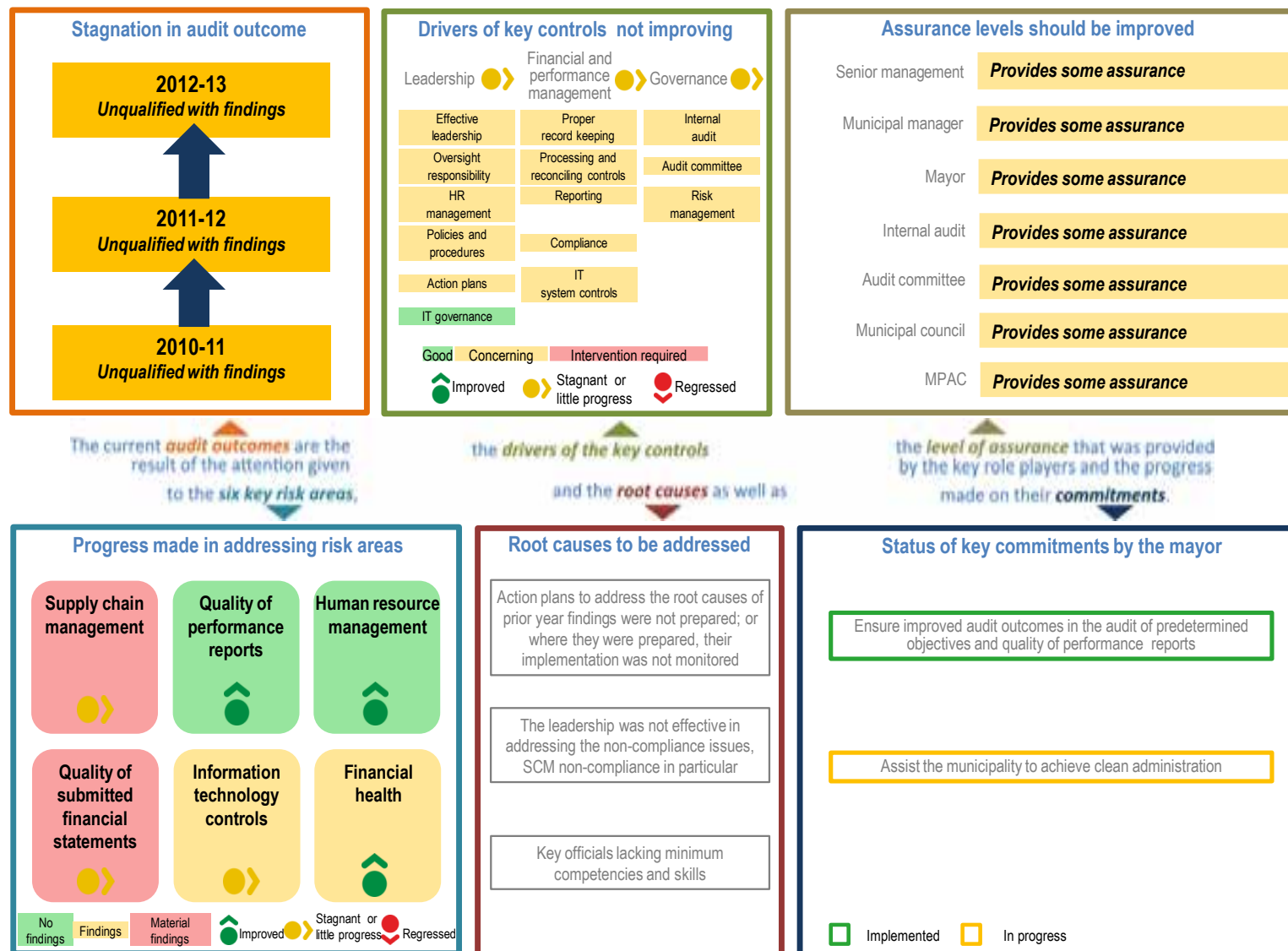
Households



Basic services



UMZIMVUBU LOCAL MUNICIPALITY



Umzimvubu Local Municipality

■ Unqualified

No movement in audit outcome

The municipality should be commended on achieving an unqualified audit opinion for the past three years. However, the leadership should respond to our messages by taking decisive action and by taking ownership of the key controls to move the audit outcome to unqualified with no findings.

The implementation of action plans to address the root causes of prior year findings was not adequately monitored by the leadership and senior management. Even though consultants were appointed at a cost of R2,1 million, it did not have an impact on the audit outcome.

Six key risk areas

There was no improvement in SCM or the quality of the submitted financial statements. Material findings on SCM remained in the year under review, due to inadequate controls to identify and prevent instances of non-compliance and irregular expenditure.

The lack of movement in the quality of submitted financial statements was due to inadequate financial disciplines and, as a result, the municipality relied on the external audit process to correct material misstatements to achieve an unqualified audit opinion.

There was no improvement in the IT control environment, with findings relating to user access management not being appropriately addressed.

The improvement in the quality of the performance report might not be sustainable, as the municipality did not have a documented system of internal controls for performance information.

HR management showed a significant improvement due to the filling of critical vacancies, particularly that of the chief financial officer and those of all senior management positions that had been vacant in the previous period. However, not all key officials had the appropriate skills required in their positions.

Although the financial health status improved, some indicators and control weaknesses remained and still require attention.

Key controls and root causes

The lack of movement in the key controls was due to the leadership not taking ownership of these controls. Although action plans were developed to address the root causes of prior year findings, they were not adequately monitored. Management also failed to implement daily disciplines over processing and reconciling of transactions, proper record keeping as well as regular, accurate and complete financial reports.

In order to improve the audit outcome, the municipality should further enhance the following controls to create a control environment that continuously supports reliable financial and performance reporting and compliance with legislation:

- Action plans should be implemented and monitored, including the preparation and review of reliable monthly financial statements and supporting reconciliations. The data cleansing of properties and debtors as well as the verification of all assets should be finalised before the financial year-end.
- Controls should be improved to ensure compliance with legislation, specifically relating to SCM. This should be coupled with consequence management in the event of non-adherence to these requirements.
- Staff should be adequately trained to address development gaps and to ensure that they are adequately skilled to perform their duties.

The municipal manager together with the audit committee should monitor the implementation of these controls.

Impact of key role players on audit outcomes

We met with the mayor four times during the financial year. Despite the mayor's openness to our messages, the interactions had a minimal impact on the audit outcome, as the implementation of our prior year recommendations was not sufficiently monitored and supervised.

Going forward, all role players should work together towards addressing the identified deficiencies. The council and MPAC should monitor the actions taken by the mayor and municipal manager to ensure that the action plan prepared by the municipality to address the root causes of audit report findings is implemented. The internal audit unit and audit committee should also evaluate the key controls and work together with MPAC to ensure that there is a sound control environment.

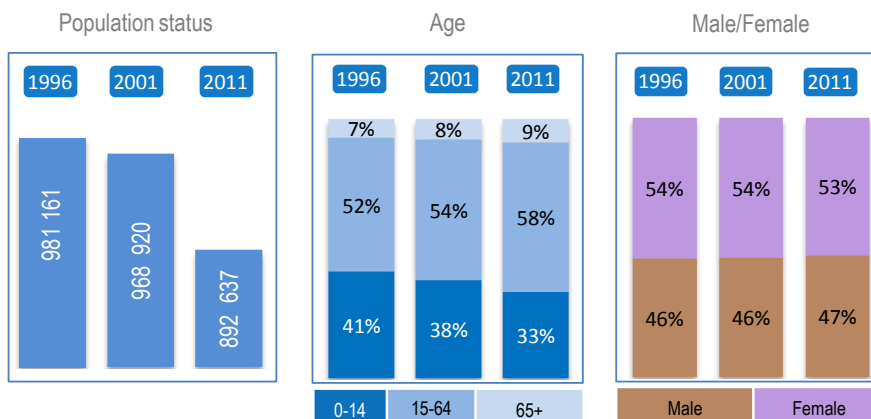
AMATHOLE DISTRICT

95

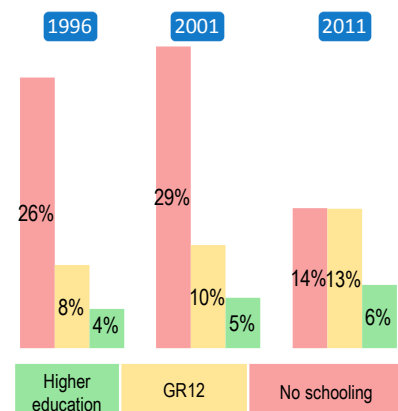
AMATHOLE DISTRICT MUNICIPALITY

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Population

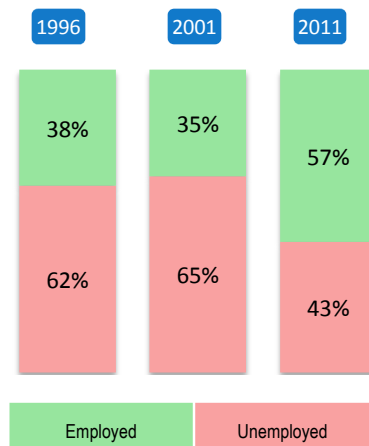


Education

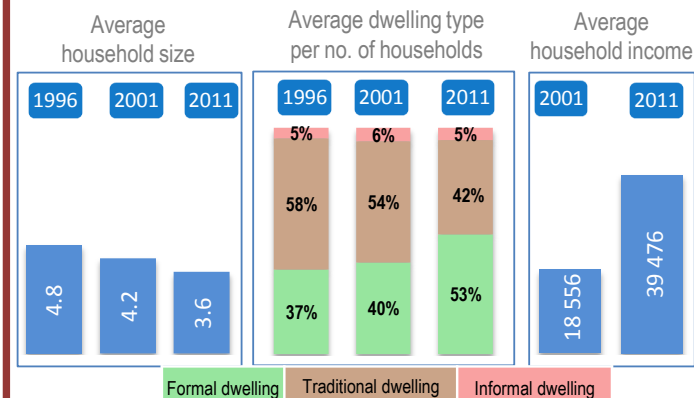


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Labour

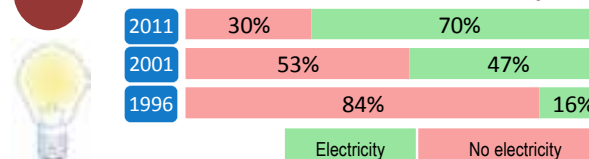


Households

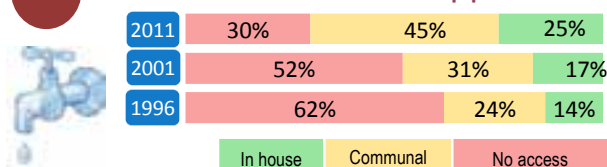


Basic services

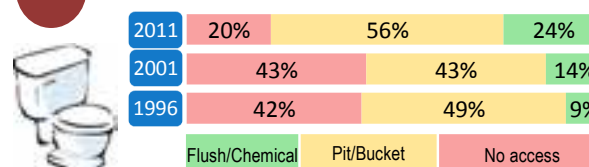
70% of the households have access to electricity



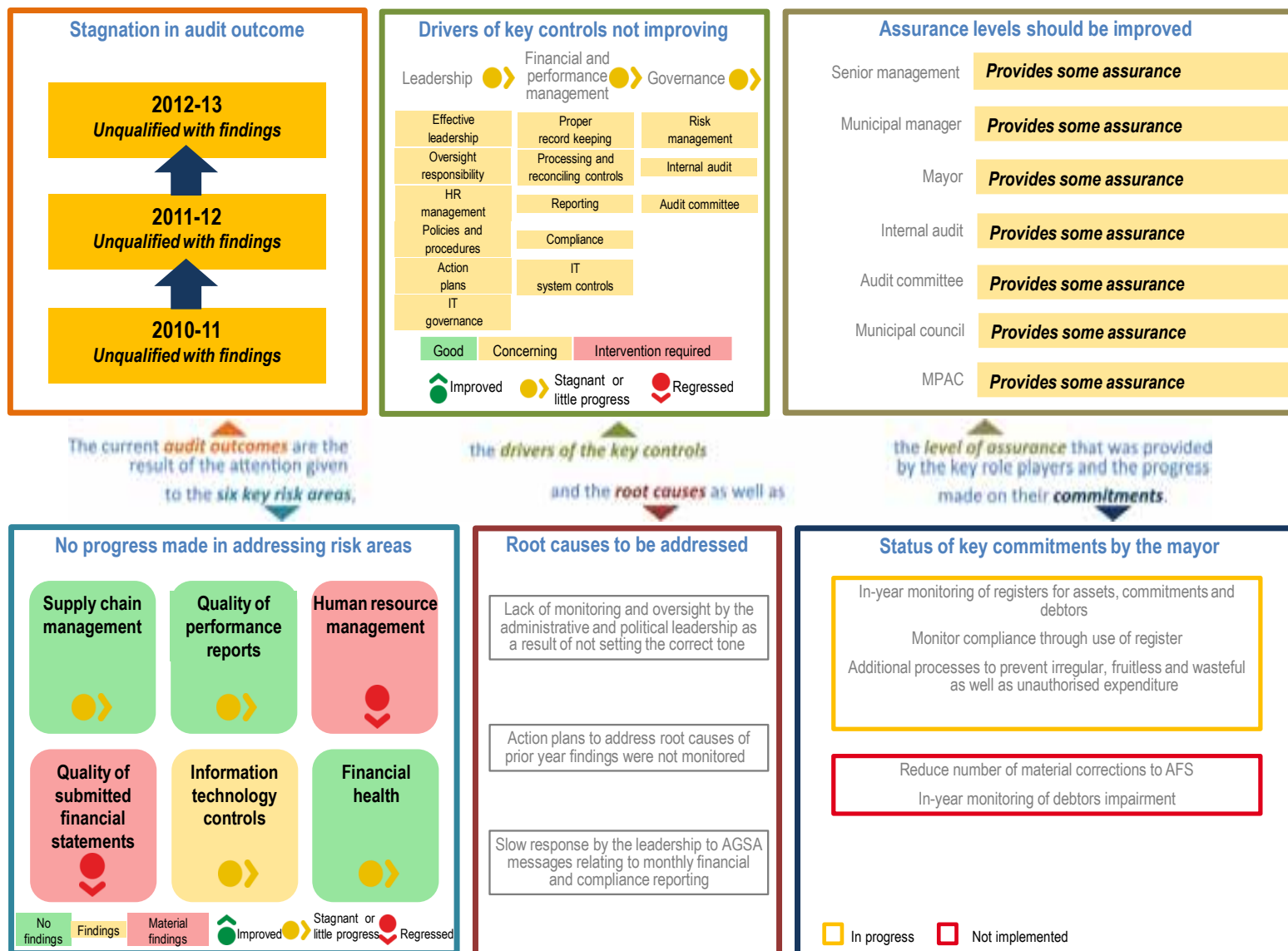
70% of the households have access to piped water



80% of the households have access to toilet facilities



AMATHOLE DISTRICT MUNICIPALITY



Amathole District Municipality

■ Unqualified

No movement in audit outcome

The municipality has for the past three years retained its status of a financially unqualified opinion with findings on non-compliance. The remaining non-compliance matters was largely due to significant financial errors being identified and corrected during the audit process. The lack of movement towards sustainable clean administration and good governance can be attributed to management not actively monitoring the progress of the audit action plan as well as a culture of daily, weekly and monthly disciplines not being institutionalised within the municipal activities. This resulted in over-reliance on the audit process to produce credible financial statements.

The municipality used consultants to assist in the preparation of the financial statements at a cost of R4,2 million. The work performed by the consultants had a positive impact, as it reduced the number of qualification items that would otherwise have been reported.

Six key risk areas

The inability of the leadership to effectively monitor and adequately implement actions to timeously address the weaknesses in the control environment resulted in a lack of progress in the risk areas relating to HR management and the quality of financial statements. In addition, a lack of financial discipline as well as insufficient review processes in respect of the financial statements resulted in the financial statements requiring adjustment during the audit process to avoid a qualification.

With regard to HR management, the municipality performed the internal control processes required to be completed before an appointment can be made only after the appointment had been made in certain instances.

For the second year running, the municipality did not have findings on the annual performance report, as the credibility of performance reports was continuously verified during the year.

Key controls and root causes

The key controls within the municipality showed little movement from the previous year, as a result of management not taking ownership of driving the required improvement. This could indicate that the current audit outcome is still not sustainable.

The basic financial disciplines required to ensure credible financial and compliance reporting (such as transactions and registers being processed, reviewed, reconciled and reported on a daily, weekly and monthly basis) were not consistently instilled and monitored within the municipality.

Furthermore, the mayor, municipal manager, senior management and those charged with governance should address the root causes of the stagnant outcome and inadequate controls as follows:

- Implement an effective performance management system that holds staff accountable and enables the leadership to instil the principle of consequence management.
- Implement suitable action plans and registers to enable the regular review and monitoring of compliance with legislation.
- Implement daily and monthly processes to verify the credibility of in-year financial and compliance reports, thus setting the tone for efficient and effective oversight.

Impact of key role players on audit outcomes

The senior leadership provided only some assurance, which directly affected the credibility of the information produced. Consequently, the level of assurance provided by the council and MPAC was also limited by the credibility of the information provided to them. Until senior management focuses on the daily, weekly and monthly disciplines and the monitoring and oversight of such disciplines, the assurance provided will not improve.

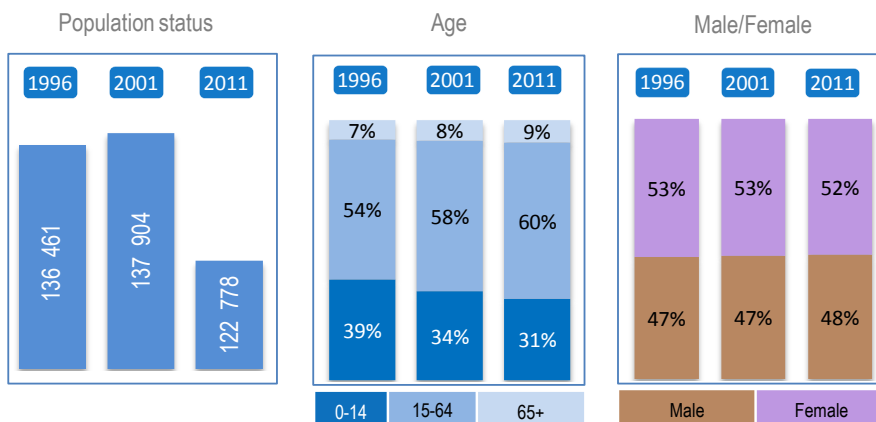
We met with the mayor three times during the year. Despite the mayor's openness to our messages, these interactions had a minimal impact on the audit outcome, as our recommendations were not adequately implemented and monitored. The audit committee and internal audit unit only provided some assurance. This can be improved if management responds more effectively to the committee's recommendations in internal audit reports.

To pave the way forward, all role players need to work together towards an environment that promotes accountability, good financial management and sustainable clean administration.

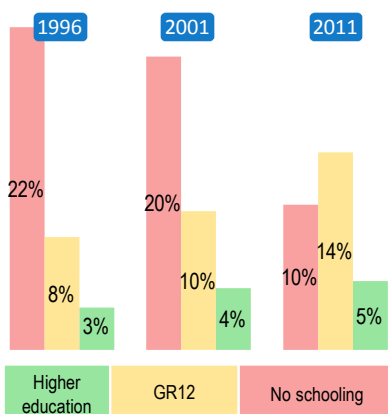
AM AHLATHI MUNICIPALITY

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Population

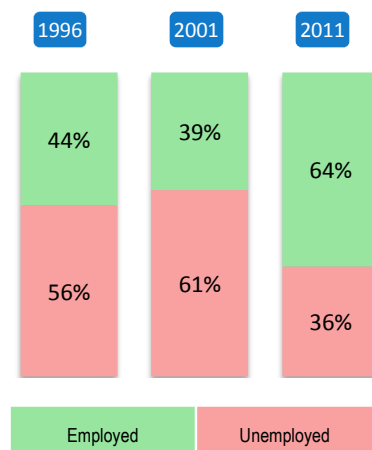


Education

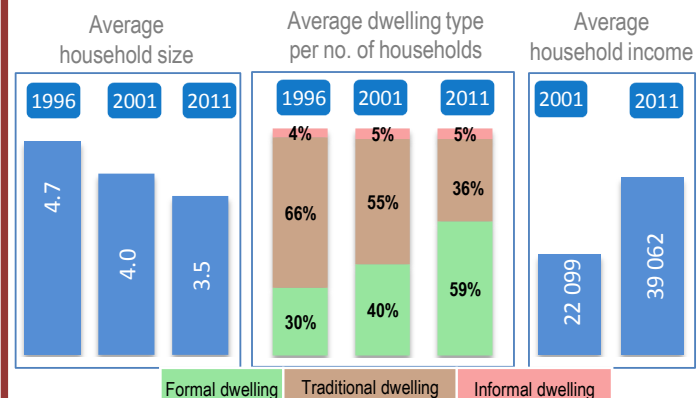


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

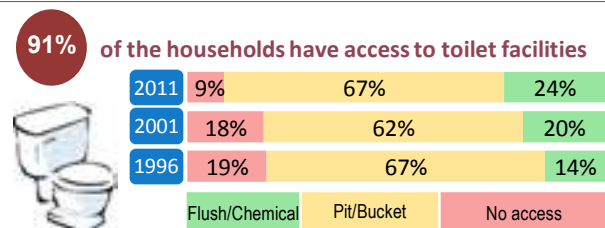
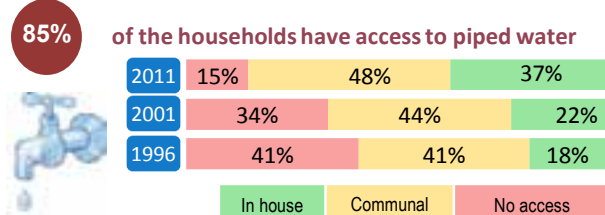
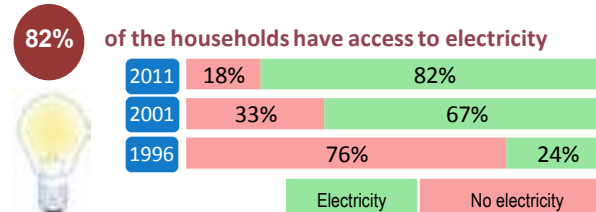
Labour



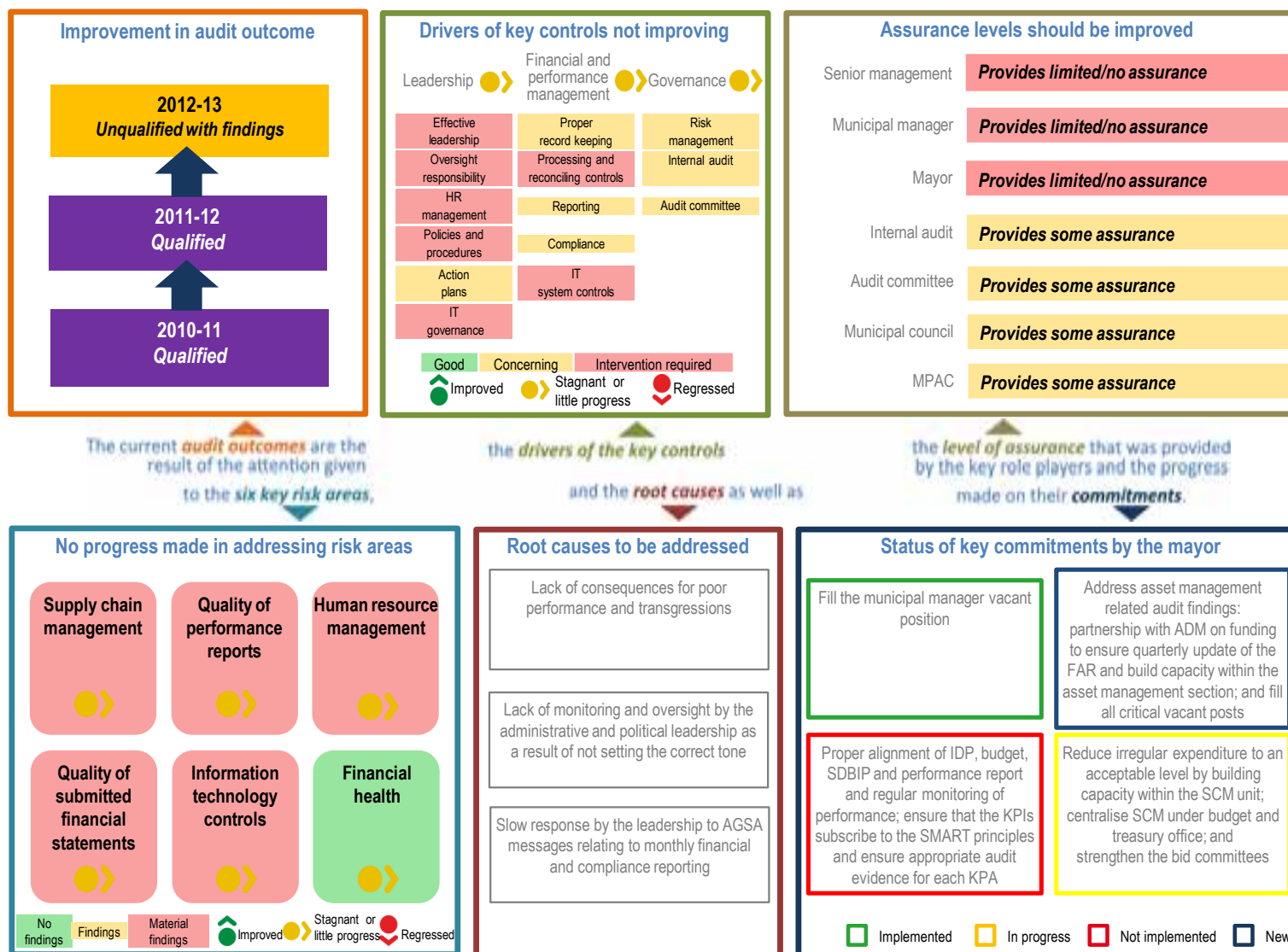
Households



Basic services



AM AHLATHI LOCAL MUNICIPALITY



Amahlathi Local Municipality

■ Unqualified

Improvement in audit outcome

The audit outcome improved from a qualified opinion to an unqualified opinion with findings on non-compliance and performance reporting. This was due to the municipality addressing the prior year qualifications on property, plant and equipment as well as irregular expenditure. However, due to the slow response by the leadership to our messages on monthly performance and compliance reporting, there was no improvement in compliance with legislation and performance reporting.

The municipality depended on consultants to prepare the financial statements at a cost of R4 million, and there was inadequate skills transfer from the consultants. They assisted to address prior year qualifications but the quality of the financial statements was poor and the municipality relied on the audit process to identify and correct material misstatements to achieve the unqualified audit opinion. These factors cast doubt on the sustainability of the improved outcome.

102 *Six key risk areas*

There has been no movement in the six key areas, and we raised repeat material findings in all key areas. A lack of accountability and year-round financial discipline as well as insufficient review processes resulted in the inadequate assurance and credibility of the financial statements as noted above, despite the improvement in the overall outcome.

The status of SCM remained unsatisfactory, as a result of the municipality incurring irregular expenditure by not complying with procurement requirements in many instances.

The quality of performance reports remained a challenge, as there was no formal policy for the reporting of performance. The key management position for this area remained vacant, resulting in a lack of timeous monitoring and reporting.

The municipality needs to address the stagnation in HR management to improve the audit outcome further.

The financial health of the municipality remained a risk, as certain indicators such as the debt-collection period were still unsatisfactory.

IT controls did not receive adequate attention during the year and as a result remained a cause for concern, specifically regarding the reliability of the systems and the availability, accuracy and protection of information.

Key controls and root causes

The lack of improvement in the key controls was as a result of the failure to implement daily disciplines for the processing and reconciling of transactions, a lack of monitoring and oversight by the leadership, and a slow response to our messages relating to monthly financial and compliance reporting. The following controls must thus be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement performance management to address poor performance, and consequence management to address the transgression of laws, regulations and policies.
- Ensure the correct tone from the top, including regular monitoring and oversight by the administrative and political leadership, who should insist on monthly financial, performance and compliance reporting from management.
- Fill all vacancies with people with the requisite skills, and provide training to address development gaps of existing staff.

Impact of key role players on audit outcomes

The senior leadership of the municipality provided limited or no assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to discharge their responsibilities effectively. This is illustrated by the fact that the established internal audit unit and audit committee were also not deemed completely effective, as management did not implement all of their recommendations.

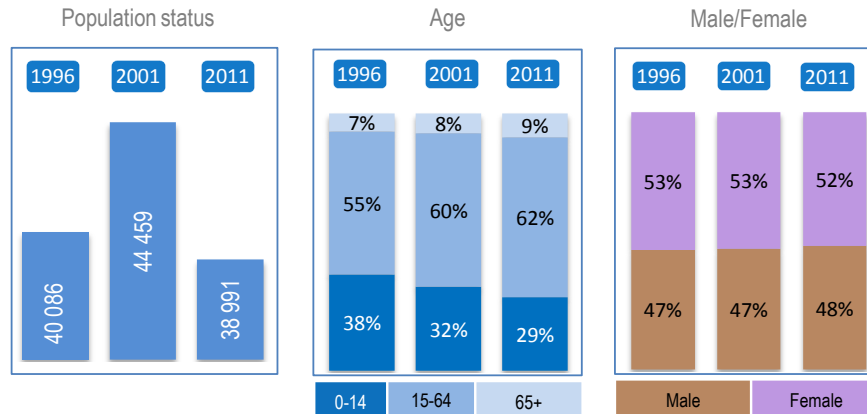
We met with the mayor three times during the year. Despite the mayor's openness to our messages, the interactions had a minimal impact on the audit outcome, as the implementation of our recommendations was not sufficiently monitored and supervised.

All role players should work together, continuously monitor the implementation of audit action plans, and ensure that the action plans adequately address the root causes of findings.

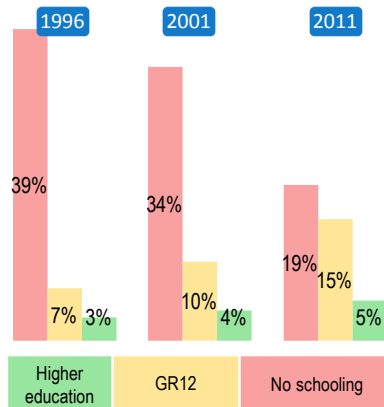
GREAT KEI MUNICIPALITY

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Population

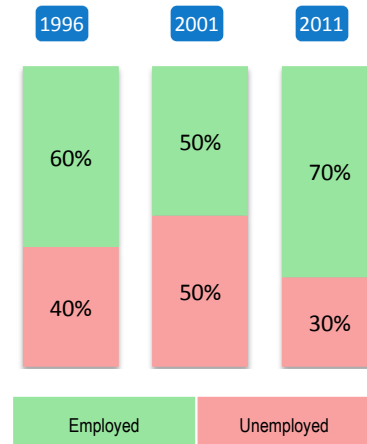


Education

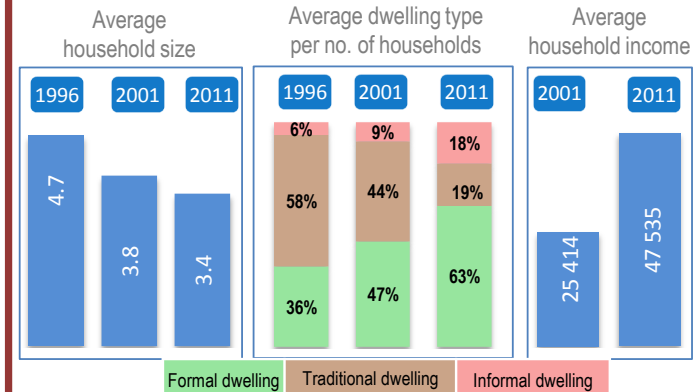


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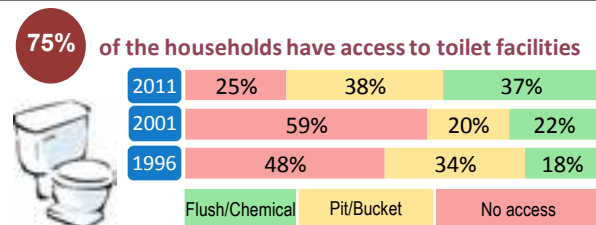
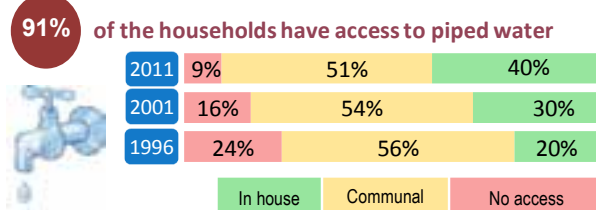
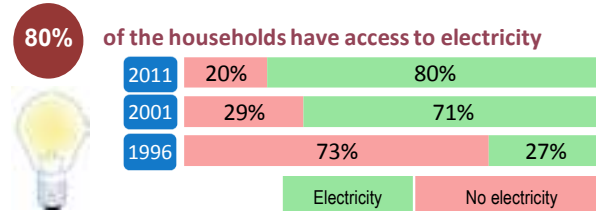
Labour



Households



Basic services



GREAT KEI LOCAL MUNICIPALITY



Great Kei Local Municipality

■ Adverse

Significant movement in audit outcome

The audit outcome moved from a disclaimer of opinion to an adverse opinion due to the improved submission of supporting documentation. The municipality attempted to address the prior year audit qualifications, but instead of addressing the root causes, they concentrated on the symptoms of the findings. This, together with the shortage of adequately skilled and competent staff at the municipality, contributed to the number of recurring findings.

The municipality used consultants to assist with the preparation of the financial statements and the correction of prior year qualifications at a cost of R1,3 million (2011-12: R1,5 million). This process started too late in the financial year to have an impact. As a result, repeat qualifications were reported.

Six key risk areas

No progress was made to address the key risk areas of SCM, HR management and the quality of the submitted financial statements and performance report.

The status of SCM remained unsatisfactory, primarily as a result of the municipality not always complying with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process.

With regard to HR management, vacancies were not filled, which resulted in limited internal resources to carry out the necessary functions. Consequently, the municipality continued to rely on consultants who fulfilled these roles but had no opportunity to transfer the necessary skills. This created overdependence on consultants, and in turn an inability to hold staff accountable for their daily and monthly roles and responsibilities.

The quality of the annual performance report did not improve. The municipality should focus on the measurability of performance information to address the material findings on the usefulness of its performance report.

Key controls and root causes

The overall stagnation in the key controls was a result of the leadership's failure to fill critical positions, including the director of corporate services, SCM manager and HR manager.

The following controls must be strengthened by the leadership, with the support of the governance structures, to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The municipality should implement effective HR management to ensure that adequate and sufficiently skilled officials are in place. These officials must be held accountable for their actions and their performance must be monitored regularly. This will assist with the development and implementation of daily and monthly controls.
- Action plans to address the root causes of prior year findings must be prepared, implemented and monitored.
- The municipality should implement monthly processes to verify the credibility of in-year financial, performance and compliance reports, thus setting the correct tone for efficient and effective oversight.

Impact of key role players on audit outcomes

We met with the mayor twice during the financial year and these interactions had no impact on the audit outcome, due to the reluctance of the mayor to make commitments to improve the audit outcome.

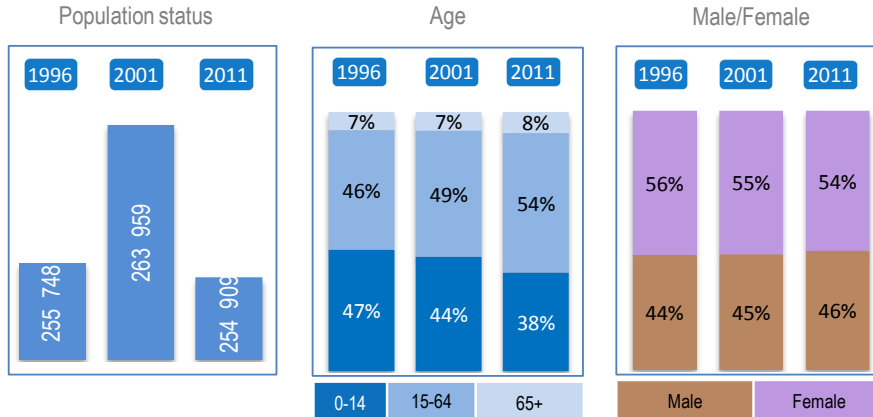
Senior management, including the municipal manager, provided very limited or no assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to effectively discharge their responsibilities. The internal audit unit and audit committee did not receive the necessary support and information to execute their responsibilities effectively. As a result, they could only provide limited assurance.

The level of assurance provided by MPAC, the council and the mayor was also limited by the credibility of the information provided to them. There is a need for more involvement by those charged with governance in the oversight of controls at the municipality, with a focus on the credibility of information provided by management.

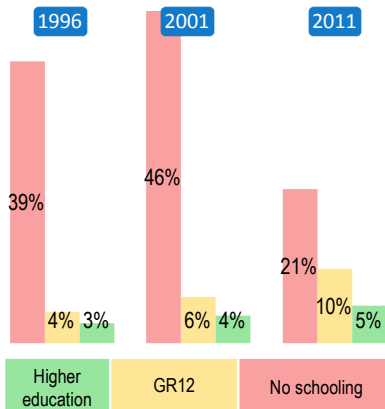
MBHASHE MUNICIPALITY

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Population

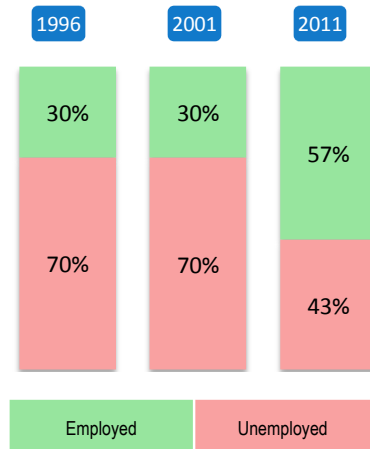


Education

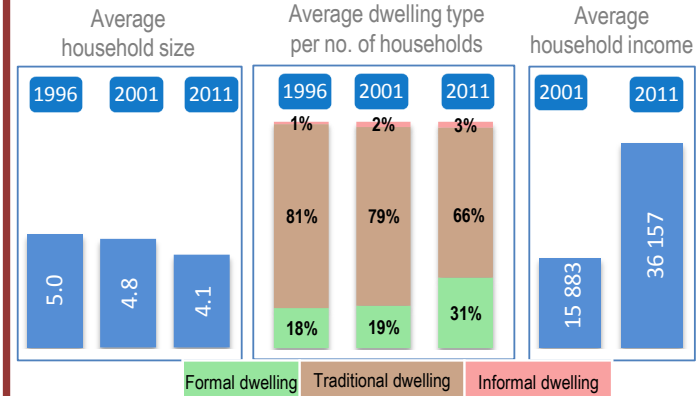


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Labour



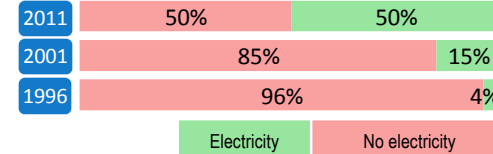
Households



Basic services

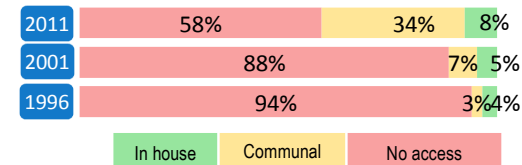
50%

of the households have access to electricity



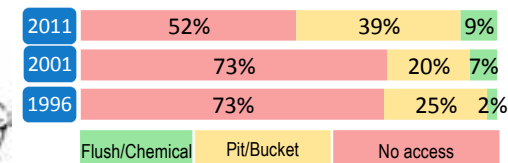
42%

of the households have access to piped water

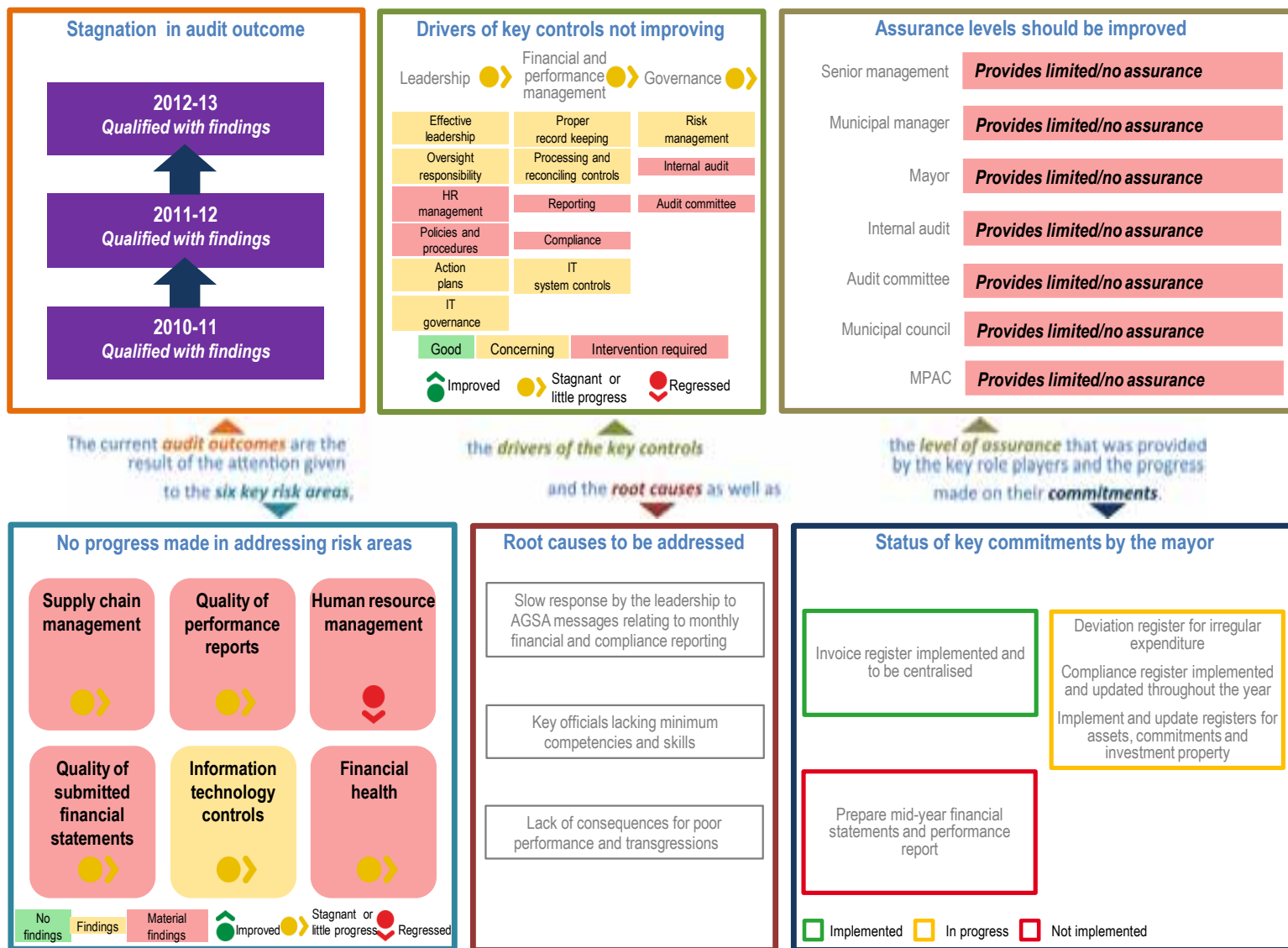


48%

of the households have access to toilet facilities



MBHASHE LOCAL MUNICIPALITY



Mbhashe Local Municipality

■ *Qualified*

No movement in audit outcome

The audit opinion of the municipality remained unchanged, but there were fewer qualifications. The unchanged outcome was largely due to a lack of skills within the municipality, as top and middle management positions were vacant for lengthy periods. In addition, there was extended political instability, which influenced the oversight ability of various structures within the municipality. This had a negative impact on the performance of the municipality and its ability to prepare financial statements and an annual performance report that were free from material misstatements.

The municipality used consultants to assist in the preparation of the financial statements and performance report at a cost of R5,2 million. Skills were transferred and the work completed reduced the number of qualification items that would otherwise have been reported.

Six key risk areas

It is evident from the lack of movement in the audit outcome that daily, weekly and monthly financial reporting and monitoring disciplines have not filtered down into the operations of the municipality, and as a result there was not much improvement within the six key risk areas.

The leadership did not adequately monitor key deliverables, as performance management and reporting systems were inadequate and the municipality lacked stability to manage this critical process.

A lack of year-round financial discipline as well as sufficient review processes resulted in the inadequate assurance and credibility of the financial statements. Consequently, the financial statements submitted for auditing had to be adjusted during the audit process to avoid additional qualifications.

No progress was noted in the key area of SCM due to certain prescripts not being adhered to. This resulted in non-compliance in respect of the procurement processes followed. Deficiencies, especially with regard to the approved supplier list, supplier declarations and procurement deviations, need to be addressed.

The HR management system used by the municipality was not adequate. Deficiencies were identified in the management of leave and performance, key vacancies were not filled, and the competencies of key officials were not assessed timeously to allow for gaps in competency levels to be addressed.

Key controls and root causes

There was no improvement in the key controls, largely because the municipality had not implemented all the necessary daily, weekly and monthly financial processes and established a credible system for performance reporting. In order for the municipality to realise the benefits of a well-functioning administration that delivers quality services to its citizens in accordance with its mandate, the administrative and political leadership must focus on the following:

- Implement daily and monthly processes to verify the credibility of in-year financial, performance and compliance reports, thus setting the correct tone for efficient and effective oversight.
- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, in accordance with the approved organogram.
- Implement an effective performance management system that enables the leadership to hold staff accountable and to instil the principle of consequence management.

Impact of key role players on audit outcomes

The senior leadership provided limited assurance, which directly affected the credibility of the information produced and the processes used. Thus, the level of assurance provided by an already politically unstable council and MPAC was further limited by the credibility of the information provided to them. Until senior management focuses on the daily, weekly and monthly disciplines and the monitoring and oversight of such disciplines, the assurance provided will not improve.

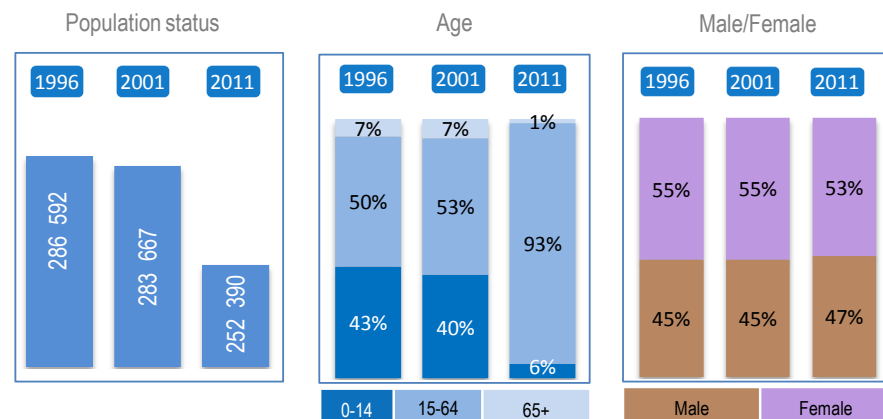
We met with the mayor three times during the financial year, but the slow response by the leadership to our messages led to these interactions having no impact on the audit opinion. As a result, key commitments remained mostly in progress.

The level of assurance provided by the audit committee and internal audit unit was limited. This can be improved if the internal audit unit is better used and directed. To pave the way forward, all role players need to work together towards an environment that promotes accountability.

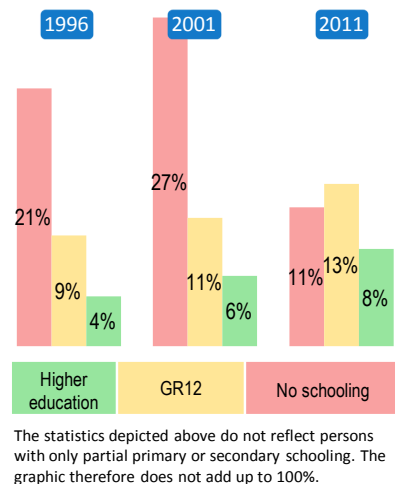
MNQUMA MUNICIPALITY

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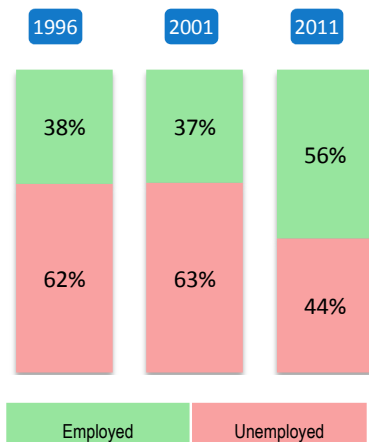
Population



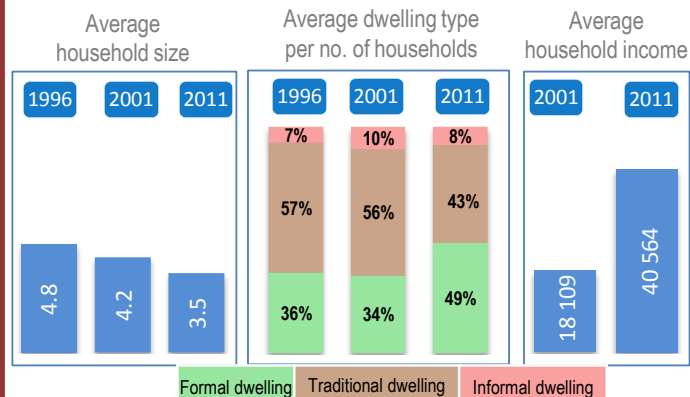
Education



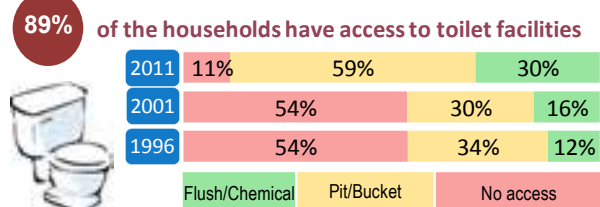
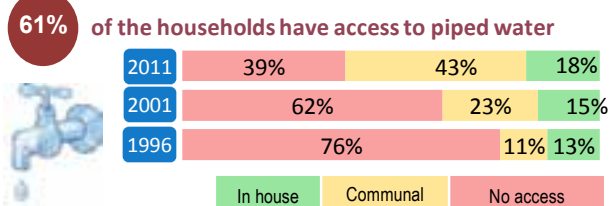
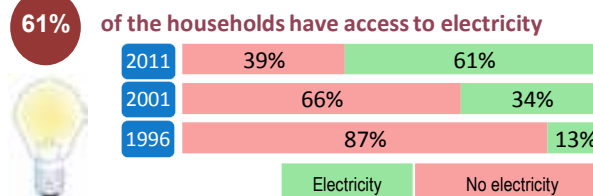
Labour



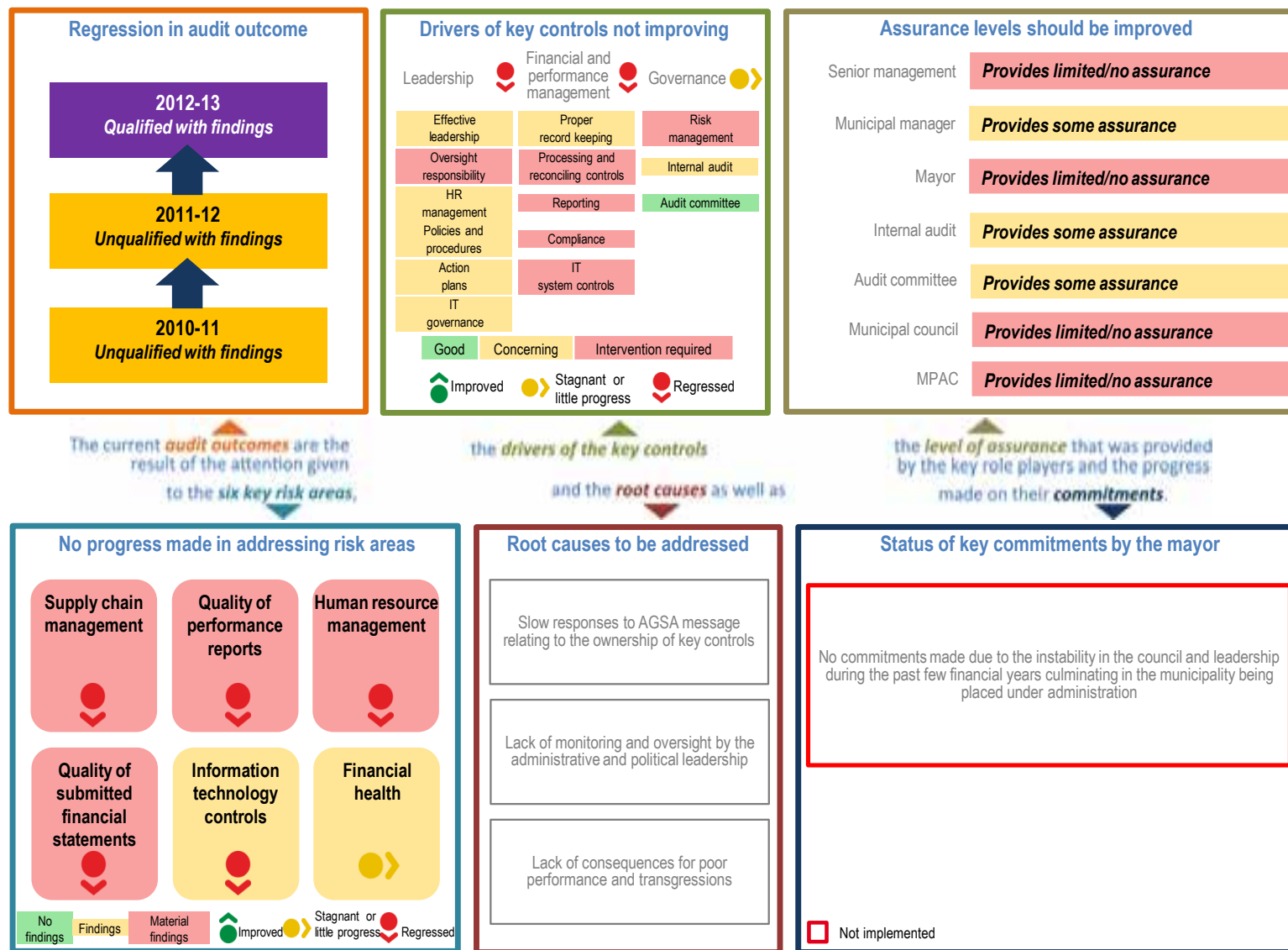
Households



Basic services



MNQUMA LOCAL MUNICIPALITY



Mnquma Local Municipality

■ *Qualified*

Significant movement in audit outcome

The MEC for local government and traditional affairs placed the municipality under administration on the grounds of political and administrative instability during the year under review. The impact of this instability as well as vacancies in critical positions resulted in the regression in audit outcome to qualified.

The municipality continued to rely on the services of consultants at a cost of R520 144 (2011-12: R199 700) to assist with the preparation of financial statements. However, this had little impact on the audit outcome, or on the improvement of skills within the municipality as skills were not transferred.

Six key risk areas

Financial health and IT system controls showed no improvement, while all the other risk areas regressed.

The senior management vacancy rate of 60% and the suspension of the chief financial officer led to the regression in HR management and also resulted in poor quality financial statements being submitted for auditing. As the municipality did not monitor the consultants, their services were not satisfactory in all respects, as evidenced by the regression in the audit outcome.

The status of SCM remained unsatisfactory, primarily as a result of the municipality not complying with the legislative requirement to obtain quotations or to procure goods and services through a competitive bidding process. This contributed to increased irregular expenditure and an environment vulnerable to fraud.

Material findings were reported on both the reliability and the usefulness of the performance report, due to a lack of detailed policies and procedures to guide municipal officials in this regard. In addition, the portfolios of evidence were not adequate to support the reported information.

Key controls and root causes

The overall deterioration in the key controls was caused by a lack of effective oversight, leadership instability and the failure to implement and regularly monitor financial and performance disciplines. This was largely as a result of vacancies not being filled, supervisors not frequently reviewing work, and financial records not being properly and timeously reconciled.

The following controls must be strengthened by the mayor, council, MPAC, municipal manager and other governance structures to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Fill all critical vacancies with competent and skilled professionals according to an approved organogram. This will ensure that there is stability within senior management, which can assist in guiding and leading the municipality.
- Implement an effective performance management system that enables the leadership to hold all officials accountable for the work that they perform on a daily basis. The achievement of this depends on alignment within the municipality and between the political and the administrative leadership.
- Implement daily and monthly processes to verify the credibility of in-year financial, performance and compliance reports, thus setting the correct tone for efficient and effective oversight.

Impact of key role players on audit outcomes

We met with the mayor three times during the financial year. These interactions had a minimal impact on the audit outcome, as the mayor was not able to influence the council and leadership to take decisive action to respond to our message to take ownership of key controls and to create an environment supporting accountability.

Senior management provided no assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to discharge their responsibilities effectively. Furthermore, the administrator was only appointed towards the end of the financial year after the municipality had been placed under administration and therefore did not have a positive impact.

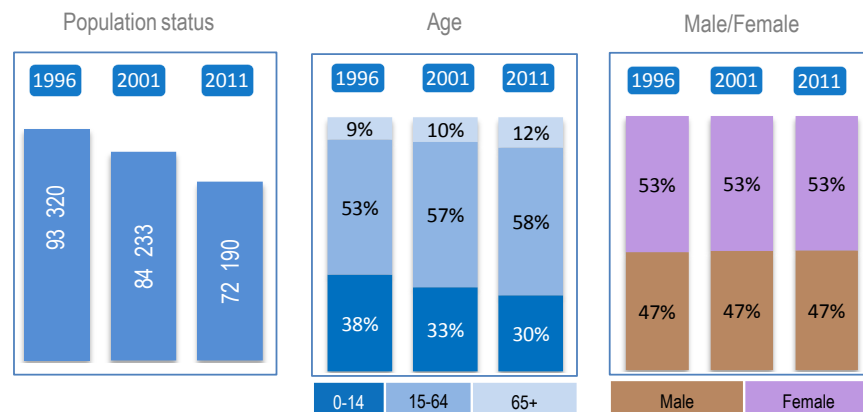
Although the internal audit unit and audit committee fully fulfilled their role, management's failure to attend to internal audit findings and to respond to the audit committee's recommendations had a negative impact on the ability of other assurance providers to execute their responsibilities effectively.

Because of the lack of stability within the council and the administrative leadership, the mayor felt that he was not in a position to provide commitments for an improved audit outcome.

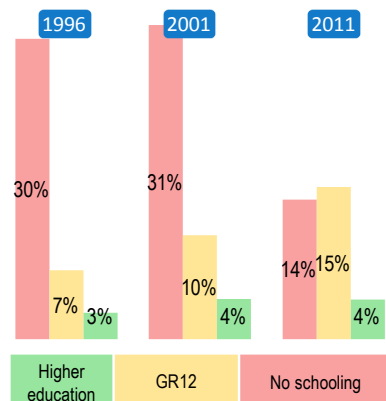
NGQUSHWA MUNICIPALITY

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Population

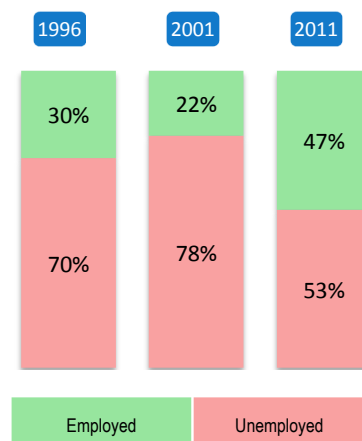


Education

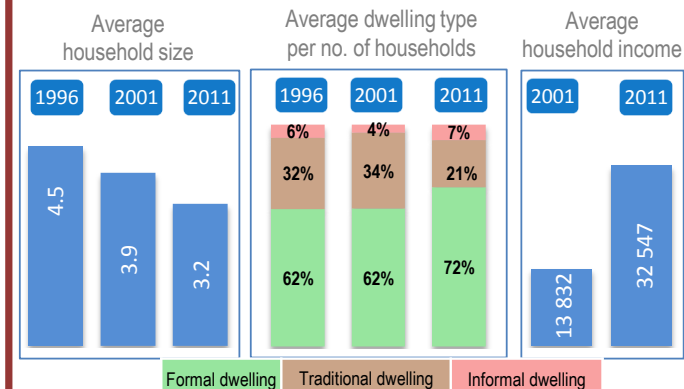


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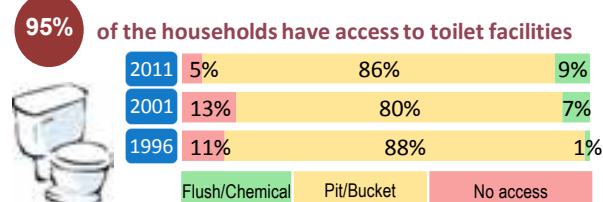
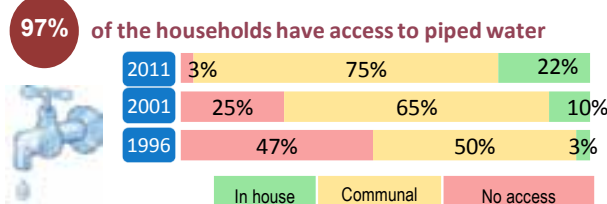
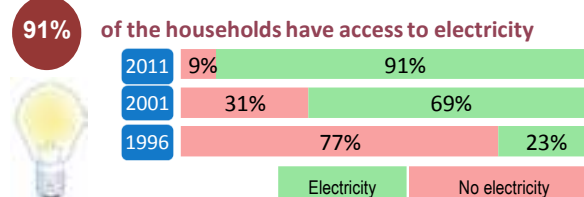
Labour



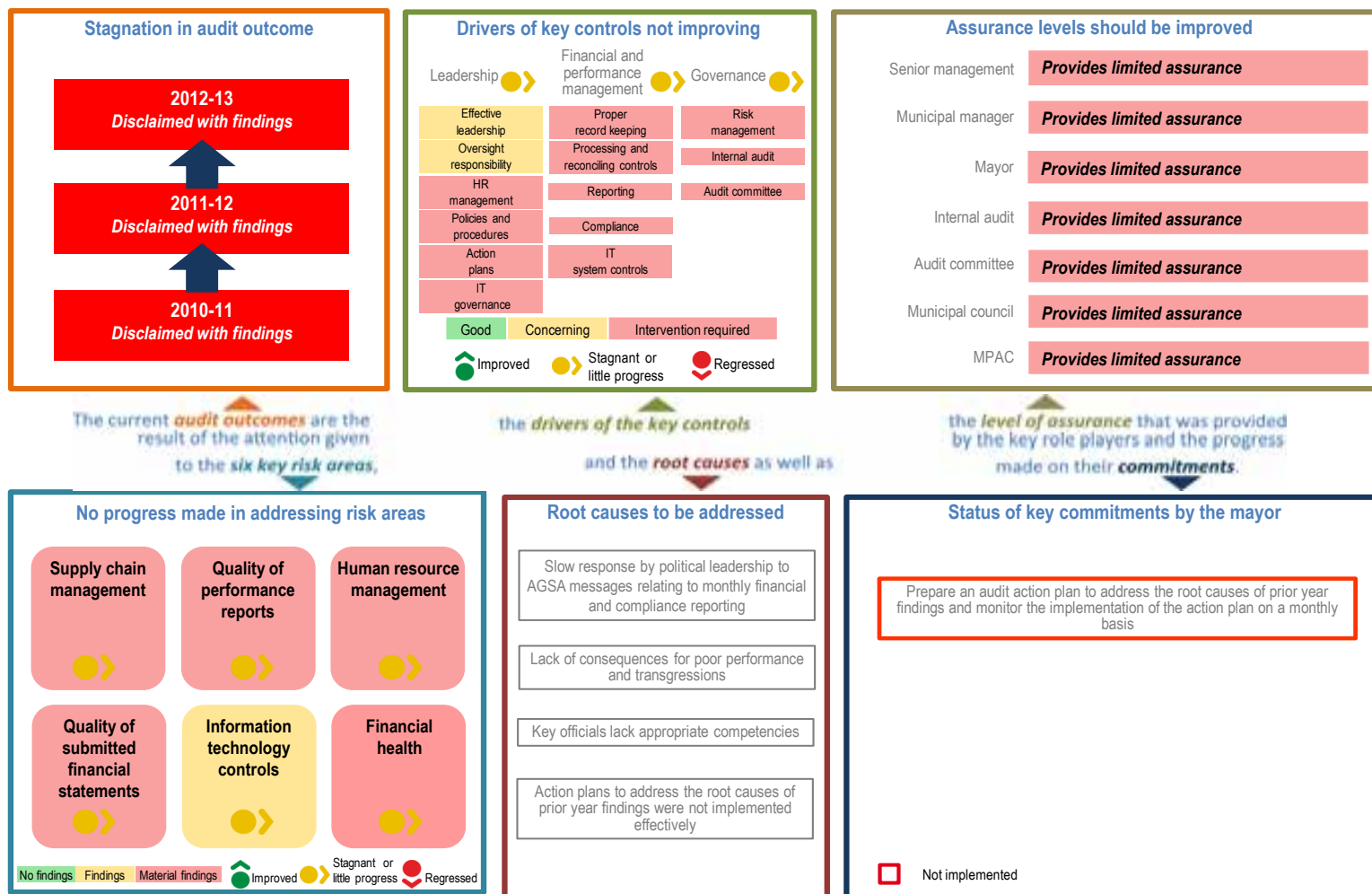
Households



Basic services



NGQUSHWA LOCAL MUNICIPALITY



Ngqushwa Local Municipality

■ *Disclaimed*

No movement in audit outcome

The stagnation of the municipality on a disclaimer of audit opinion for the past three years was due to the slow response to our messages, the senior leadership not taking ownership of instilling basic disciplines and controls, and inadequate skills and competencies (including the vacant position of chief financial officer). In addition, the action plan set up to address prior year findings was not adequately implemented and monitored.

As a result, the municipality placed high reliance on consultants in respect of financial processes and reporting, and limited skills were transferred from the consultants to the municipality. These services cost the municipality R3,3 million (2011-12: R1,5 million). The ultimate improvement of the outcome depends on the above matters being addressed timeously and adequately.

Six key risk areas

118 There has been no significant movement in the six key risk areas, as the leadership did not address the skills gap within the finance section. As a result, the municipality did not consistently implement and monitor the required daily and monthly financial and performance disciplines to ensure that transactions were appropriately recorded and reported as required. Consequently, the quality of the financial statements was poor and SCM remained a significant challenge with the basic internal controls not functioning at the level required to prevent irregular expenditure.

In terms of the quality of the performance report, the leadership did not adequately monitor key deliverables, as performance management and reporting systems were inadequate and the municipality lacked the necessary skills to manage these critical processes. As a result, the quality of the annual performance report submitted for auditing was poor.

IT controls remained a challenge, as the IT governance framework was not implemented because the council had not approved it.

In relation to HR management, capacitating the finance section with appropriately skilled staff remained a challenge for the municipality.

The control environment that remained weak resulted in expenditure management, the creditors-payment period and the debt-collection period continuing to be financial health concerns.

Key controls and root causes

There has been no movement in the key controls due to the matters mentioned above. However, a new municipal manager was appointed during the year and has started setting up internal controls, but her impact has been limited due to the timing of her appointment and capacity constraints within the municipality. A collective effort by the leadership, with the support of the governance structures, must drive the implementation of the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Fill all critical vacancies with competent and skilled professionals. This will ensure stability within senior management that can assist in guiding and leading the municipality.
- Implement an effective performance management system that enables the leadership to hold all officials accountable for the work that they perform on a daily basis.
- Implement daily, weekly and monthly financial and performance disciplines. This must include processes to verify the credibility of in-year financial, performance and compliance reports, thus setting the correct tone for efficient and effective oversight.

Impact of key role players on audit outcomes

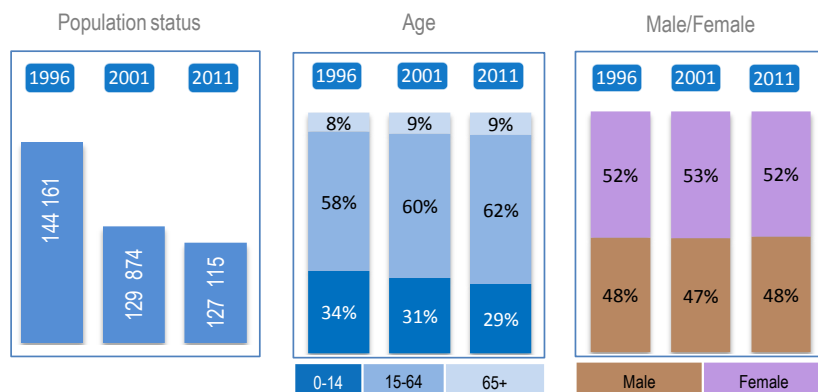
The senior leadership provided limited assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to discharge their responsibilities effectively. The internal audit unit and audit committee did not receive adequate information to execute their responsibilities effectively, and their recommendations were not implemented.

We met with the mayor four times during the year, but these interactions did not have the desired impact, as previous commitments were not implemented. The level of assurance provided by MPAC and the mayor was also limited due to the credibility of the information provided to them and the lack of action taken by them in response to the poor quality of the information received. To pave the way forward, all role players need to work together to build a high-performance environment that promotes accountability.

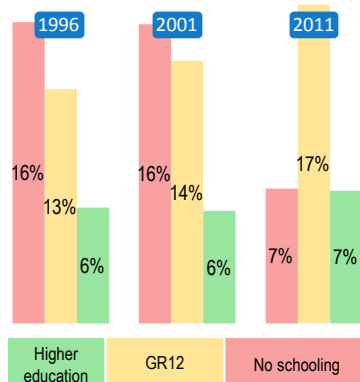
NKONKOBEMUNICIPALITY

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Population

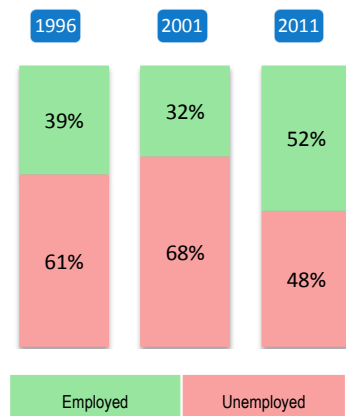


Education

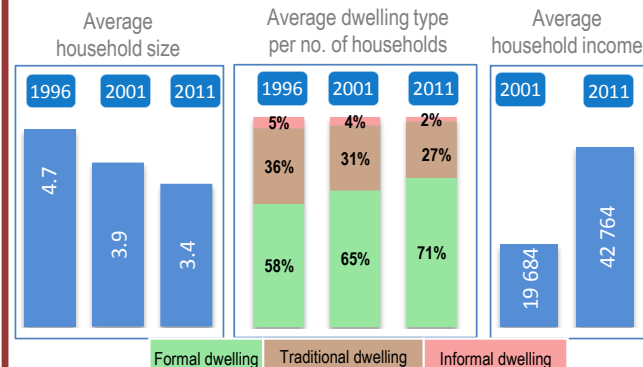


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

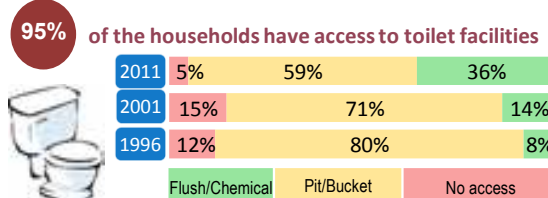
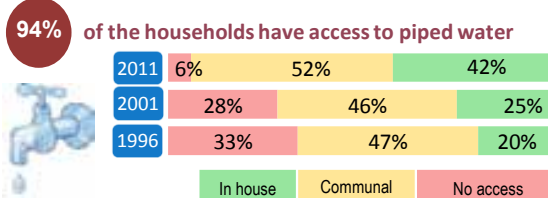
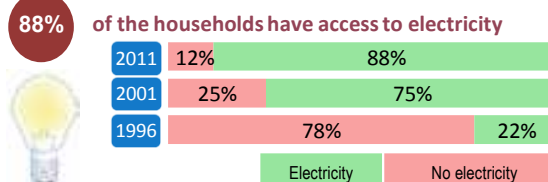
Labour



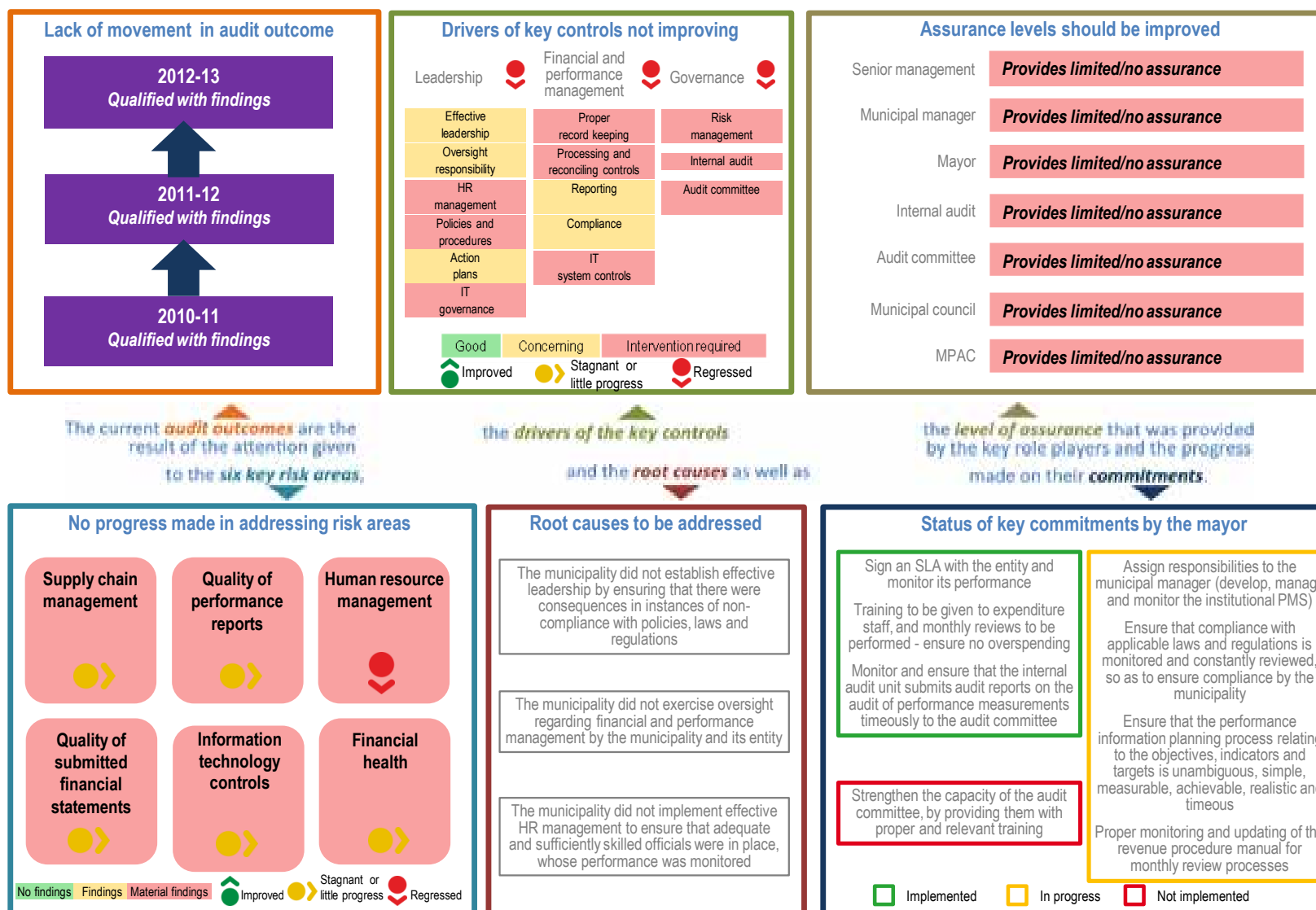
Households



Basic services



NKONKOBÉ LOCAL MUNICIPALITY



Nkonkobe Local Municipality

■ *Qualified*

No movement in audit outcome

No improvement has been made in the audit outcome of the municipality since the previous year, largely as a result of the leadership's slow response to our messages, inadequate skills, and poor consequence management. This led to the deterioration of the control environment. Consequently, we raised a number of repeat findings in respect of performance and financial management as well as non-compliance with legislation.

The municipality retained its qualified outcome despite relying on consultants at a cost of R3,1 million (2011-12: R705 951) to assist with the preparation of financial statements. The reliance on consultants to prepare financial statements and on the audit process to identify and correct misstatements was largely due to a lack of adequate skills to perform daily, weekly and monthly financial and performance disciplines.

Six key risk areas

Key risk areas were not adequately addressed, mainly because senior management vacancies were not filled for extended periods (including that of the chief financial officer). This affected the quality of both the financial statements and the performance report, and contributed to the weak control environment.

The status of SCM remained unsatisfactory, as the municipality did not adhere to the requirement of obtaining three quotations or applying a proper competitive bidding process, which led to irregular expenditure.

The municipality's financial health was affected by its inability to collect amounts due from rates, refuse and sundry debtors, including government debtors who may have the means to settle the outstanding debt. This put strain on the municipality's cash flow, which in turn affected the municipality's ability to pay creditors within 30 days.

Key controls and root causes

The deterioration in the key controls was caused by a lack of effective leadership, a failure to implement the daily disciplines of regular and frequent monitoring of the processing and reconciling of transactions, and the municipality's filing systems not operating at an optimal level throughout the financial year.

The following controls must be strengthened to create a control environment that supports credible financial and performance reporting and compliance with legislation:

- The municipality should establish effective leadership by ensuring that there are consequences for non-adherence to policies, laws and regulations.
- The leadership and governance structures should oversee financial and performance reporting on a monthly and quarterly basis.
- Effective HR management should be implemented to ensure that adequate and sufficiently skilled officials are in place and that their performance is duly managed.

Impact of key role players on audit outcomes

We met with the mayor 18 times during the financial year. Commitments were made and while some were implemented, others were still in progress or have not yet been implemented. As a result, the mayor did not have a positive impact on the audit outcome.

Although the accounting officer understood his role in creating an environment supporting clean administration and facilitating effective oversight, he needs to provide more effective leadership in directing his team to achieve an effective control environment.

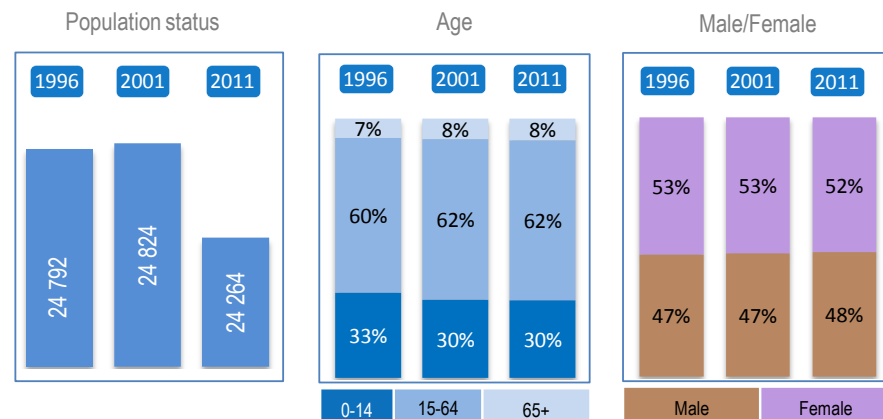
The internal audit unit and audit committee must make specific recommendations, which should be implemented by management. Management should also ensure that timely and credible information is made available to both the internal audit unit and the audit committee.

MPAC should insist on complete and credible quarterly reports on the audit action plan as well as financial, performance and compliance matters, to effectively monitor these areas and improve the levels of assurance and oversight provided.

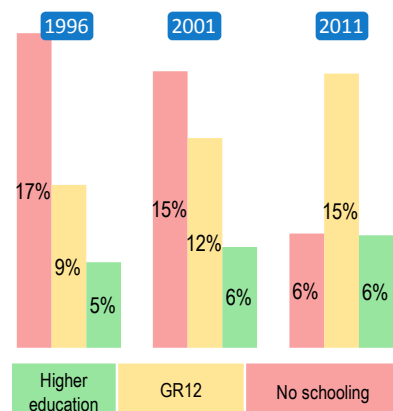
NXUBA MUNICIPALITY

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Population

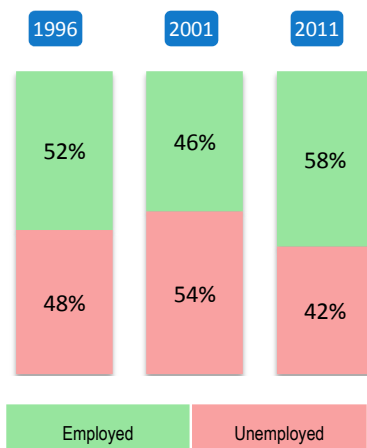


Education

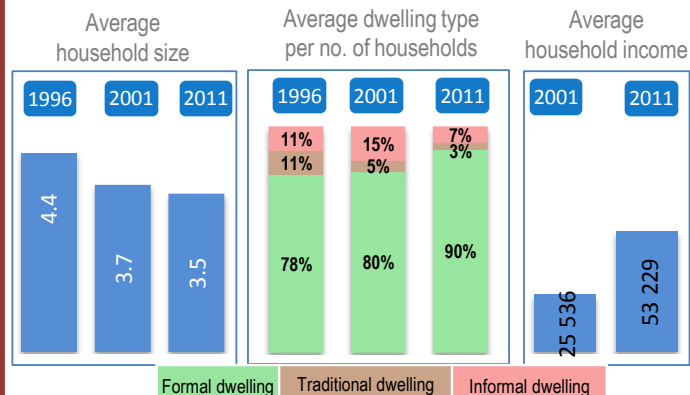


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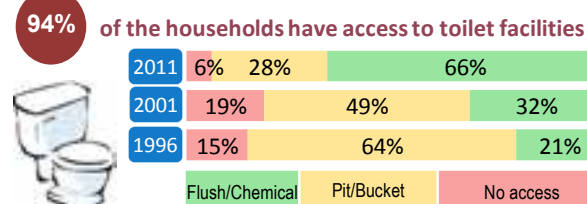
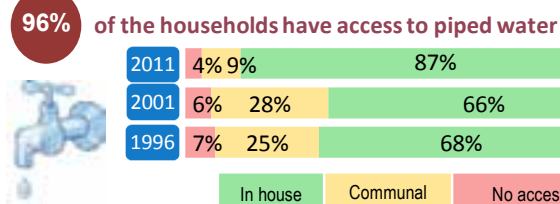
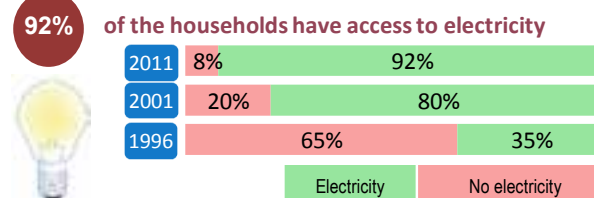
Labour



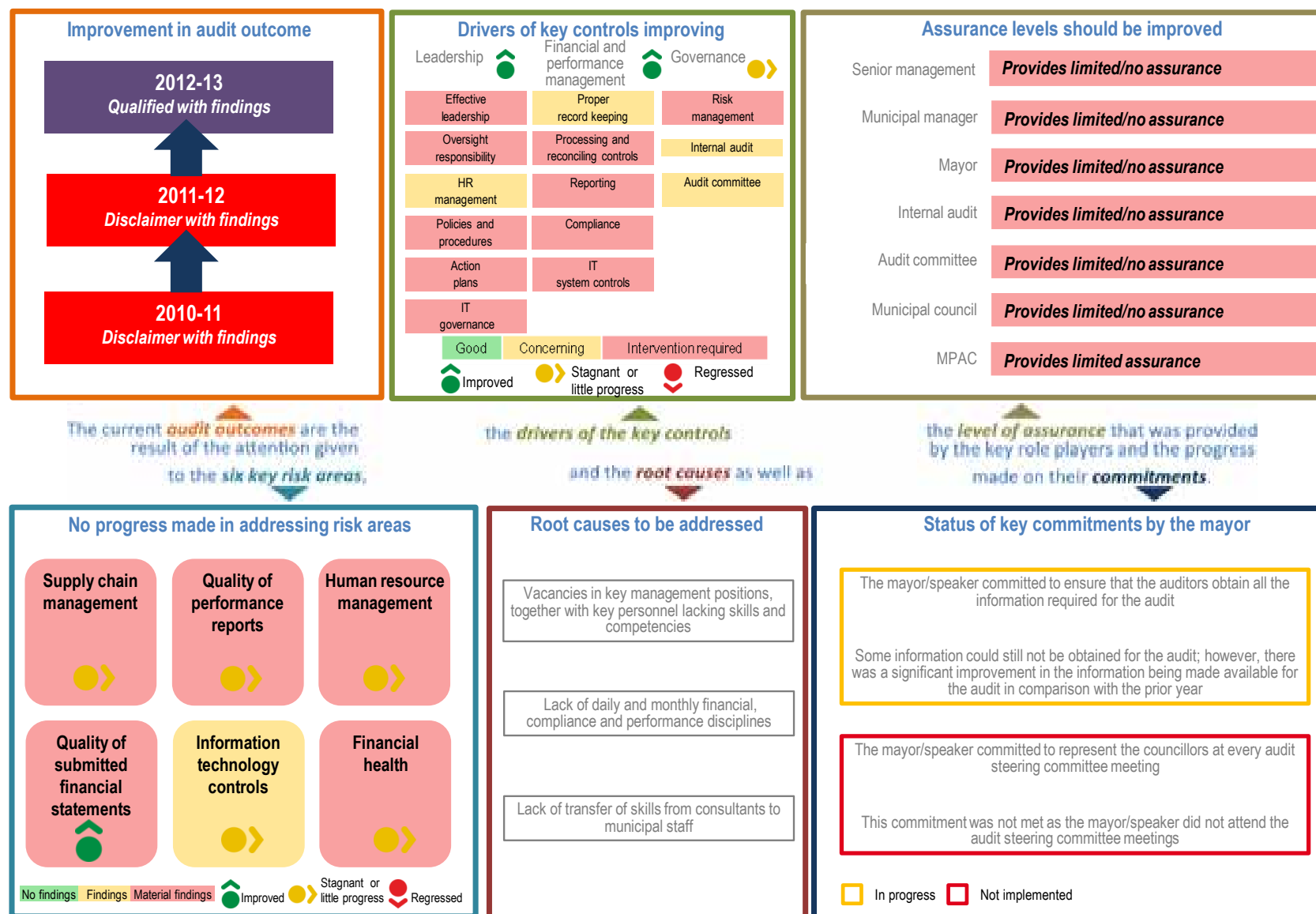
Households



Basic services



NXUBA LOCAL MUNICIPALITY



Nxuba Local Municipality

■ *Qualified*

Significant movement in audit outcome

The improvement in the audit outcome was as a result of an improved leadership tone and an improvement in the submission of documents during the audit process. The municipality used consultants to assist with the preparation of the financial statements at a cost of R324 088 (2011-12: R125 856). However the total amount paid to contractors was R6,6 million (2011-12: R450 000), most of which was paid in the 2013-14 financial year.

Six key risk areas

The municipality continued to face financial difficulties with its debts exceeding its assets and the collection of debts and the payment of creditors being some of the challenges. The municipality has put plans in place to address these challenges; for example, the building of a licence testing station.

The municipality had a high vacancy rate at senior management level, which had an impact on the municipality's ability to deliver services adequately and to account for these services.

The quality of the financial statements improved, mainly due to the assistance of consultants. Some concerns remained, however, such as the transfer of skills from the consultants to municipal staff, mainly to ensure that daily and monthly financial disciplines are instilled for clean administration to exist and for a sustained improvement in the audit outcome. Performance reporting remained a challenge. The municipality should set targets and indicators that will ensure useful and reliable reporting.

The municipality did still not adhere to legislation regarding the procurement of goods and services, and we identified more findings on SCM than in the previous year. The controls in this area need to be strengthened to minimise the risk of fraud. IT systems and controls were not adequate to ensure that the municipality's data was protected, which could also have had an impact on the credibility of information produced by the municipality's information systems.

Key controls and root causes

The tone set by the municipal manager and his team was key in improving the audit outcome. Although the control environment improved, it needs to improve even further to sustain the improved audit outcome. The following controls must

also be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Establish effective leadership by ensuring that vacancies are filled with skilled personnel and that existing officials have the required competencies. There also needs to be consequences for not complying with legislation and internal policies and for not implementing the recommendations of the auditors and the audit committee.
- Improve oversight to ensure that daily and monthly disciplines are in place and adhered to.
- Update and monitor the action plans developed to address the root causes of the poor audit outcome (including issues relating to stability, alignment and vacancies).
- Prepare monthly financial statements and performance reports, conduct detailed reviews thereof to ensure the credibility of information, and ensure compliance with legislation.

Impact of key role players on audit outcomes

The assurance provided by senior management for the information they prepare needs to improve to ensure that decisions made by the municipal manager and mayor are based on credible information. The internal audit unit did not provide the required level of assurance, as management did not implement their recommendations. As a result, the audit committee was also unable to provide the required level of assurance. Senior management should implement all recommendations, including those of the internal audit unit. The recent appointment of a chief financial officer should assist in making the necessary improvements. The municipal manager should further ensure that the skills within the municipality are enhanced and that controls relating to financial and performance management and compliance are adhered to.

The council and MPAC need to strengthen their oversight function to improve the audit outcome. Our interactions with the mayor were positive and she committed to make information available for auditing. This was achieved to a large extent but not all the information was always available. The municipality received visible support from the district municipality as well as from the Department of Local Government and Traditional Affairs, which yielded some positive results.

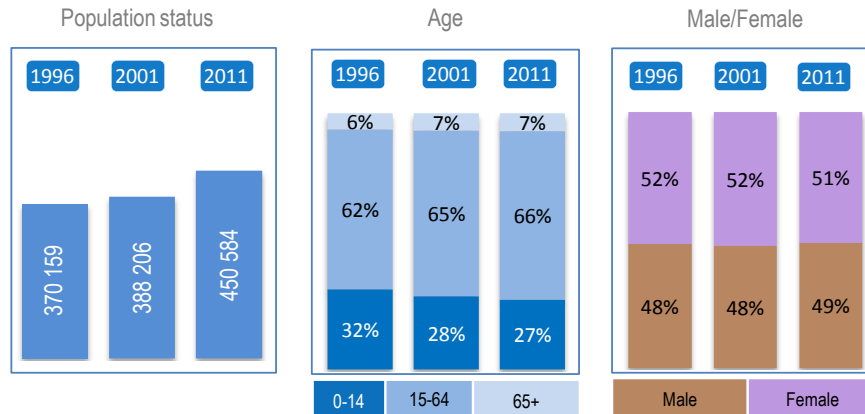
CACADU DISTRICT

127

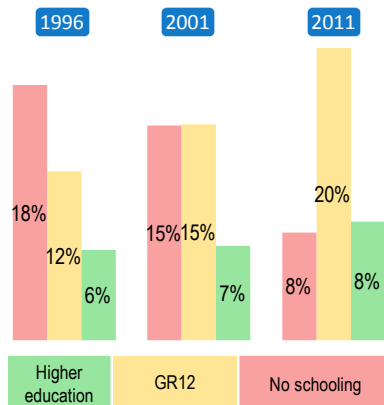
CACADU DISTRICT MUNICIPALITY

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Population

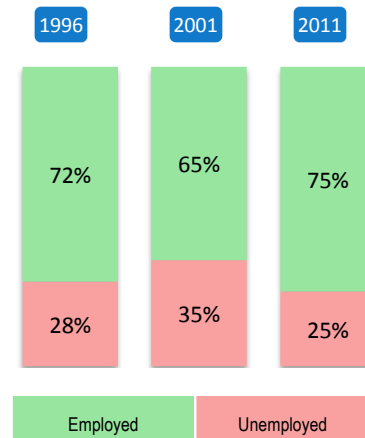


Education

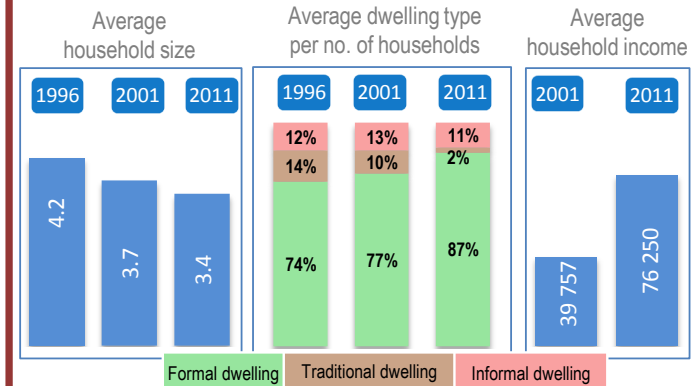


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Labour



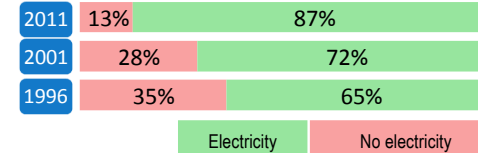
Households



Basic services

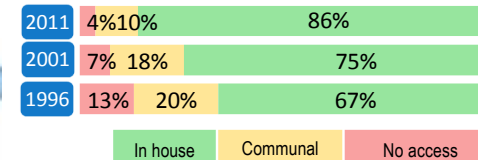
87%

of the households have access to electricity



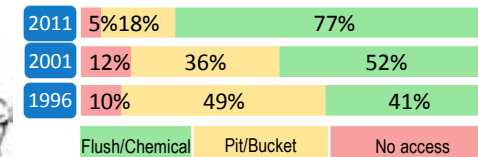
96%

of the households have access to piped water

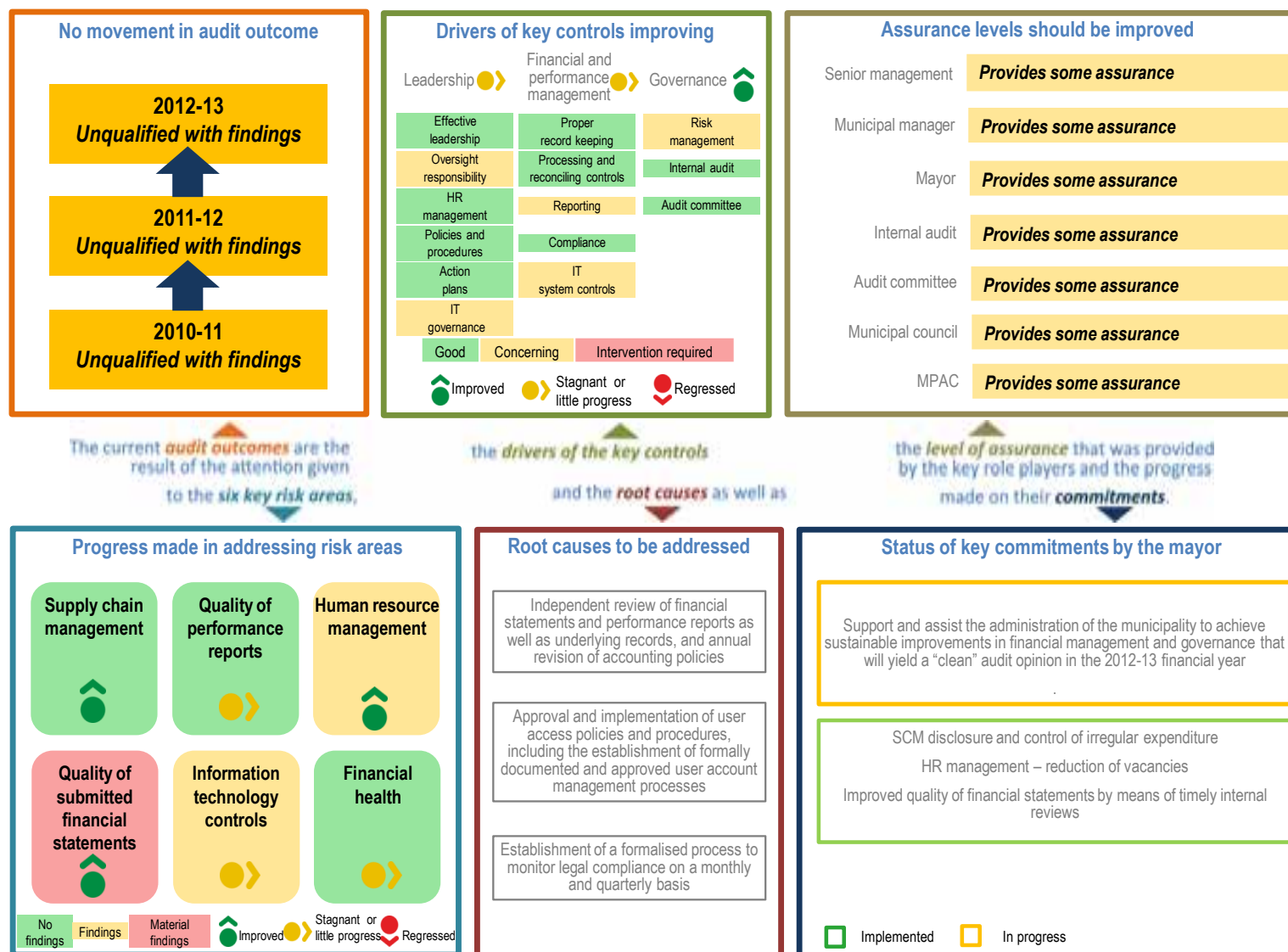


95%

of the households have access to toilet facilities



CACADU DISTRICT MUNICIPALITY



Cacadu District Municipality

■ *Unqualified*

No movement in audit outcome

The district municipality has received an unqualified audit outcome with findings for the past three years. Strides have been made towards the ideal of a well-functioning administration and basic principles of good governance. In the year under review, we reported only one non-compliance finding relating to material corrections to the financial statements. These adjustments were not as a result of repeat audit findings or a breakdown in controls, but due to the inadequate review of the financial statements and underlying records before submission for auditing, a lack of annually revising accounting policies aligned to the Standards of Generally Recognised Accounting Practice, and a lack of supervision and monitoring of the effective application of daily, weekly and monthly controls.

Six key risk areas

The municipality showed improvement in the key risk areas of SCM and HR management. This was as a result of the leadership responding to our messages on a low tolerance for the inadequate execution of controls and deviations from legislation, while vacancies were filled with competent and skilled staff.

There was also an improvement in the quality of financial statements, specifically improved disclosures that required material corrections in prior periods. This was as a result of improved levels of assurance and adherence to the audit action plan, although there were still findings in this regard as noted above. Limited progress was made towards improving the quality of the performance report, as adjustments were required to the report to ensure its usefulness and reliability. Management's review of the performance report was not detailed enough to identify these errors.

The IT control environment has not changed significantly since the previous year. However, management implemented compensating internal controls to lessen the risks regarding access controls and program change management.

Although the municipality was in a healthy financial situation at year-end, there are risk indicators that should be addressed, as operational deficits as well as negative cash flows from operations were noted in the last two years. This resulted in a reduction in cash and cash equivalents as well as short-term investments on hand.

Key controls and root causes

The drivers of key controls improved at an overall level, and mainly with regard to governance activities. The following controls can still be strengthened to create a control environment that supports sustainable clean administration:

- Independently review financial statements and performance reports, as well as the underlying records supporting these, and annually review accounting policies aligned to the Standards of Generally Recognised Accounting Practice.
- Approve and implement user access policies and procedures, including the establishment of formally documented and approved user account management processes.
- Institutionalise the culture of daily, weekly and monthly controls within municipal activities.
- Establish a formalised process to monitor compliance and performance reporting on a monthly and quarterly basis.

Impact of key role players on audit outcomes

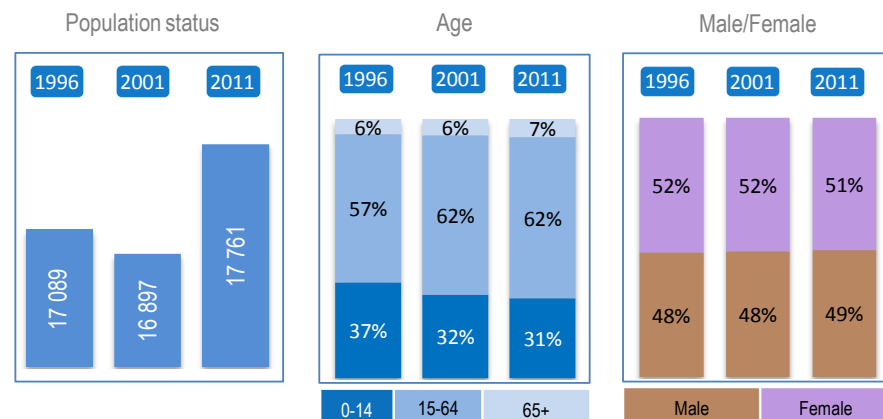
The assurance provided by senior management was not consistent and effective during the year to have an impact on sustainable clean administration. The mayor committed to support and assist the administration of the municipality to achieve sustainable improvements in financial management and governance.

All role players provided some assurance relating to the significant risk areas as already indicated above. The assurance provided by the internal audit unit and audit committee through their reports and quarterly monitoring specifically helped to reduce repeat audit findings, but could not prevent findings on financial statements and the performance report.

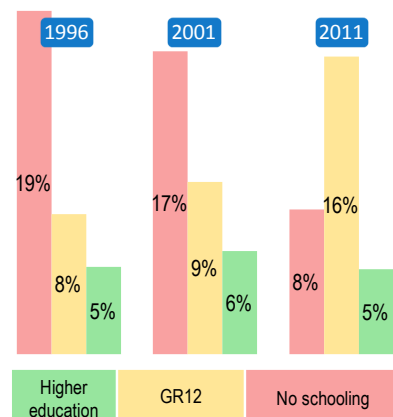
BAVIAANS MUNICIPALITY

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Population

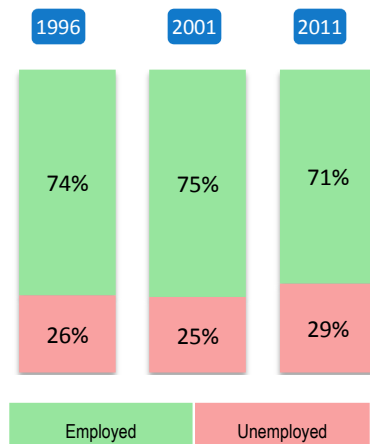


Education

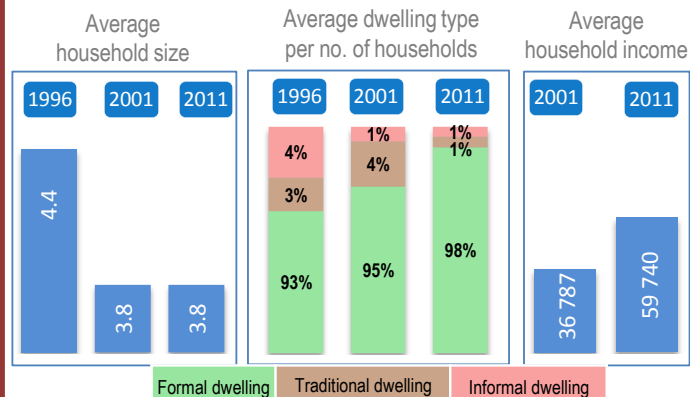


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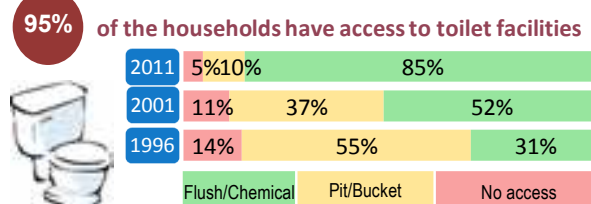
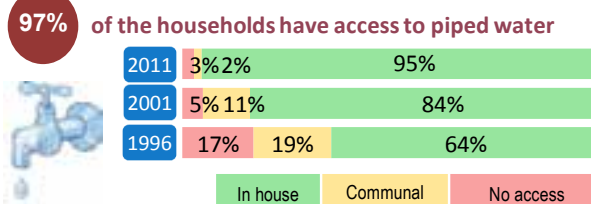
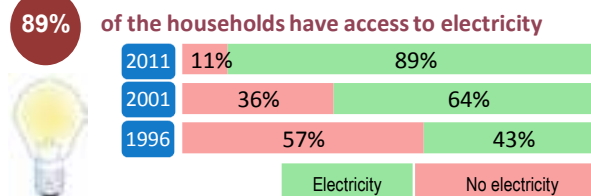
Labour



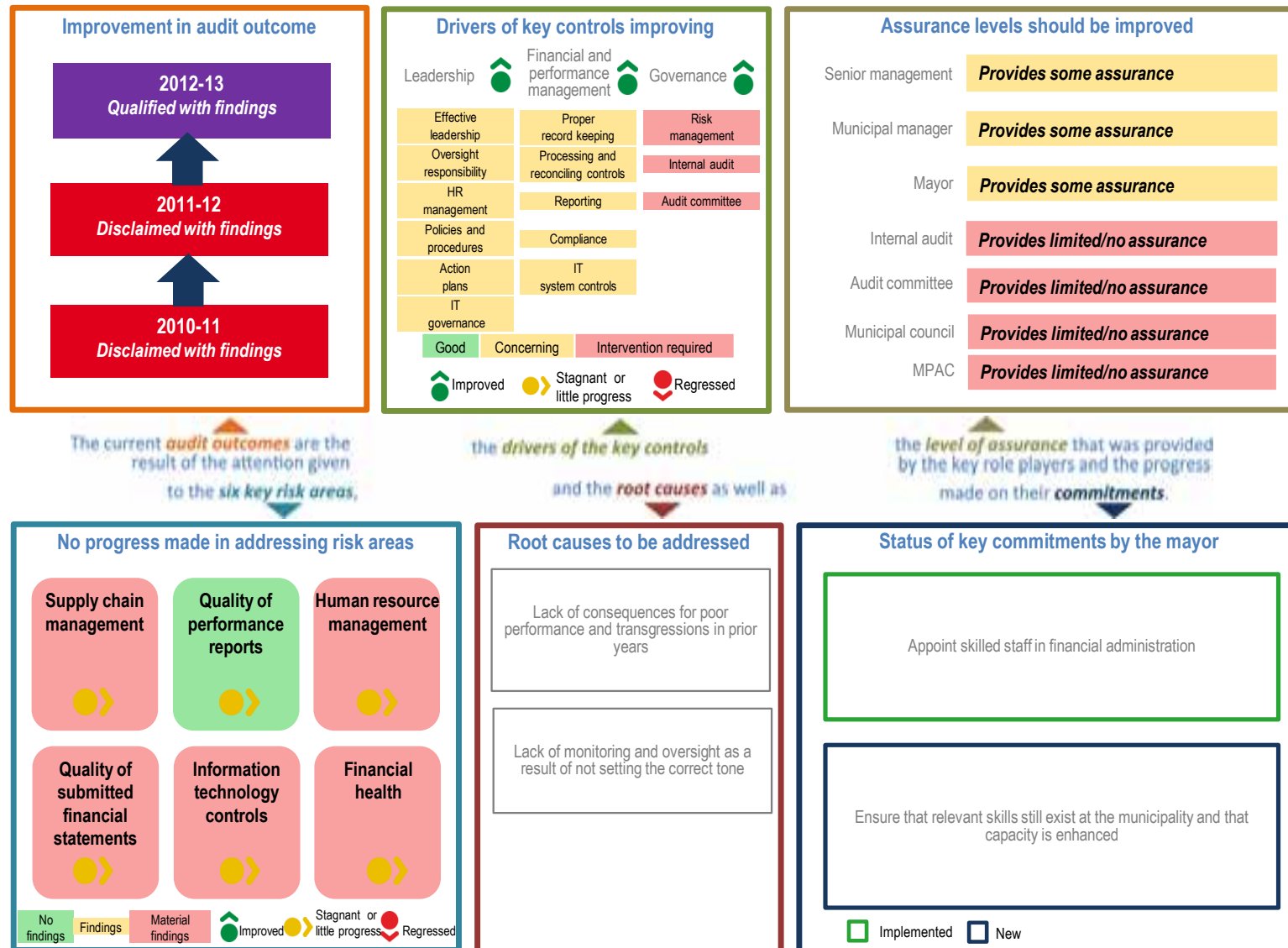
Households



Basic services



BAVIAANS LOCAL MUNICIPALITY



Baviaans Local Municipality

■ *Qualified*

Significant movement in audit outcome

The improvement in the audit outcome was as a result of the municipality taking ownership of our messages by appointing a competent and experienced chief financial officer, responding and addressing prior period qualifications, and ensuring that sufficient, appropriate audit evidence was available to support disclosures. For the municipality to improve its audit outcome further, however, the administrative leadership should take ownership of instilling basic disciplines and institutionalising a culture of daily controls.

The municipality relied on the services of consultants to assist with the preparation of financial statements at a cost of R1,1 million (2011-12: Rnil). This had a positive impact on the audit outcome, as the consultants assisted the chief financial officer in clearing backlogs caused by poor financial administration in previous years.

Six key risk areas

The graphic on the previous page shows that progress to address all key risk areas has stagnated, but the municipality put processes in place to address these areas.

The quality of the annual performance report continued to improve and factually represented the usefulness and reliability of indicators and targets. The municipality disclosed a material uncertainty with regard to its ability to operate as a going concern in the near future, indicating financial health concerns due to the municipality being in financial distress. In respect of SCM there was a lack of controls and processes, which resulted in deviations from policies in respect of related party transactions and the awarding of bids and quotations.

Processes put in place to deal with HR management included adopting a strategy to address deficiencies previously identified, by appointing personnel with the appropriate level of competencies.

No progress was made in the area of IT controls, as the municipality did not have an IT strategic plan or IT risk management policy.

Key controls and root causes

The overall improvement in the key controls was as a result of the municipality employing key personnel with the appropriate competencies, who were tasked with improving the overall financial reporting of the municipality.

The following controls must still be strengthened to create a control environment that supports stable reliable financial and performance reporting and compliance with legislation:

- The municipality should implement effective monthly reconciliation procedures, which are reviewed and monitored in a timely manner.
- The municipality should continue to implement effective HR management to ensure that adequate and sufficiently skilled officials are in place and that their performance is continuously monitored.
- The municipality should regularly prepare and review financial statements, which should be tabled at audit committee meetings and verified for credibility by the internal audit unit.

Impact of key role players on audit outcomes

The mayor effectively implemented previous commitments, which led to a significant improvement in the audit outcome. Although the control environment is still not at the desired level, it has improved as a result of the improved skills level in the municipality.

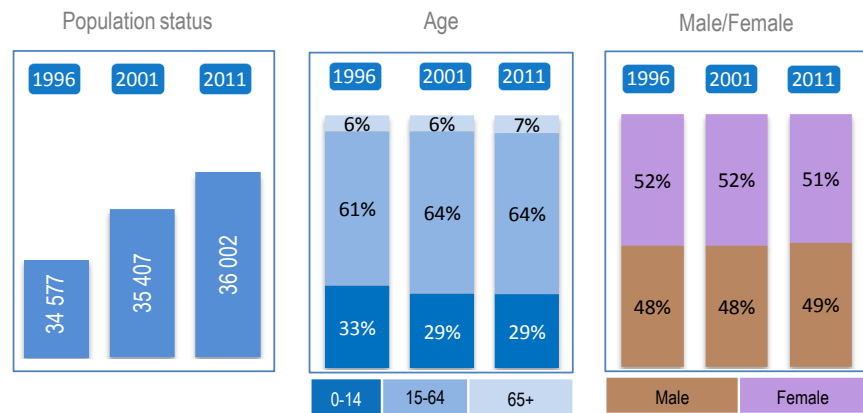
The municipal manager, chief financial officer and senior management provided some assurance, but this has to be improved through strengthened financial and performance disciplines, complemented by processes to verify the credibility of in-year financial, performance and compliance reports.

The internal audit unit and audit committee did not provide adequate assurance, due to the delay in implementing the audit plan. Going forward, the internal audit unit should ensure that all key risk areas are addressed in their audit plan and prioritised. The municipality did not have an MPAC due to it being a plenary municipality with only five councillors. The council must therefore further strengthen its oversight role and insist on credible monthly reports to evaluate and monitor performance.

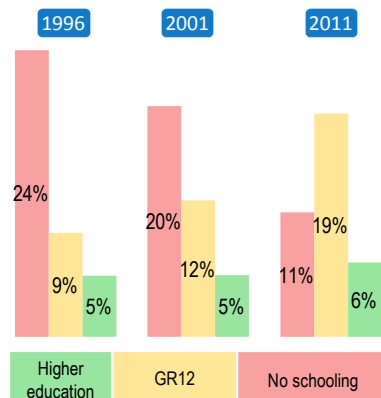
BLUE CRANE ROUTE MUNICIPALITY

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Population

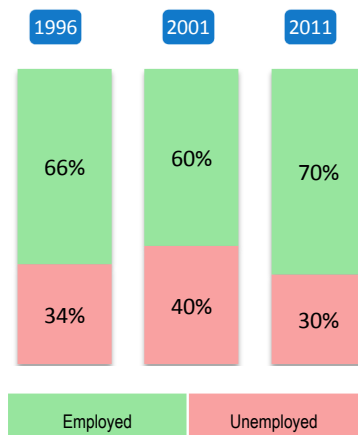


Education

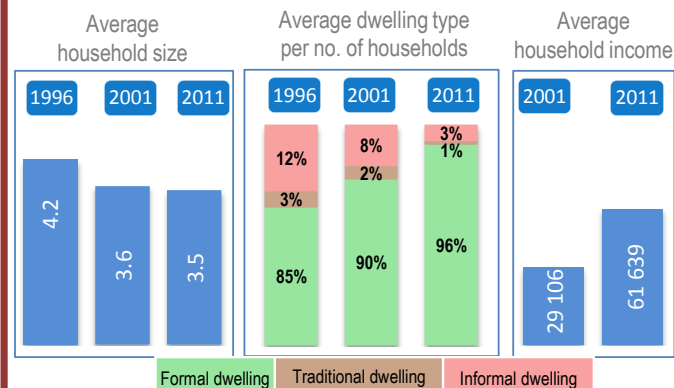


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Labour

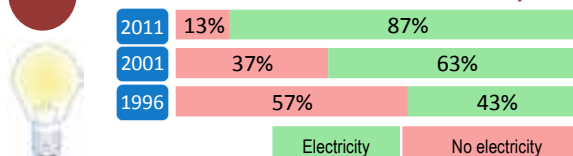


Households

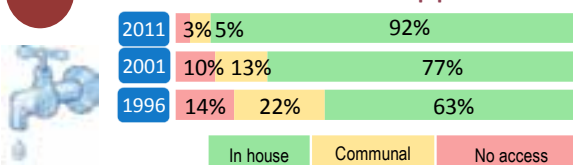


Basic services

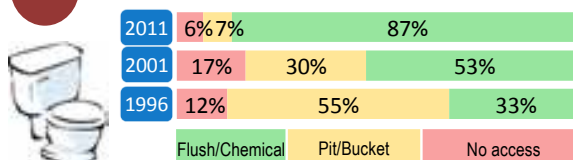
87% of the households have access to electricity



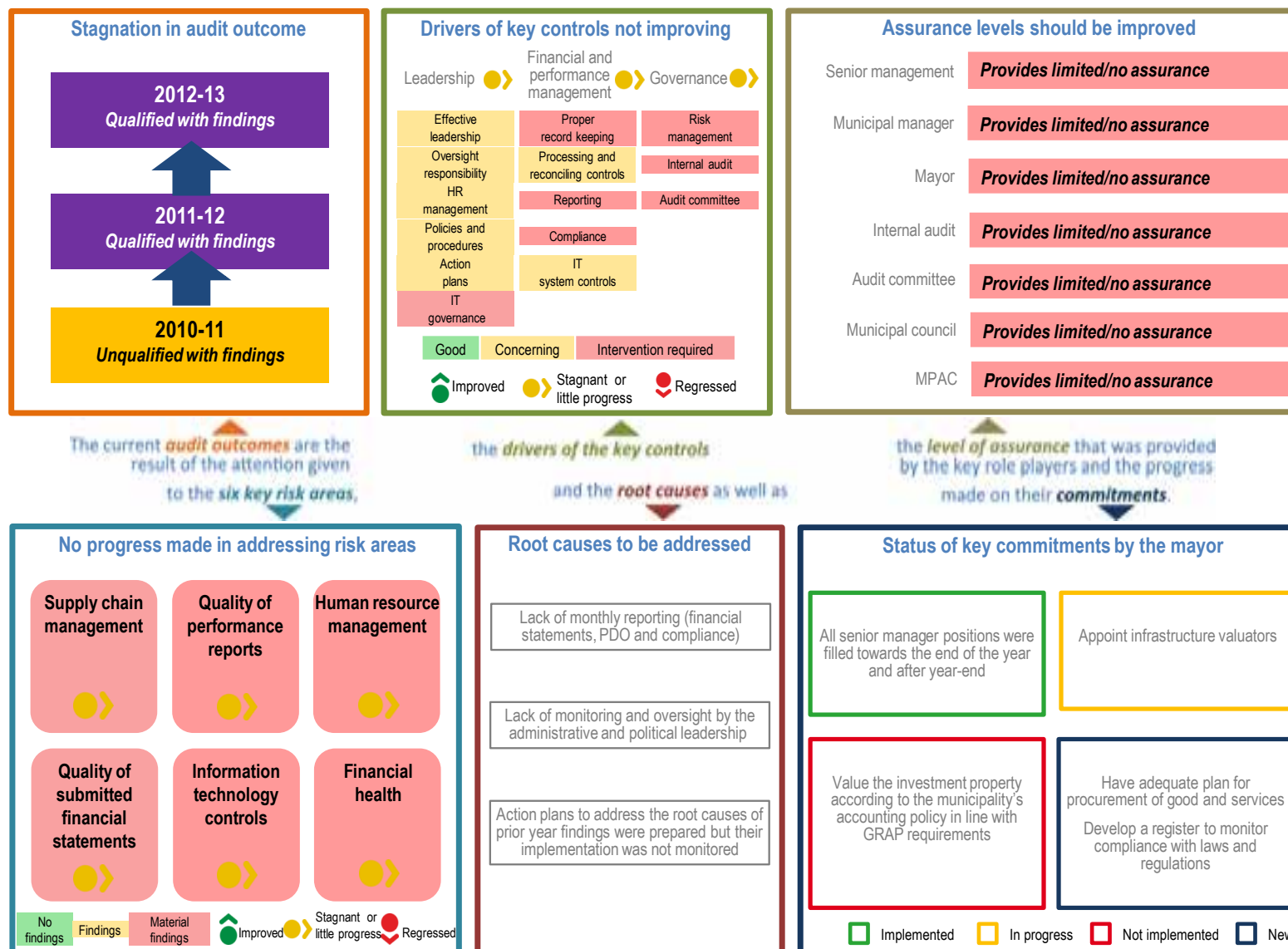
97% of the households have access to piped water



94% of the households have access to toilet facilities



BLUE CRANE ROUTE LOCAL MUNICIPALITY



Blue Crane Route Local Municipality

■ *Qualified*

No movement in audit outcome

The stagnation in the audit outcome was caused by the instability at a leadership level due to all senior managers, including the municipal manager, being in acting positions for most of the year.

The municipality prepared the financial statements without the assistance of consultants for the first time this year, but a number of misstatements were identified, of which only some could be corrected due to the limited understanding of the requirements of Standards of Generally Recognised Accounting Practice. This resulted in findings from the previous year being repeated.

Six key risk areas

No progress was made to address the key risk areas of SCM, the quality of the submitted financial statements, and IT controls.

The challenges in respect of SCM were not addressed, as this critical area was not monitored adequately and there were no controls to ensure that all the required processes had been followed when procuring goods and services.

The work performed by the IT manager was not monitored or reviewed, which resulted in the IT controls not being implemented adequately. As a result, the IT controls did not work effectively.

Daily and monthly controls were not monitored adequately throughout the year. This was due to the chief financial officer and other senior managers only being appointed towards the end of the financial year or after year-end. As a result, their impact was limited in the financial year under review.

Management did not review and monitor compliance with applicable legislation, as the leadership did not ensure that adequate controls were in place to monitor the risk areas within the municipality.

Effective leadership around performance management remained a challenge, as there were no consequences for poor performance and the environment did not support accountability.

Key controls and root causes

The instability at leadership level throughout the financial year had an impact on the overall control environment.

To improve the control environment, the following controls must be strengthened by the mayor, council, MPAC, municipal manager and other governance structures to address the root causes of the poor audit outcome:

- The leadership must take ownership of instilling basic financial and performance disciplines and institutionalising a culture of daily and monthly controls.
- Regularly prepare and review financial statements as well as reports on performance and compliance with legislation, which should be tabled at audit committee meetings and verified for credibility by the internal audit unit.
- Implement effective HR management, including filling vacancies, to ensure that adequate and sufficiently skilled officials are in place, whose performance is monitored and who are held accountable for their actions through proper consequence management.
- Monitor the implementation of both internal and external audit recommendations.

Impact of key role players on audit outcomes

The instability in leadership together with the root causes and weaknesses highlighted above made it difficult for senior management to produce accurate and credible information, which in turn limited the ability of the internal audit unit, audit committee, council and MPAC to provide the required level of assurance.

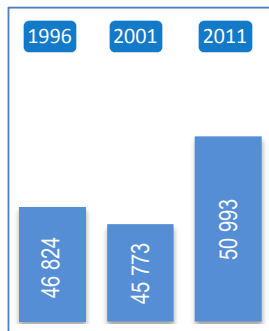
We met with the mayor three times during the year. These interactions had a minimal impact on the audit outcome, as there was a slow response to our recommendations due to poor implementation and monitoring. All role players should work together, continuously monitor the implementation of audit action plans, and assess whether the action plans adequately address the root causes of findings. These practices should be entrenched in the monthly disciplines to strengthen the control environment and ultimately lead to a sustainable improvement.

CAMDEBOO MUNICIPALITY

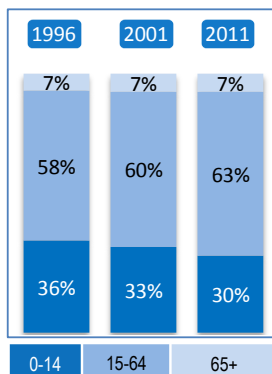
The statistics reflected in these graphics were sourced from the 2011 census (STATS SA) and are not information collated or audited by the AGSA. The colours of the legends used for these census graphics do not have the same meaning as those used in the rest of this report.

Population

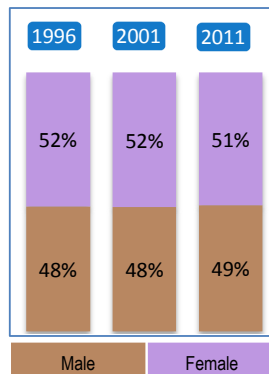
Population status



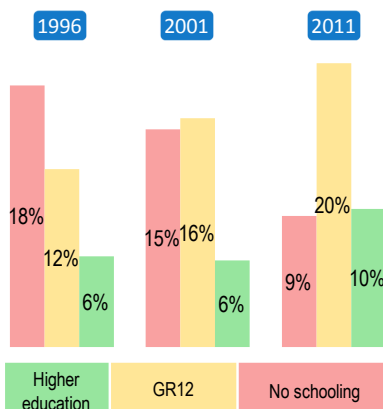
Age



Male/Female

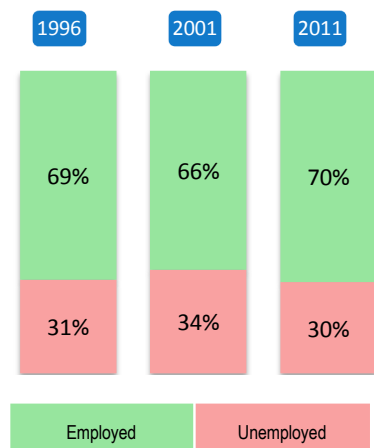


Education



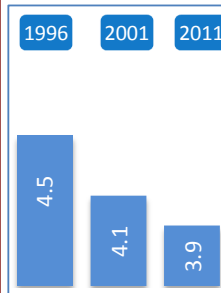
The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

Labour

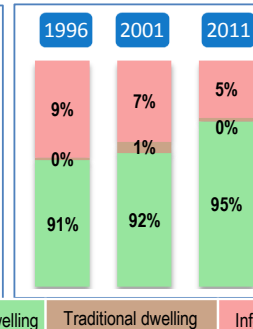


Households

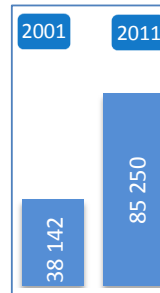
Average household size



Average dwelling type per no. of households



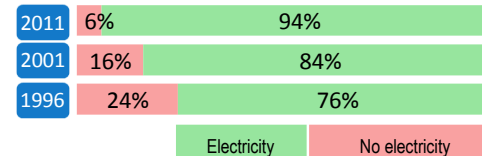
Average household income



Basic services

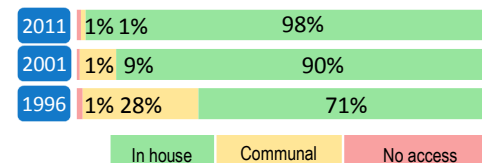
94%

of the households have access to electricity



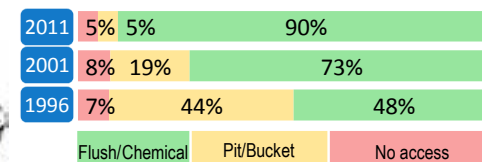
99%

of the households have access to piped water

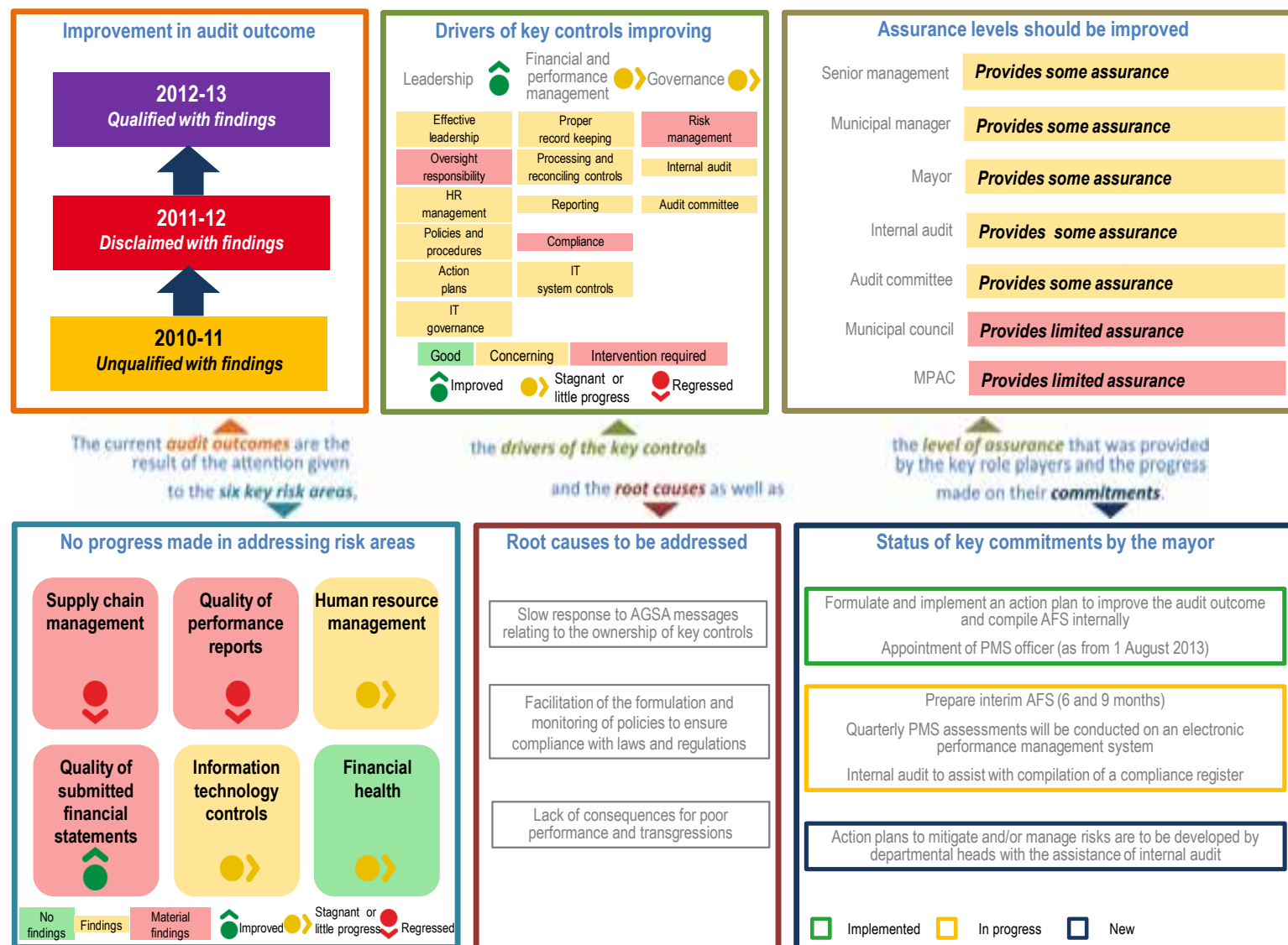


95%

of the households have access to toilet facilities



CAMDEBOO LOCAL MUNICIPALITY



Camdeboo Local Municipality

■ *Qualified*

Significant movement in audit outcome

The improvement in the audit outcome was the result of the leadership taking ownership of the skills challenges by appointing a financial official with the appropriate skills and competencies. Although we take note of this positive move, the municipality was unable to fully address the qualifications from the prior year due to a lack of review of the financial statements before they were submitted. In addition, the leadership was slow to respond to our messages on improving daily and monthly key controls that underpin clean administration. The instability within the municipal manager's office also contributed to these issues.

Six key risk areas

Despite the positive movement in the audit outcome, the leadership was not effective in overseeing improvements in the six key risk areas, as control systems were not in place or were not monitored adequately.

142 SCM remained a challenge as a result of internal control deficiencies relating to the implementation and monitoring of SCM-related compliance.

The quality of the annual performance report regressed, as the leadership did not adequately review key service delivery documents, which were found to be incomplete and inconsistent. The leadership did also not monitor relevant compliance with legislation.

There was no movement relating to HR management during the year under review. The position of performance management system officer, which is critical for service delivery reporting, has been vacant for four years.

The leadership showed some improvement in the assurance and credibility of the financial statements in that there were fewer qualifications in the year under review. However, material adjustments identified by the audit process were made to the financial statements, reflecting a lack of adequate review processes.

IT controls relating to security management and user access remained a challenge, as policies and procedures had not been implemented and monitored for this critical area. The financial health of the municipality was sound and has not changed over the year under review.

Key controls and root causes

Although there was an improvement in the audit outcome, the improvement in the key controls is less noteworthy. This was largely due to there being limited oversight of daily and monthly financial reporting and monitoring disciplines. As a result, these controls were not embedded within the control environment. The following controls must thus be strengthened to create a control environment that supports stable reliable financial and performance reporting and compliance with legislation:

- The leadership should take ownership of instilling basic financial and performance disciplines and institutionalising a culture of daily and monthly controls.
- The municipality should formulate and monitor policies to ensure compliance with legislation.
- The municipality should implement a performance management system, which must be regularly monitored and reviewed.

Impact of key role players on audit outcomes

We met with the mayor four times during the financial year and these interactions had some impact on the audit outcome. The implementation of the action plan was a key commitment that was met.

The municipal manager and chief financial officer provided some assurance and expressed an interest in clean administration; however, internal control weaknesses and instances of non-compliance were identified and were not addressed before the audit.

The internal audit unit and audit committee only provided some assurance, as their focus was limited. They did not timeously address the key risks at the municipality and did not provide sufficient assurance on service delivery reporting.

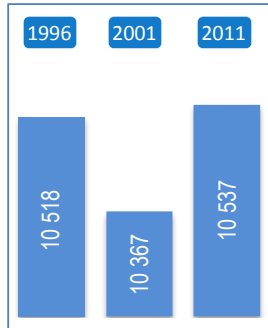
The municipal council and MPAC committed to holding the municipality accountable for the audit outcome and to increase their understanding of the audit process and internal controls. This was not fully realised in the year under review, however, as their meetings focused mainly on operational matters.

IKWEZI MUNICIPALITY

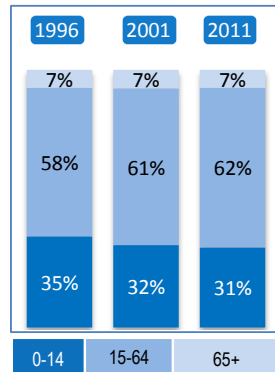
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Population

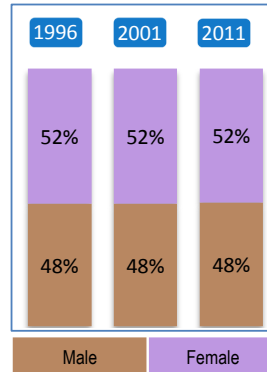
Population status



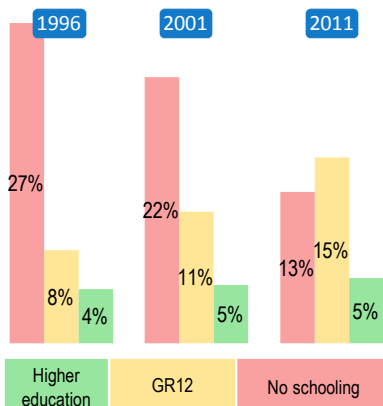
Age



Male/Female

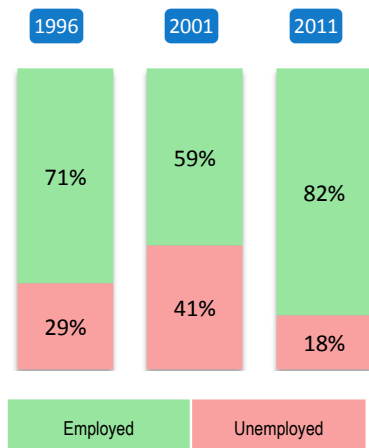


Education



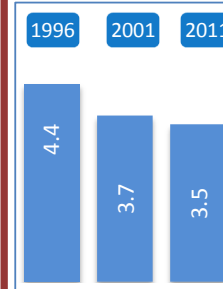
The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

Labour

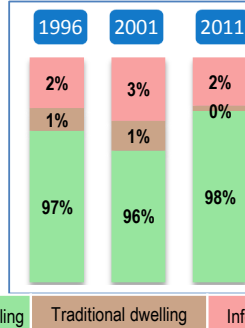


Households

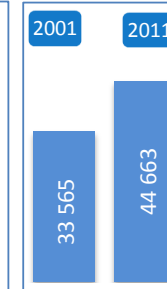
Average household size



Average dwelling type per no. of households

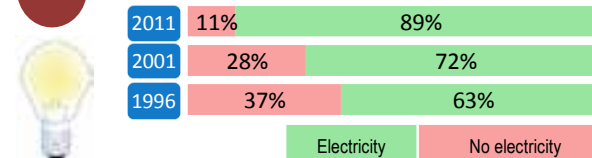


Average household income

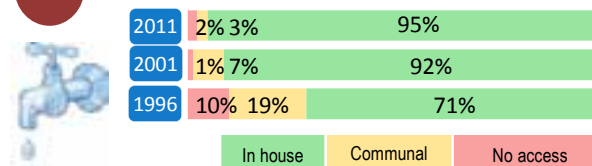


Basic services

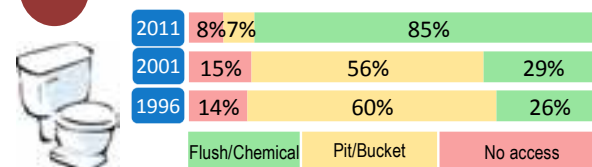
89% of the households have access to electricity



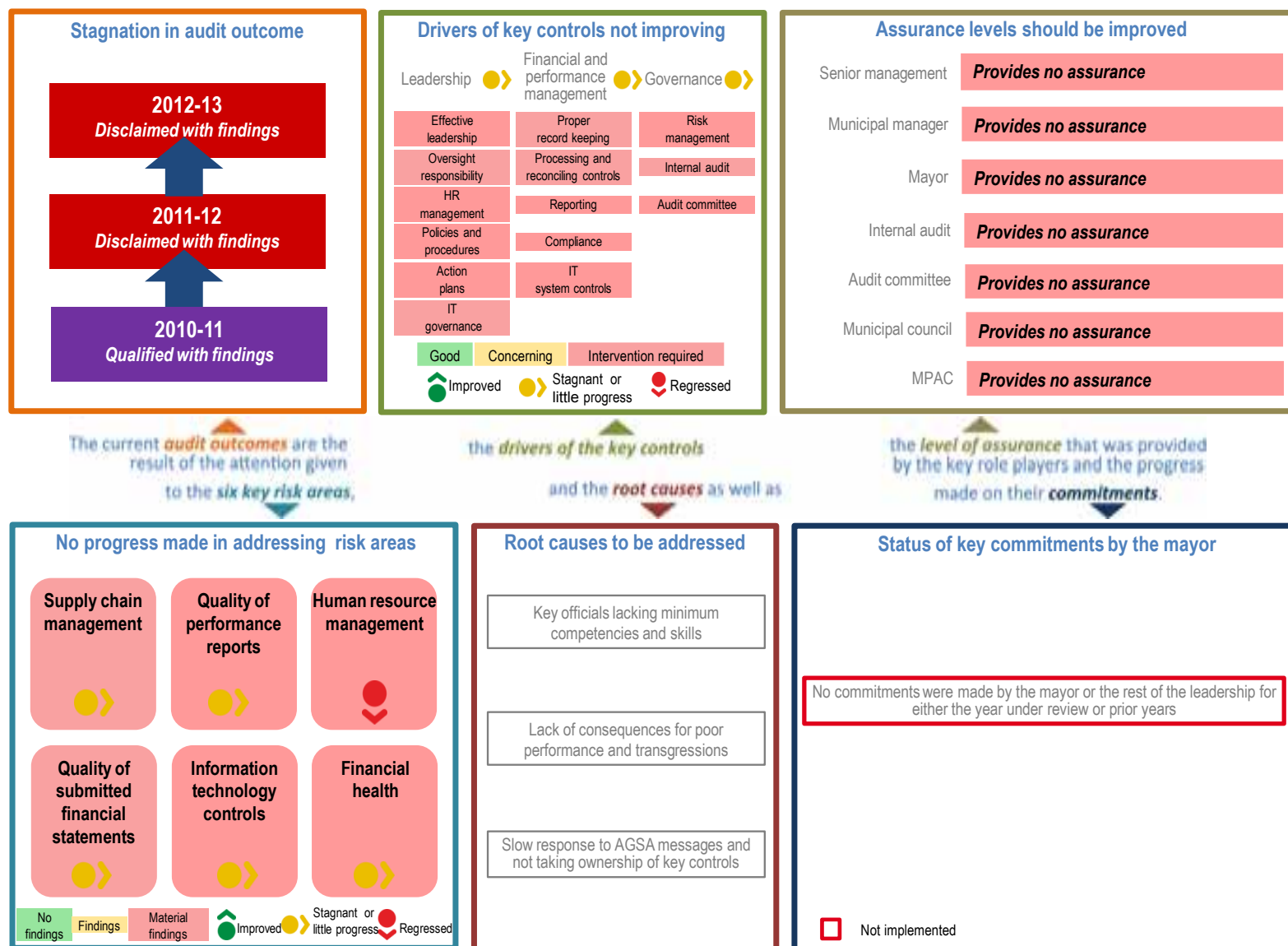
98% of the households have access to piped water



92% of the households have access to toilet facilities



IKWEZI LOCAL MUNICIPALITY



Ikwezi Local Municipality

■ *Disclaimed*

No movement in audit outcome

The stagnation in the audit outcome was caused by ineffective leadership and a lack of effective oversight. Furthermore, vacancies in critical positions and a lack of adequately skilled staff during the year resulted in numerous repeat findings with respect to the financial statements, performance reporting and compliance with legislation. In addition, there was a lack of accountability and commitment to improve the audit outcome and a disregard for all internal controls, which did nothing to protect and enhance the best interests of the municipality.

Six key risk areas

None of the six key risk areas received attention, as critical positions were not filled by skilled and competent personnel. In addition, key vacancies existed within the municipality and the position of chief financial officer was only filled after the financial year-end.

The annual performance report was not submitted as a result of it not being prepared, while monthly and quarterly reports were also not prepared and reviewed.

The consultants seconded from the district municipality prepared the financial statements, but there was no transfer of skills due to the high level of vacancies. The submitted financial statements were also of a poor quality. There were no consequences for poor performance and the leadership did not monitor staff on a daily basis.

SCM remained a critical area that was not addressed, as there were no controls to ensure that all the required processes were followed when procuring goods and services.

The financial health of the municipality also deteriorated to the extent where a material uncertainty exists with regard to its ability to operate in the near future (i.e. as a going concern).

Key controls and root causes

The overall deterioration in the key controls was caused by an inadequate leadership tone, due to a lack of proper communication and delegation of authority. This in turn resulted in a breakdown of controls around daily and monthly processing.

The following controls must be strengthened by the mayor, council, MPAC, municipal manager and other governance structures to address the root causes of the poor audit outcome:

- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, that their performance is monitored, and that they are held accountable for their actions.
- Implement daily and monthly processes to verify the credibility of in-year financial, performance and compliance reports, thus setting the correct tone and attitude towards controls for efficient and effective oversight.

Impact of key role players on audit outcomes

We met with the mayor three times during the financial year and these interactions had no impact on the audit outcome. This was due to a reluctance to implement our recommendations and a lack of commitments by the mayor and those charged with governance.

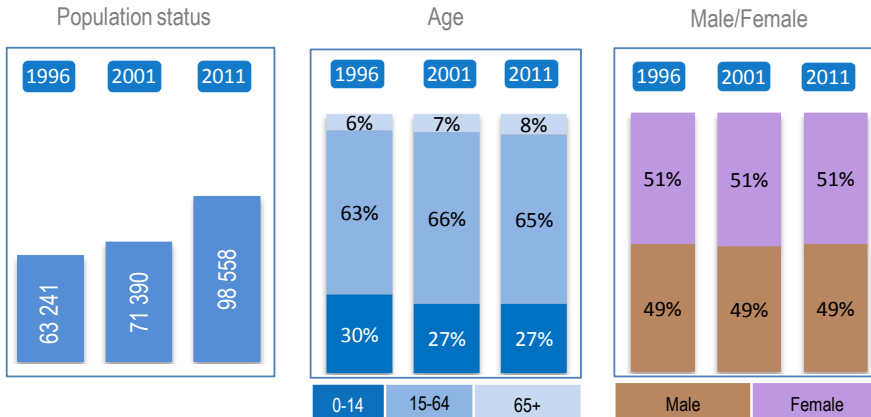
Senior management, including the municipal manager, provided no assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to discharge their responsibilities effectively.

The level of assurance provided by MPAC, the council, the mayor, the audit committee and the internal audit unit was also limited by the credibility of the information provided to them. Those charged with governance should become more actively involved in overseeing controls at the municipality, specifically those relating to the credibility of information provided by management.

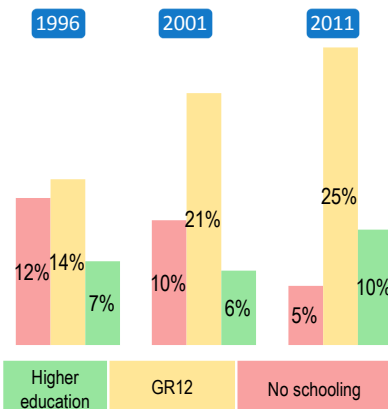
KOUGA MUNICIPALITY

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Population

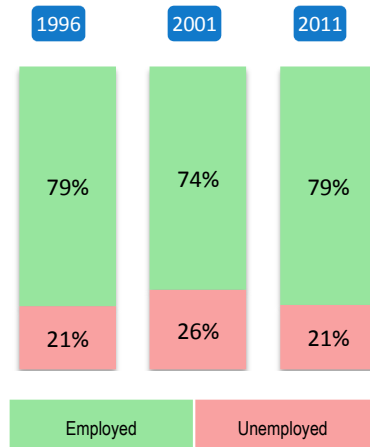


Education

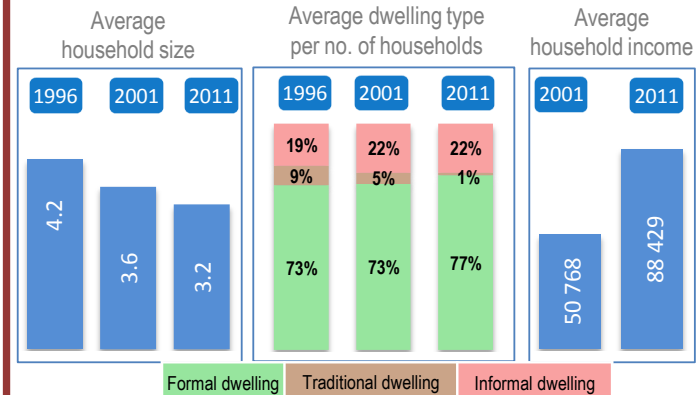


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

Labour



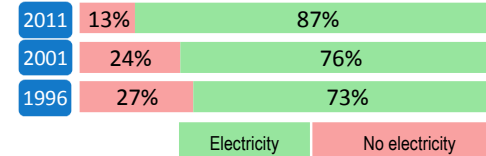
Households



Basic services

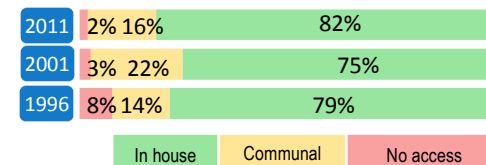
87%

of the households have access to electricity



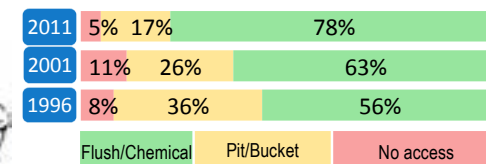
98%

of the households have access to piped water

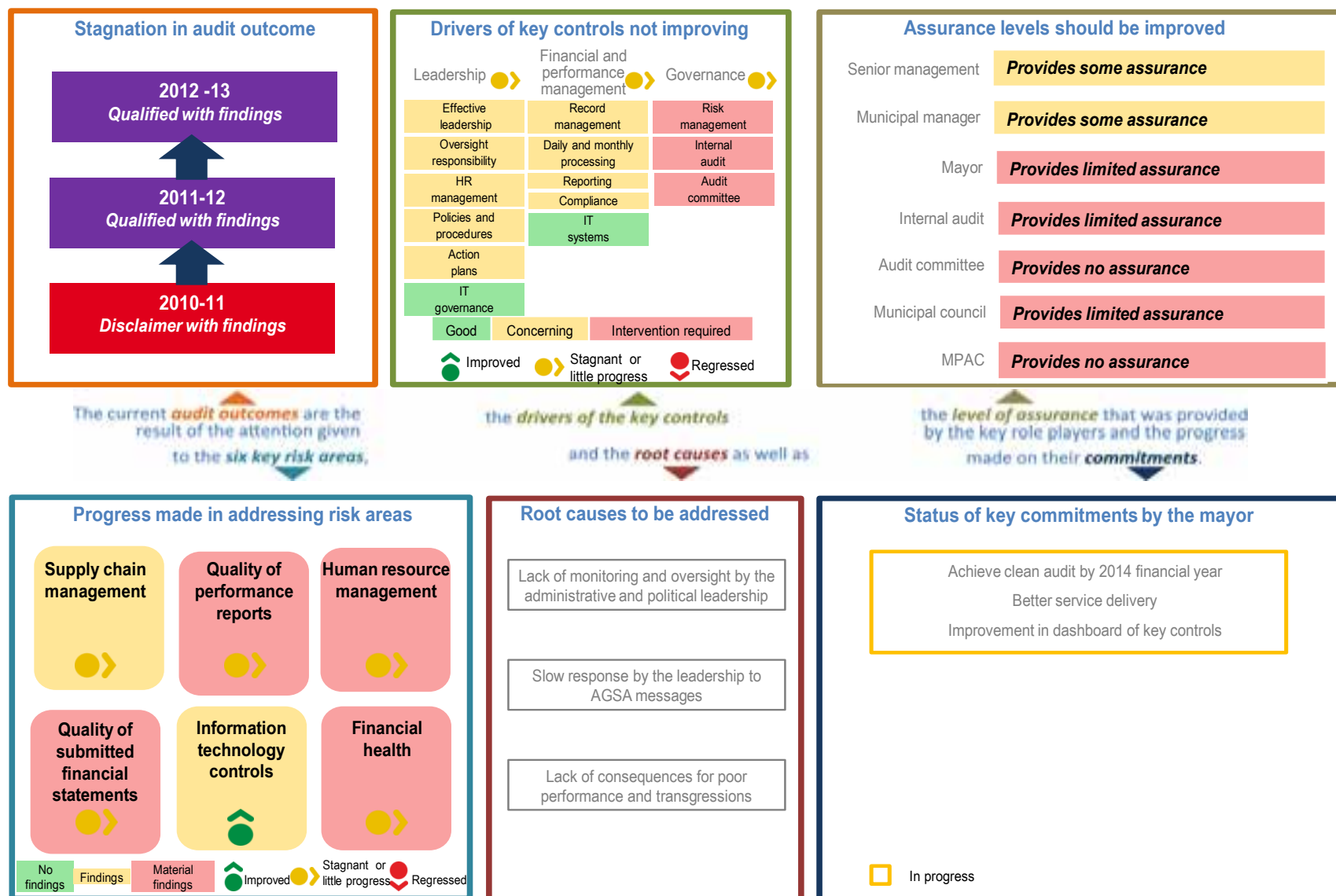


95%

of the households have access to toilet facilities



KOUGA LOCAL MUNICIPALITY



Kouga Local Municipality

■ *Qualified*

No movement in audit outcome

Although the audit outcome remained qualified, significant progress was made towards obtaining an unqualified opinion, as the number of qualification areas was reduced from six in the previous year to two in the year under review. This was as a result of the appointment of a permanent chief financial officer, which created stability in the financial management of the municipality.

Daily, weekly and monthly controls as well as effective leadership monitoring and oversight of financial and performance reporting and compliance with legislation need to be in place for the municipality to further improve the audit outcome and to progress towards the ultimate objective of a well-functioning administration.

Six key risk areas

The six key risk areas did not improve significantly, due to inadequate monitoring and oversight by the administrative and political leadership and their slow response to our messages.

Only one non-material finding relating to SCM was identified during the audit, due to management's commitment and strict adherence to SCM policies and procedures as well as the consistent monitoring thereof.

The quality of the financial statements submitted was poor. As a result, numerous material misstatements were corrected during the audit, in addition to the qualification. The municipality continued to rely on the audit process to detect and correct material misstatements, instead of ensuring that the information submitted for auditing was credible.

The audit intervention plan did not address the performance challenges of the previous year, which contributed to limited progress in the quality of the performance reports.

IT controls improved due to the implementation of IT governance and disaster recovery plans during the year under review. However, IT systems continue to require improvement in the area of access controls and related documentation.

The staff establishment had still not been updated or approved to ensure that the municipality met its service delivery objectives. In addition, there were no performance contracts linked to staff responsibilities and staff were thus not held accountable for reported information, which has resulted in limited progress being made in HR management.

The municipality continued to experience significant constraints regarding its cash flow, due to revenue not always being received in the form of actual cash receipts. This meant that there was no change in the financial health status, mainly due to the weak control environment.

Key controls and root causes

In order for the municipality to realise the benefits of a well-functioning administration that delivers quality services to its citizens, the administrative and political leadership should create a control environment that supports reliable financial and performance reporting and compliance with legislation, by focusing on the following:

- Implement an effective performance management system that enables the leadership to hold all officials accountable for the work that they perform.
- Produce monthly and quarterly reports and financial statements that are accurate, complete and supported by adequate documents.
- Implement consequence management for poor performance and transgressions.

Impact of key role players on audit outcomes

We met with the mayor twice during the financial year, but these interactions had only a minimal impact on the audit outcome, as the commitments provided were not detailed enough to allow for their effective implementation and monitoring. The level of assurance provided by the council and MPAC was limited by the credibility of the information provided to them. The assurance provided by them was further limited by them not taking appropriate oversight action to verify the credibility of the information provided to them or to address the six key risk areas.

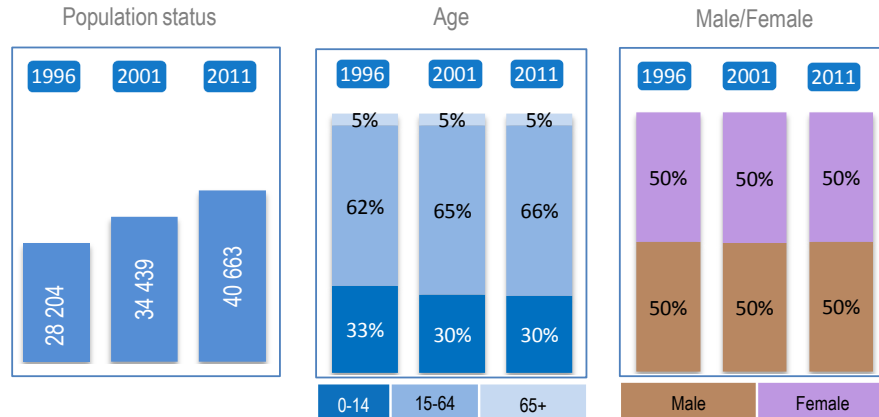
The municipal manager and senior management provided some assurance, but processes need to be implemented to ensure that monthly and quarterly information is reliable and complete.

No assurance was provided by the audit committee, as it was only in place for part of the year and was not able to fulfil all of its functions. In addition, the internal audit unit did not have an appropriate, independent reporting channel and as a result could only provide limited assurance. All role players should work together by continuously monitoring the implementation of audit action plans and regularly assessing their effectiveness.

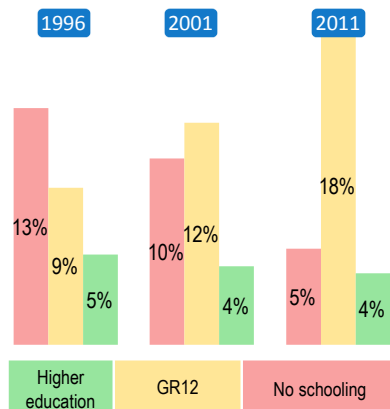
KOU-KAMMA MUNICIPALITY

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Population

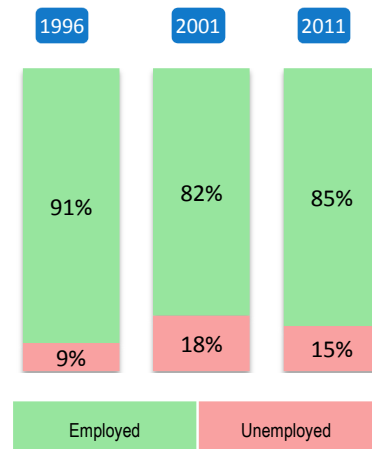


Education

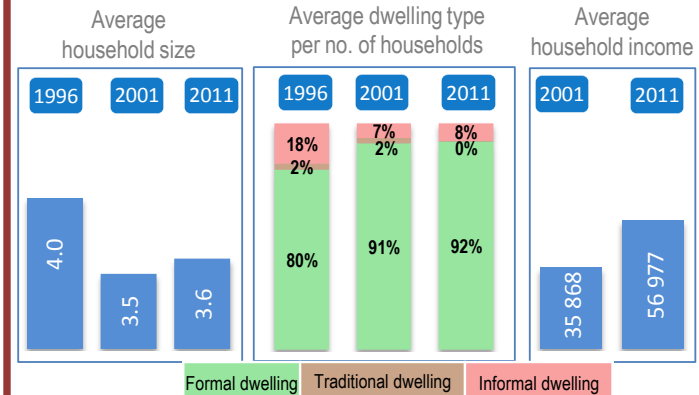


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

Labour



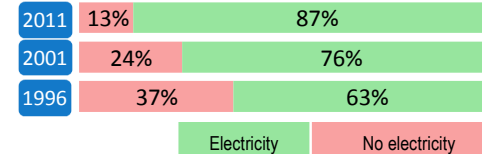
Households



Basic services

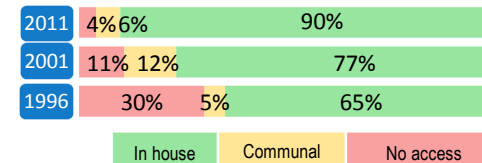
87%

of the households have access to electricity



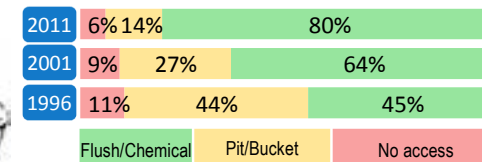
96%

of the households have access to piped water

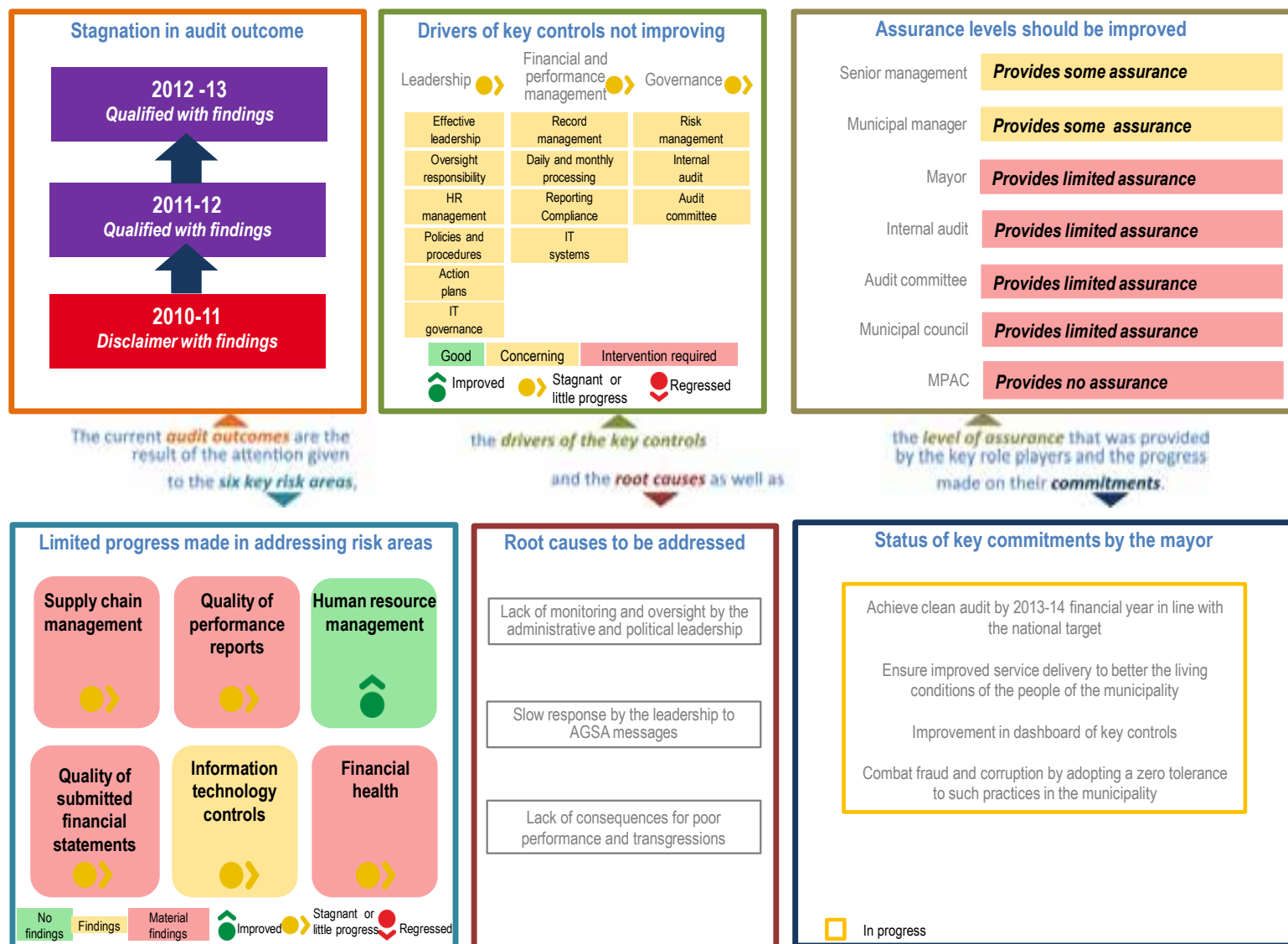


94%

of the households have access to toilet facilities



KOU-KAMMA LOCAL MUNICIPALITY



Kou-Kamma Local Municipality

■ *Qualified*

No movement in audit outcome

Although the audit outcome remained qualified, significant progress was made towards obtaining an unqualified opinion, as the number of qualification areas was reduced from six in the previous year to one in the year under review. This was as a result of the appointment of a permanent chief financial officer, which created stability in the financial management of the municipality.

Monthly reporting and monitoring, effective leadership and oversight of financial and performance reporting as well as compliance with legislation need to be in place for the municipality to improve the audit outcome and progress towards a well-functioning administration.

Six key risk areas

The six key risk areas did not improve significantly due to inadequate monitoring and oversight by the administrative and political leadership and their slow response to our messages.

The status of SCM remained unsatisfactory, primarily as a result of the municipality in many instances not complying with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process.

The quality of the financial statements did not improve, due to a lack of review processes to assess the credibility of the information presented.

The quality of the performance reports stagnated, due to a lack of a performance management system and an audit intervention plan to address the prior year findings on the quality of the performance report. In addition, there was poor record management and maintenance of information supporting reported performance.

IT controls stagnated due to a lack of focus by the leadership and management. In addition, the head of the IT unit had not been appointed at the appropriate level and did not have the competencies required to manage the municipality's IT requirements.

The municipality continued to experience significant constraints regarding its cash flow, due to challenges with billing and collecting revenue, resulting in limited movement in the financial health status.

Key controls and root causes

There has been an overall improvement in the key controls due to management's implementation of the audit intervention plan to improve outcomes. However, to address the root causes of the poor audit outcome, both the administrative and the political leadership should create a control environment that supports reliable financial and performance reporting and compliance with legislation, by focusing on the following:

- Implement an effective performance management system that enables the leadership to monitor, oversee and hold all officials accountable for the work that they perform through proper consequence management.
- Prepare monthly and quarterly performance reports and financial statements that are accurate, complete and supported by adequate records and documentation.
- The accounting officer should address the root causes by improving controls over in-year reporting by management and verifying the credibility of information before submission to the internal audit unit, audit committee, council and MPAC.

Impact of key role players on audit outcomes

We met with the mayor twice during the financial year, but these interactions had only a minimal impact on the audit outcome. Commitments made were not directed at addressing the root causes of findings and did not have the desired impact. The level of assurance provided by the council and MPAC was limited by the credibility of the information provided to them. In addition, these oversight bodies did not take action to verify the credibility of the information submitted to them or to address the six key risk areas.

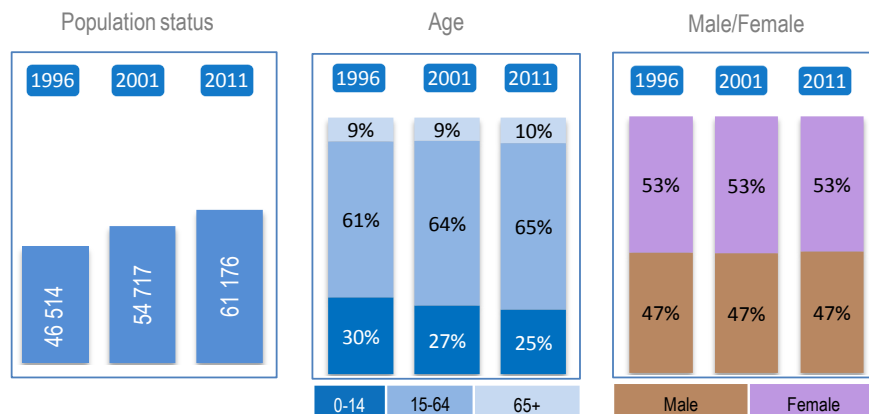
The municipal manager and senior management provided some assurance, but processes need to be implemented to ensure that monthly and quarterly information is reliable and complete. The internal audit unit was only in place for a part of the year and was not able to address all risks or produce all the necessary reports. As a result, both the internal audit unit and the audit committee provided limited assurance. In addition, their effectiveness was reduced by management not implementing all of their recommendations.

All role players should work together, continuously monitor the implementation of audit action plans, and assess whether these adequately address the root causes of findings to achieve a sustained improvement in the audit outcome.

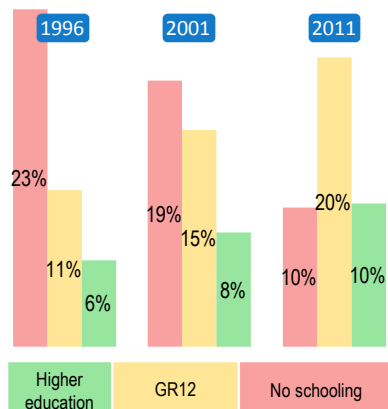
NDLAMBE MUNICIPALITY

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Population

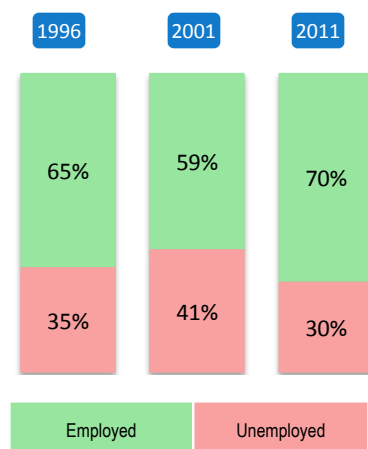


Education

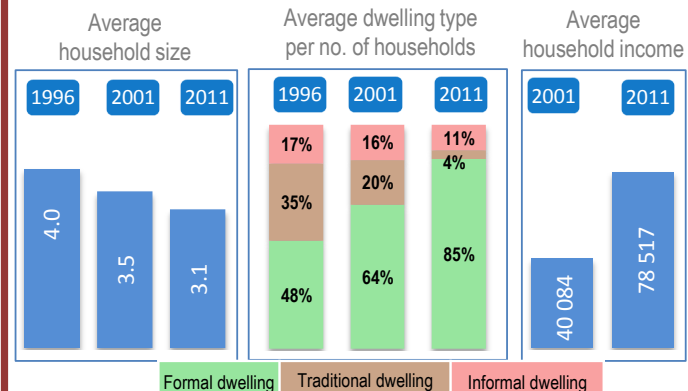


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

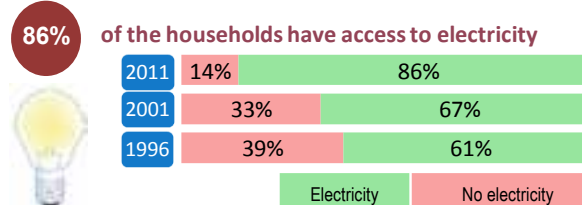
Labour



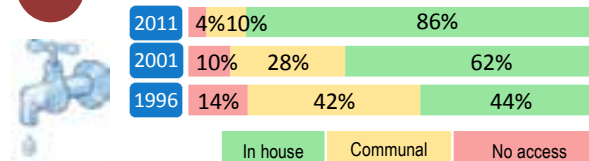
Households



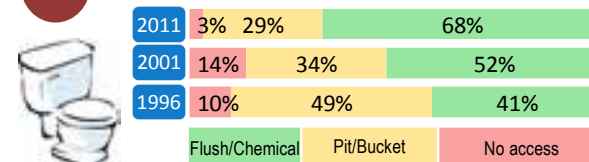
Basic services



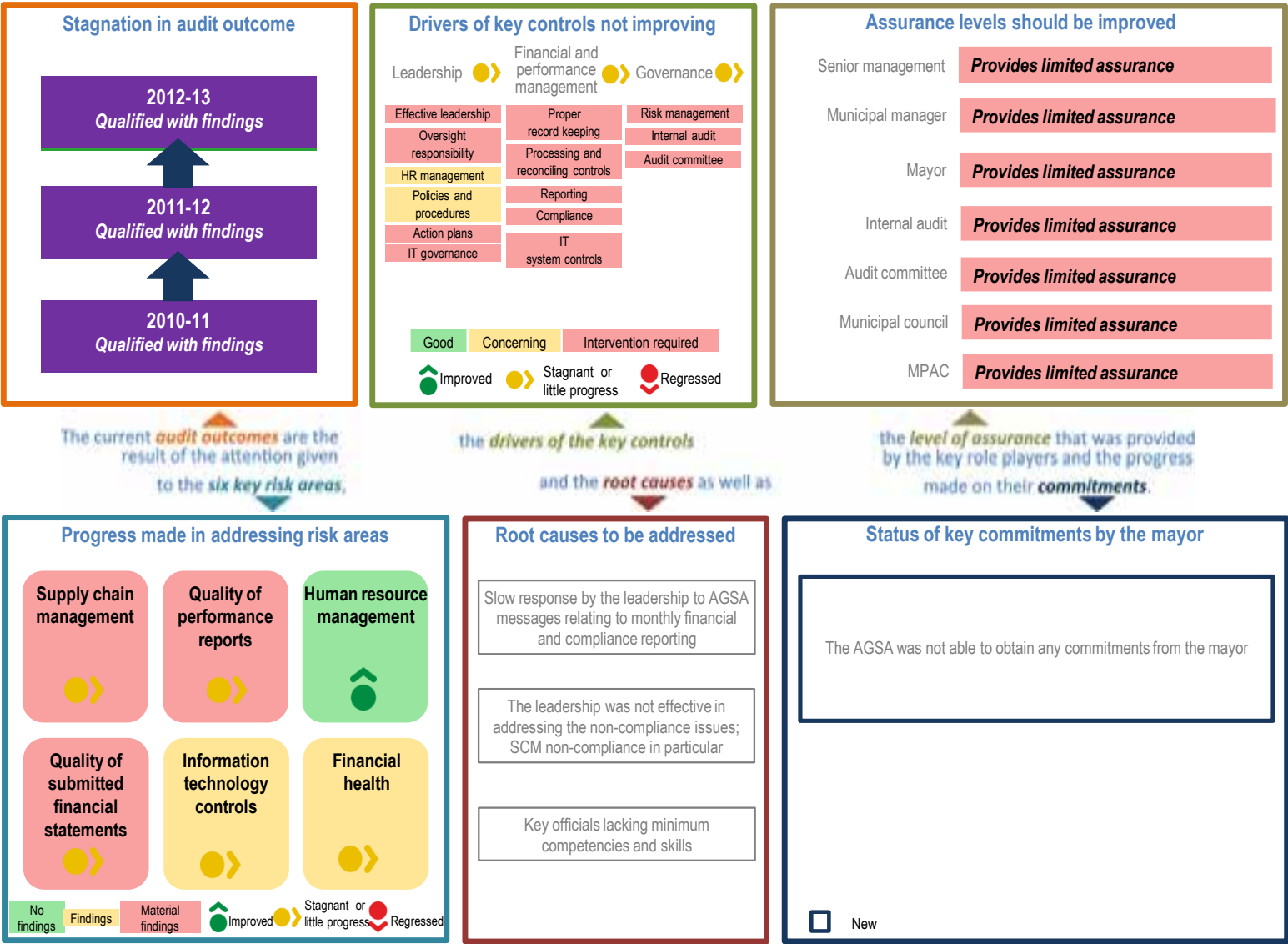
96% of the households have access to piped water



97% of the households have access to toilet facilities



NDLAMBE LOCAL MUNICIPALITY



Ndlambe Local Municipality

■ *Qualified*

No movement in audit outcome

The stagnation in the audit outcome for the past three years was as a result of the slow response by the municipality to our messages and the ineffectiveness of the leadership to address non-compliance issues, particularly those relating to SCM.

The municipality used consultants at a cost of R817 600 to implement an action plan to address prior year audit findings and to assist with the preparation of financial statements. The consultants had a positive impact, which resulted in fewer qualification areas than in the previous period, but these qualifications may recur if the necessary skills are not transferred to municipal officials.

Six key risk areas

Three of the six key risk areas improved, while the other three remained stagnant. There was no improvement in the quality of the submitted financial statements, due to inadequate record keeping to support the reported amounts. As a result, the municipality still relied on the external audit process to correct material misstatements in the financial statements.

There was also no improvement in the SCM process, with the municipality still operating a decentralised SCM unit that had inadequate internal controls. Furthermore, the quality of the performance report remained unsatisfactory, as the report was not aligned to the performance plan and had objectives and targets that were not measurable, due to a lack of adequately skilled staff to prepare the report.

HR management, IT controls and financial health showed an improvement due to increased focus on these areas.

Key controls and root causes

The lack of movement in some key controls was due to ineffective oversight and inadequate daily and monthly reconciliations of all municipal functions, including service delivery reporting.

The municipality should enhance the following controls to create a control environment that continuously supports reliable financial and performance reporting and compliance with legislation:

- The leadership should design, implement and monitor SCM controls.
- Action plans to address prior year findings should be adequately monitored.

- The leadership should make certain that the consultants transfer skills to employees and that staff are trained to address development gaps to ensure that they are adequately skilled to perform their duties.
- Reliable monthly and quarterly financial and performance reports should be prepared to ensure that information is regularly collated and available for reporting in the annual financial and performance reports.

Impact of key role players on audit outcomes

Senior management provided limited or no assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to discharge their responsibilities effectively. This also had an impact on the internal audit unit and audit committee, who were not effective and consequently provided limited assurance. In addition, internal audit reports should be submitted more regularly and internal audit recommendations should be implemented by management and monitored by the audit committee.

Our interactions with the mayor during the financial year had no impact on the audit outcome, as the prior year audit findings recurred in the year under review. We could also not obtain any specific commitments from the mayor. MPAC and the council could only provide limited assurance, due to the lack of credible reports from senior management.

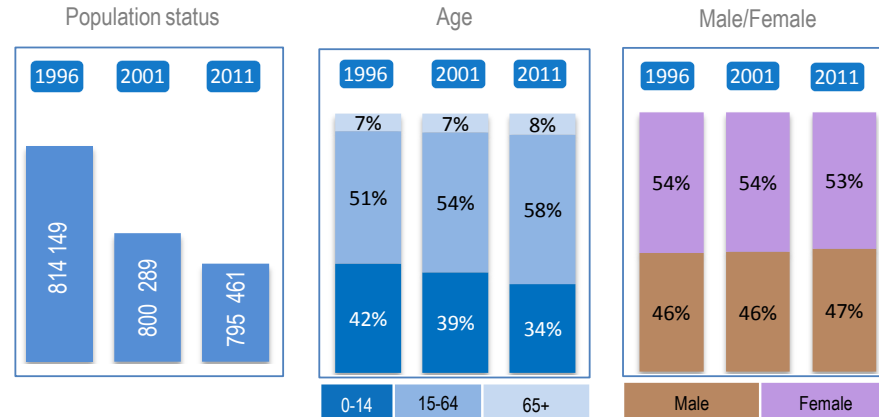
CHRIS HANI DISTRICT

159

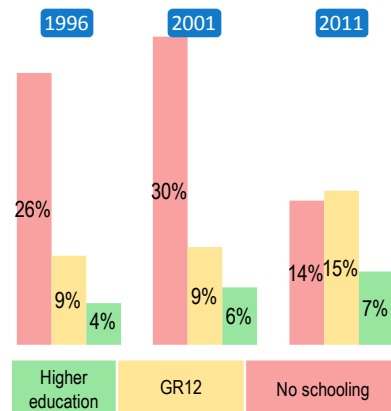
CHRIS HANI DISTRICT MUNICIPALITY

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Population

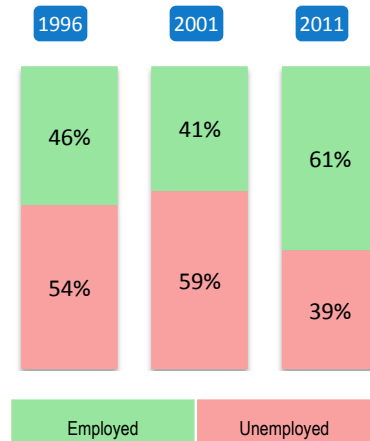


Education

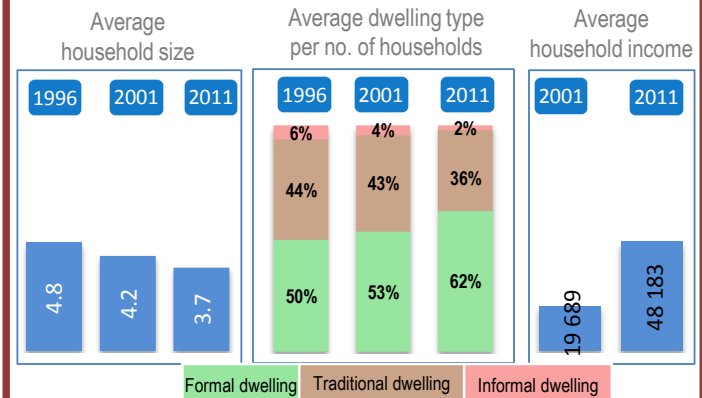


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

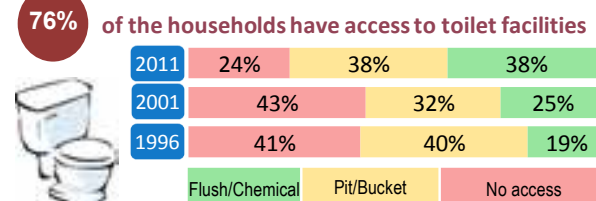
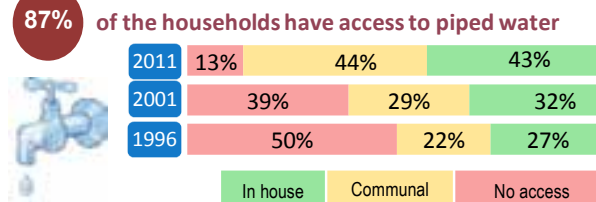
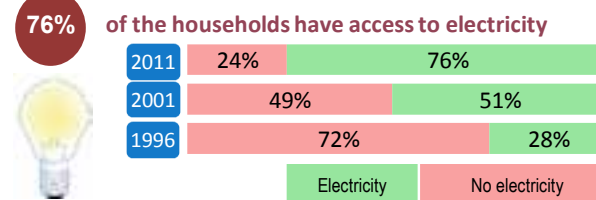
Labour



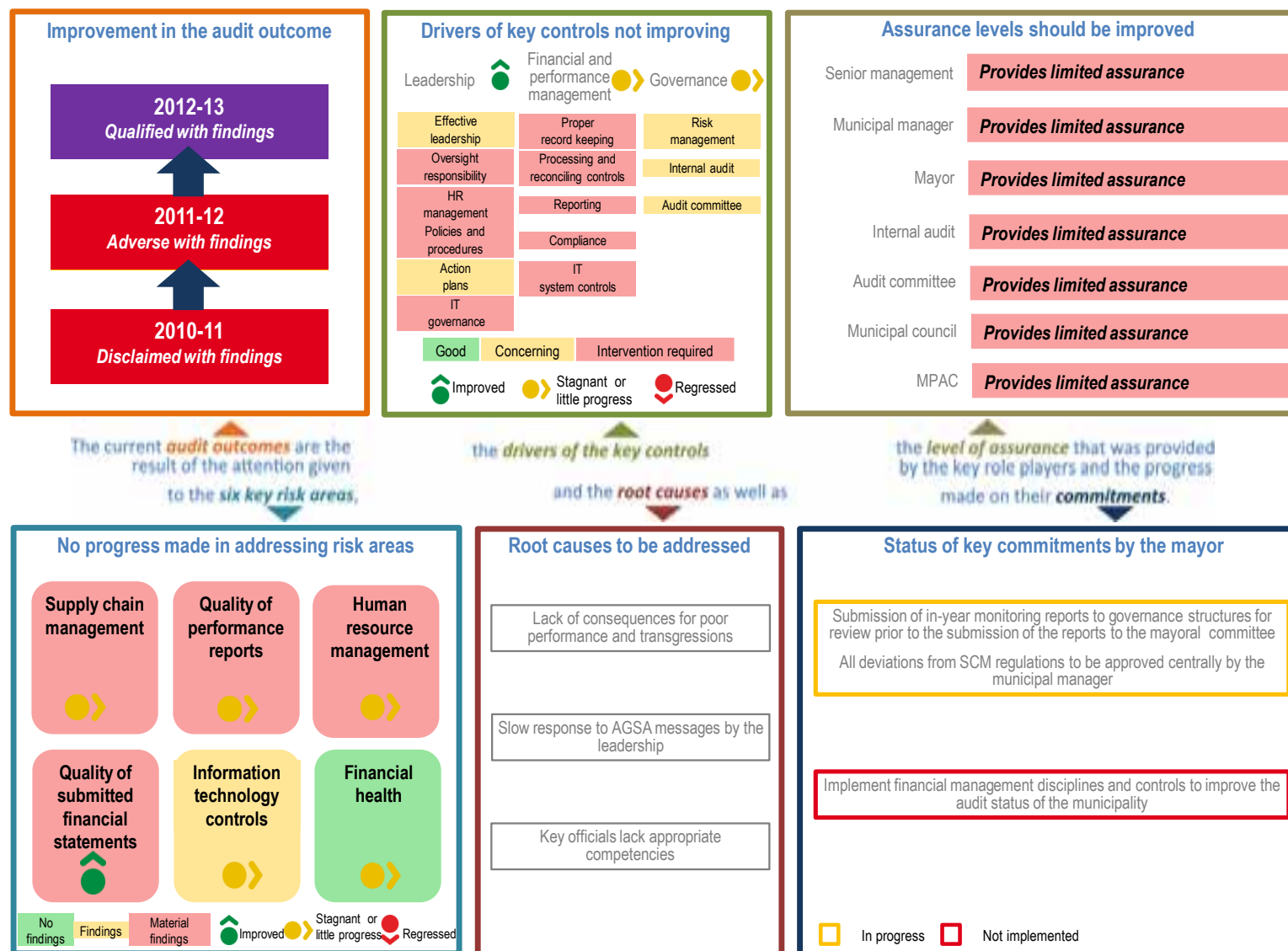
Households



Basic services



CHRIS HANI DISTRICT MUNICIPALITY



Chris Hani District Municipality

■ *Qualified*

Significant movement in audit outcome

A collective effort to change the leadership tone at both an administrative and political level resulted in the improvement of the audit outcome from an adverse opinion to a qualified opinion.

The improved outcome was also due to better leadership, the appointment of key personnel with appropriate skills and competencies, and using consultants to compensate for the remaining skills shortage. However, the sustainability of the outcome remains in doubt due to the municipality's high reliance on the consultants to prepare financial statements. In addition, the positive tone of the leadership has not yet filtered down to all levels of staff. This was due to senior leadership posts only being filled towards the end of the year under review.

Six key risk areas

Despite the positive movement in the audit outcome, there has been minimal movement in the six key risk areas. This was largely due to the timing of the appointments and a lack of capacity within the municipality, which resulted in the daily, weekly and monthly financial and performance reporting and monitoring disciplines not being firmly established during the entire year.

SCM remained a challenge, as basic internal controls did not function at the required level to prevent instances of non-compliance with SCM regulations, which resulted in irregular expenditure. With regard to the financial statements, the municipality still relied on the audit process to identify and correct misstatements. This reliance together with the reliance on the consultants could affect the sustainability of the audit outcome.

The municipality lacked the necessary skills to manage critical processes relating to performance reporting. As a result, the quality of the annual performance report submitted for auditing was poor.

There was no positive movement in terms of IT controls. An IT governance framework had been developed but was not approved by the council or implemented by management.

The filling of some of the key vacancies is a positive step towards improved HR management. However, capacitating the finance section with appropriately skilled staff remained a challenge for the municipality.

The municipality's financial health remained a risk, as a number of indicators (including overspending the approved budget and the late payment of suppliers) still require urgent attention.

Key controls and root causes

The marginal improvement in leadership controls can be attributed to the filling of vacancies at senior management level and the positive tone of the leadership. The stagnation in the drivers of key controls over financial management was largely the result of not implementing the necessary financial disciplines. This should be strengthened by improving the financial and performance processes for the preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

To enhance the control environment further, the political and administrative leadership and those charged with governance should address the root causes of the poor audit outcome and inadequate controls as follows:

- The political and administrative leadership should execute their oversight and monitoring responsibilities by reviewing reports and monitoring compliance and financial disciplines.
- The finance section should be capacitated by recruiting suitably skilled employees.
- Consequence management should be applied when employees do not comply with legislation.

Impact of key role players on audit outcomes

All key role players provided only limited assurance during the year. Financial and performance reports were not credible, while daily, weekly and monthly control disciplines were not implemented. This had a negative impact on the assurance levels that were provided by all role players.

We met with the mayor five times during the year. The outcome of these interactions was positive, as the mayor was receptive to our message and was committed to driving improvement. The impact of the interactions has, however, not filtered through to all role players, especially at the level of senior management.

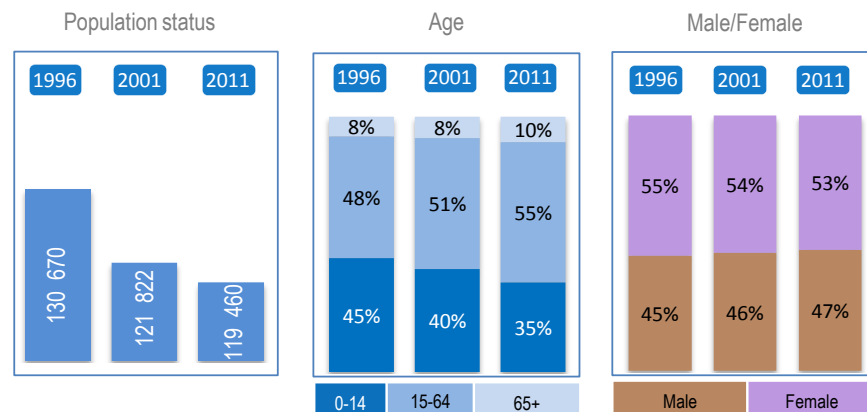
The recommendations of the audit committee and internal audit unit were not adequately addressed by management and the implementation of recommendations of the governance structures remained a challenge.

The assurance levels should be improved by ensuring that there is accountability and that year-round accounting and internal control disciplines are implemented and monitored.

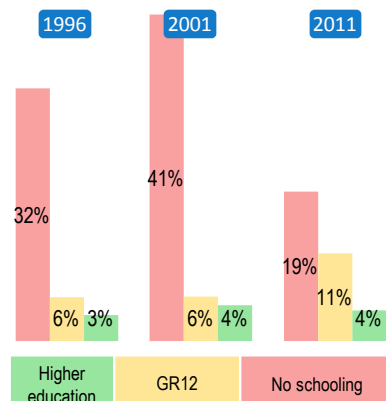
EMALAHLENI MUNICIPALITY

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Population

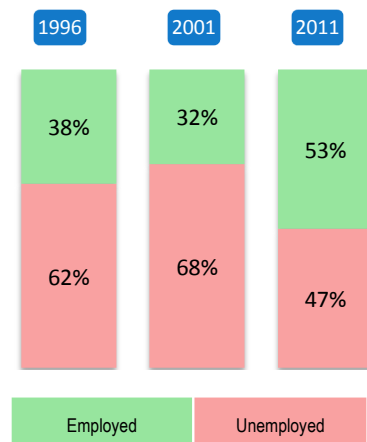


Education

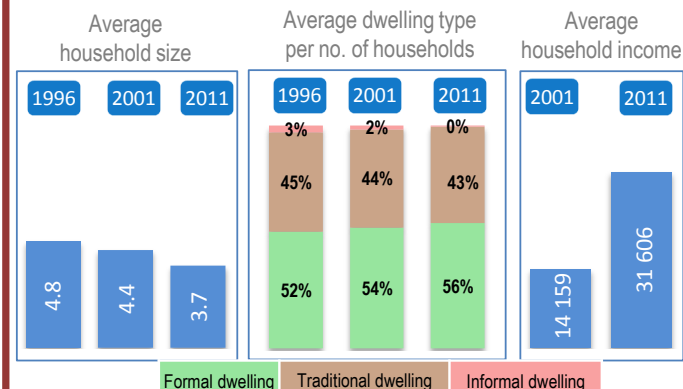


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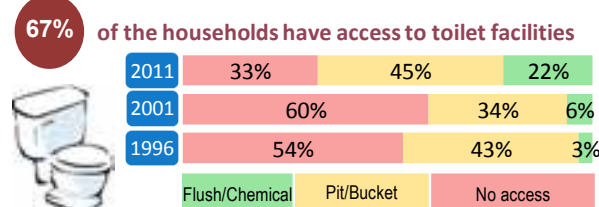
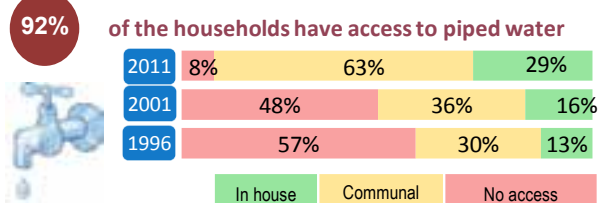
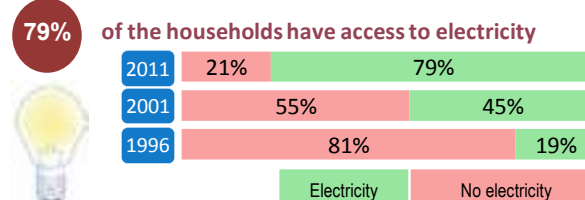
Labour



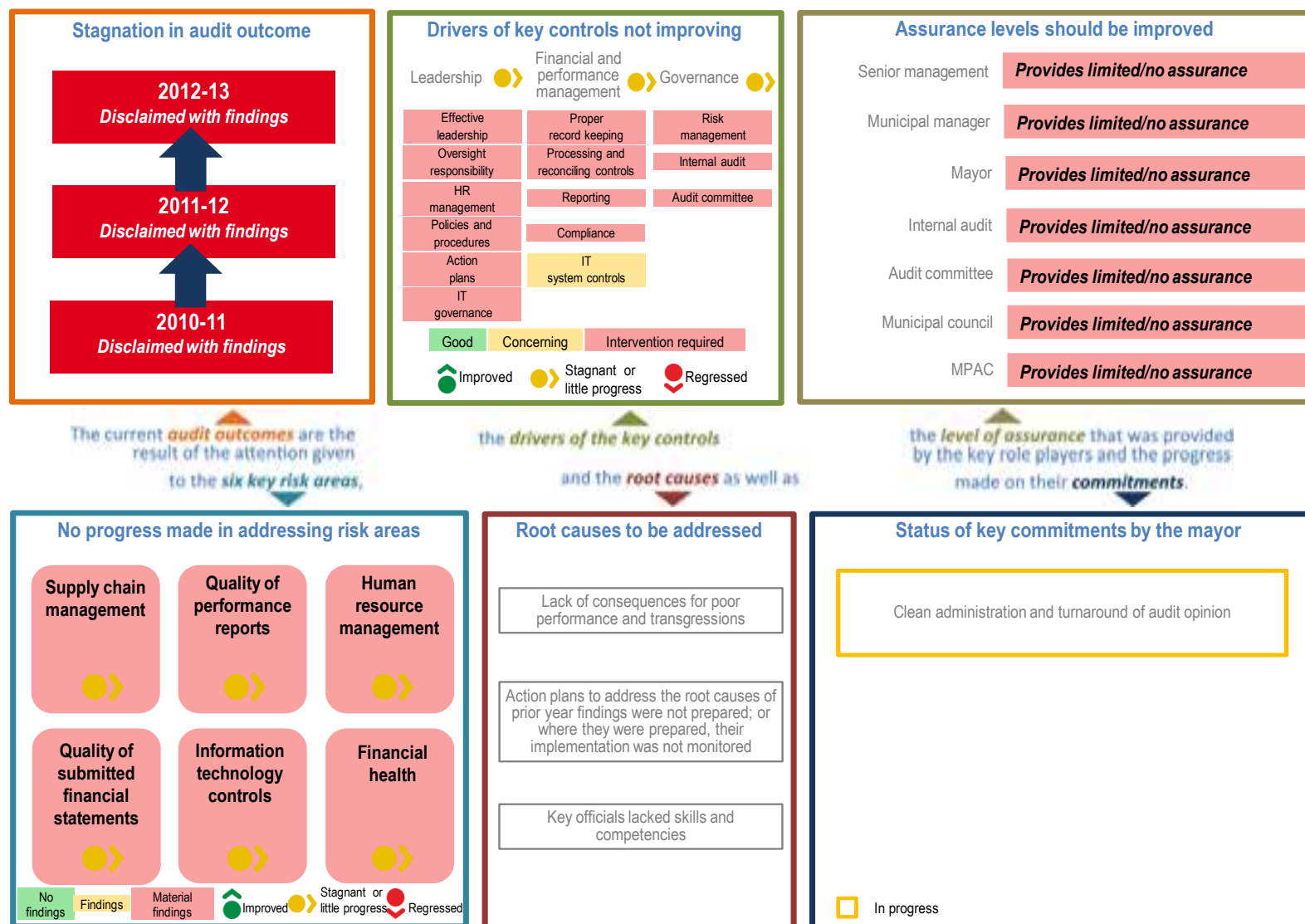
Households



Basic services



EMALAHLENI LOCAL MUNICIPALITY



Emalahleni Local Municipality

■ *Disclaimed*

No movement in audit outcome

The municipality has shown no movement in the long-standing disclaimer of audit opinion. As has been the case for the past five years, the municipality could once again not produce supporting documentation for a significant number of transactions and balances in the financial statements. This, together with the stagnation of the very weak control environment, the numerous misstatements identified and the ineffectiveness of all structures of governance, created an environment that did not support accountability and was susceptible to fraud. Although the municipality had action plans, they were implemented late and did not have any effect on the audit outcome. Together with the repetitive nature of audit findings, this questions the seriousness of the leadership to turn the municipality around. We informed the municipality that due to the current status of administration as well as the political and administrative leadership's failure to respond to our messages over the past couple of years, we would have withdrawn from the engagement in terms of the International Standards on Auditing had it not been for the legislated requirement to perform the audit of the municipality.

The municipality continued to rely on the services of consultants to prepare financial statements and update the accounting records for auditing at a cost of R2 million (2011-12: R2 million). However, this did not yield any positive results, as the consultants were not provided with credible and sufficient information to produce reliable financial statements.

Six key risk areas

All six key risk areas, and the inability of the leadership to manage risk effectively, remain reason for serious concern. Reporting and monitoring disciplines have not filtered through to the daily operations. A lack of year-round financial disciplines, insufficient leadership intervention and no consequence management further escalated the serious concerns, resulting in the inadequate assurance and credibility of the financial statements. Inadequate systems and controls as well as a lack of skills to effectively monitor and supervise HR management, the quality of performance reporting and SCM remained a concern in these critical areas. It was not possible to assess the financial health of the municipality due to the financial statements being disclaimed, which influenced the reliability of the financial health indicators. Improvements in the area of IT controls are also still required, as the leadership has not made IT a strategic priority.

Key controls and root causes

The non-responsiveness of the leadership towards our messages had a negative impact on the improvement of key controls. The many interventions required in the leadership category are rooted in the reluctance and unwillingness of administrative management to take ownership of improvements and the implementation of recommendations. Strengthening the very basic controls around record management, daily and monthly processing and reconciling as well as regular, accurate and complete financial and performance reports should remain a priority.

To address these basic areas sustainably, the municipality must lay a strong foundation by focusing on the following:

- Implement a functioning performance management system with proper consequence management for poor performance.
- Implement action plans to address the root causes of prior year findings and monitor these regularly.
- Improve the document management system to ensure that SCM irregularities, HR management deficiencies as well as financial and performance reporting requirements are addressed.

Impact of key role players on audit outcomes

The senior leadership provided very limited or no assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to effectively discharge their responsibilities. The internal audit unit and audit committee were deemed ineffective, as management did not implement their recommendations, while the level of assurance provided by the audit committee was limited by the credibility of the information provided to them. Until such time as senior management focuses on daily disciplines and the monitoring and oversight of such disciplines, the assurance provided will not improve.

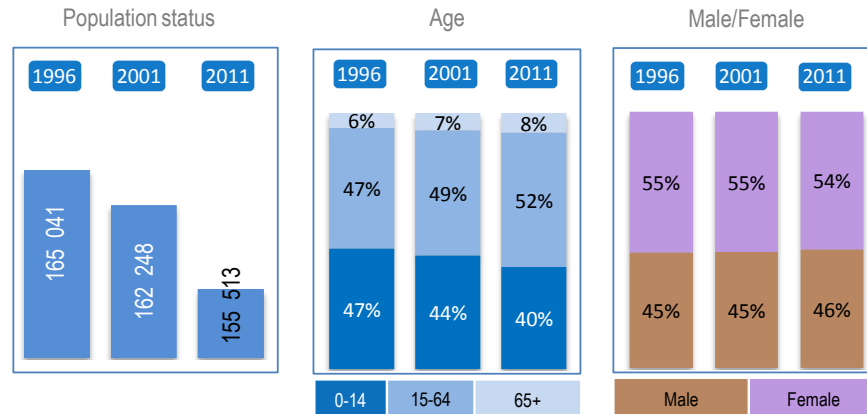
We met with the mayor nine times in the past year and these interactions had no impact on the audit outcome, with the mayor not providing any commitments to address the six key risk areas.

To pave the way forward, all role players need to work together to build a high-performance environment that promotes accountability.

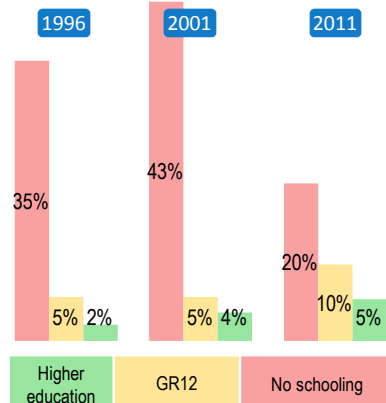
ENGCOBO MUNICIPALITY

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Population

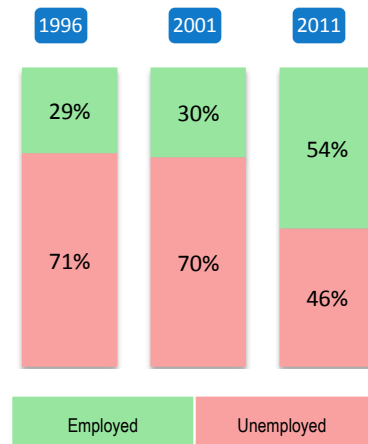


Education

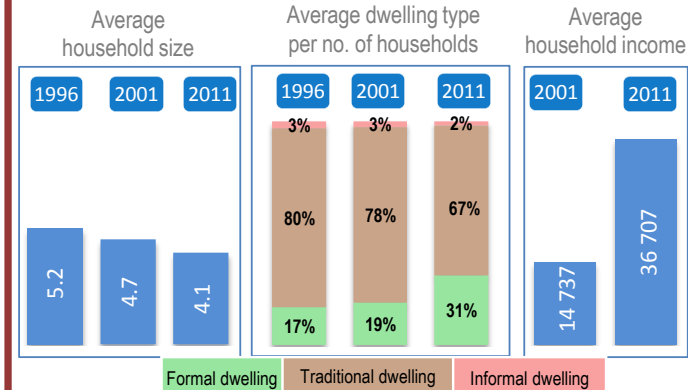


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

Labour



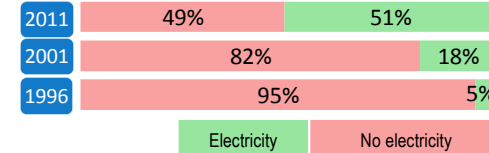
Households



Basic services

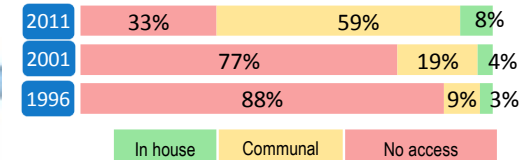
51%

of the households have access to electricity



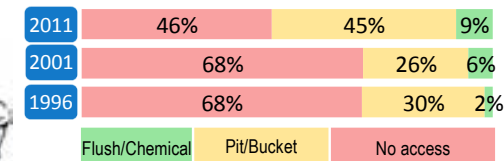
67%

of the households have access to piped water

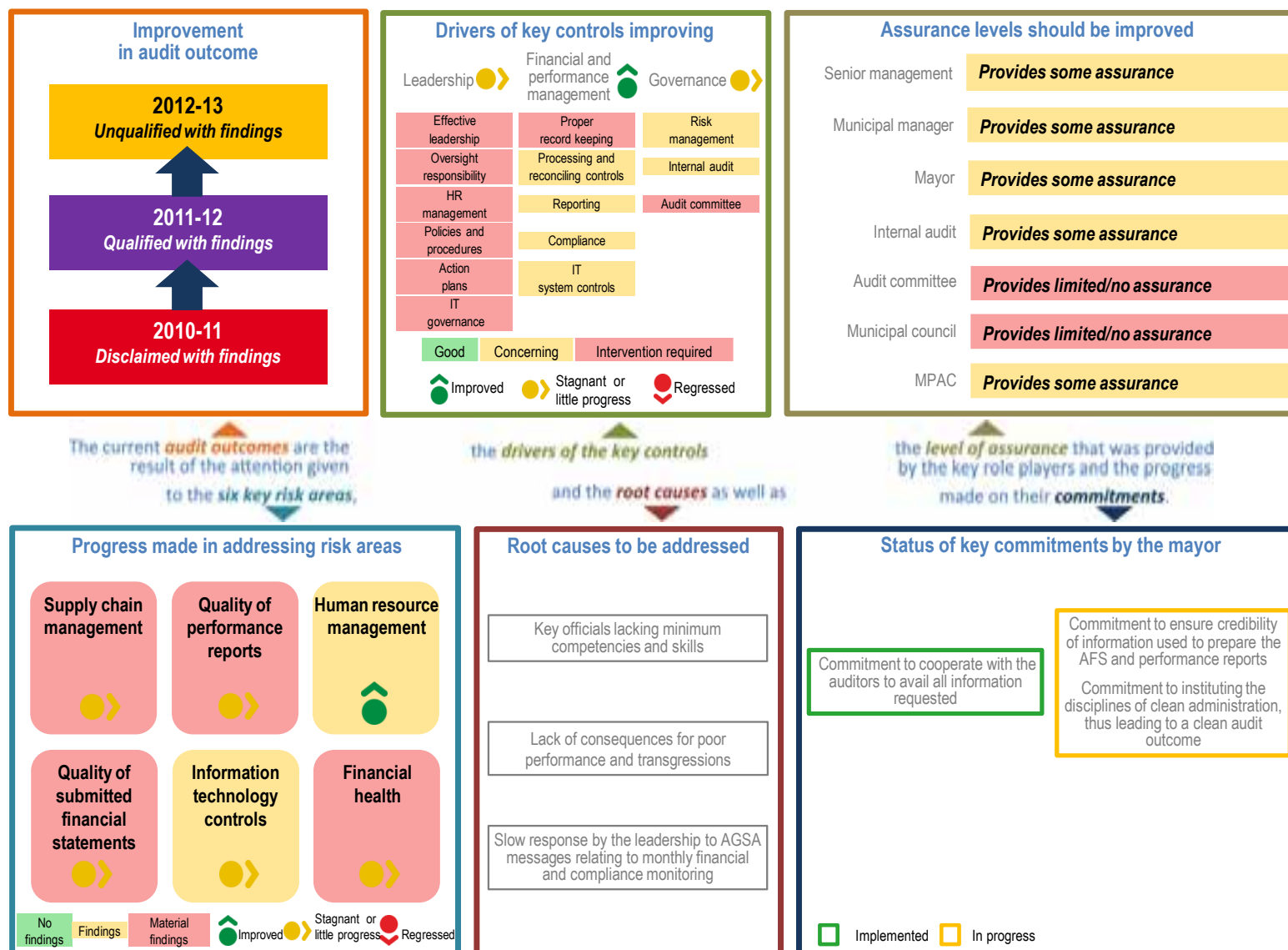


54%

of the households have access to toilet facilities



ENGCOBO LOCAL MUNICIPALITY



Engcobo Local Municipality

■ *Unqualified*

Improvement in audit outcome

The audit outcome has improved each year over the last three periods, and in 2012-13 improved from qualified to unqualified with findings on non-compliance and the performance report. This improvement was due to stable leadership and the correct tone set by the mayor who took ownership of addressing prior year findings.

The municipality utilised consultants at a cost of R2,4 million to address prior year audit findings as well as to assist with the preparation of financial statements. Although this resulted in an improved audit outcome, this may not be sustainable if the necessary skills are not transferred to municipal officials.

Six key risk areas

The only progress made in addressing key risk areas related to HR management, as significant improvement was achieved through the filling of critical vacancies, including the appointment of a municipal manager, chief financial officer, HR manager and senior accountant during the year under review. Appropriate skills were still lacking in SCM, however, as a head for the SCM unit had not been appointed. There was also a lack of appropriately skilled staff to prepare the performance report. This had an impact on these two areas, in which there were no improvement and a significant number of audit findings.

The quality of the submitted financial statements remained unchanged despite the improvement in the audit outcome, as the municipality relied on the audit process to make a number of material adjustments to achieve the unqualified opinion.

Financial health remained a concern, specifically relating to the overspending of the budget, which resulted in unauthorised expenditure during the year.

There was no movement in respect of the IT controls, as the IT policy was not approved; and this consequently remained an area of concern.

Key controls and root causes

The improvement in key controls related to improved financial management and was due to the leadership and oversight addressing some of the prior year audit findings. The municipality did, however, not fully address the root causes that gave rise to a number of material adjustments required to the financial statements. In

addition, the required financial and performance disciplines were not yet embedded in the control environment.

The following controls must therefore be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Effective HR management processes should be implemented to ensure that adequate and sufficiently skilled officials are appointed, whose performance must be monitored throughout the year.
- Proper consequence management should be implemented as part of the performance management system.
- Our recommendations should be used to develop and monitor effective action plans addressing the root causes of the weak control environment, including the need for credible monthly and quarterly financial, performance and compliance reporting.

Impact of key role players on audit outcomes

Senior management members understood their role in creating an environment favourable for obtaining clean administration and facilitating effective oversight, but their level of assurance was not at the required level, especially in the areas of SCM and performance reporting.

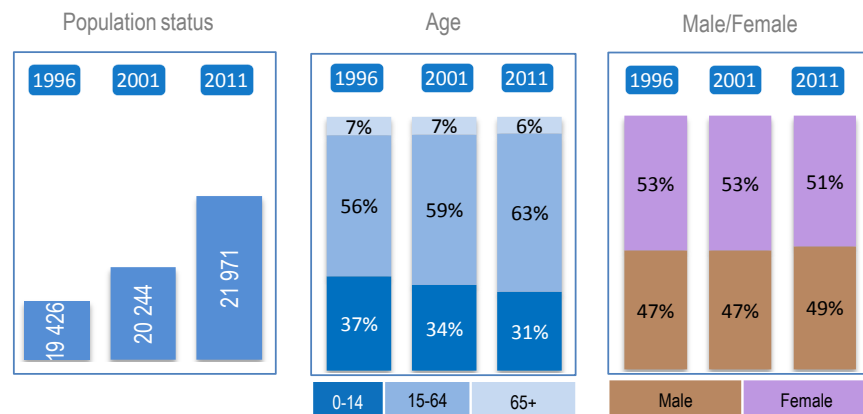
We met with the mayor twice during the financial year and regularly during the audit process, during which he made commitments to address prior year audit findings and promote clean administration. These commitments are in progress. These interactions had a positive impact on the audit outcome, as prior year findings on financial reporting were resolved; however, they have not filtered down into the areas of performance reporting and compliance.

The internal audit unit and audit committee provided limited assurance. This is evidenced by the reliance on the external auditors to identify errors and the fact that the annual financial statements and performance report were not reviewed before being submitted for auditing. An MPAC had been established, but the committee provided no assurance, as separate meetings were not held as required in terms of their mandate. Council members nonetheless attended certain of our interactions and supported the mayor in setting the correct tone, therefore providing some assurance.

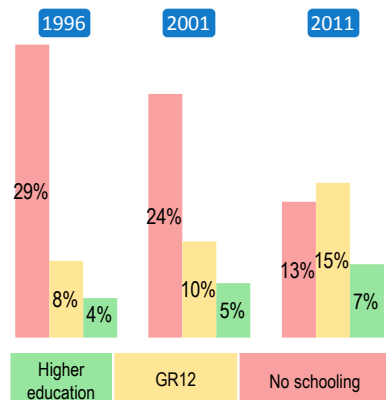
INKWANCA MUNICIPALITY

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Population

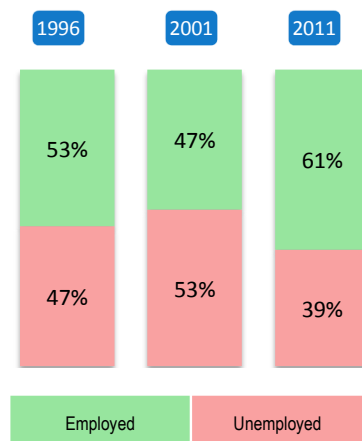


Education

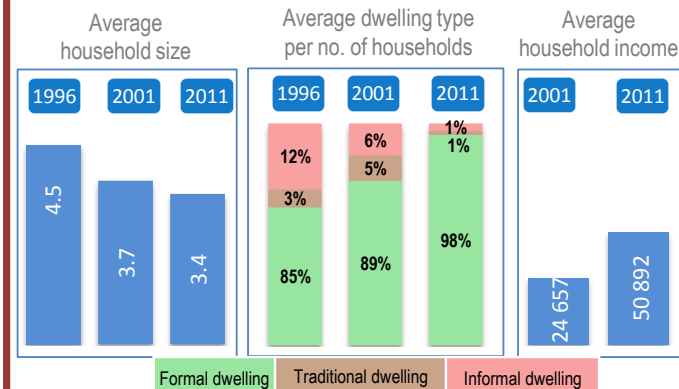


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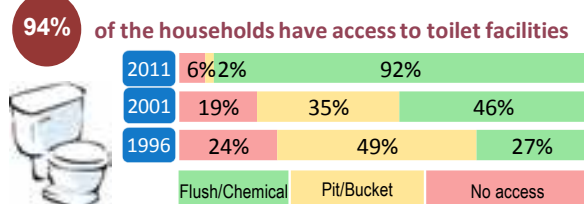
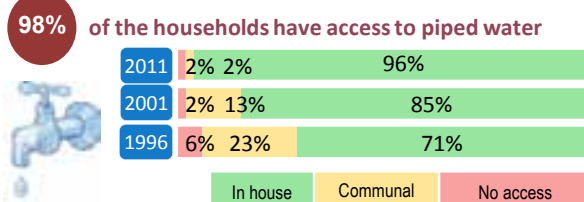
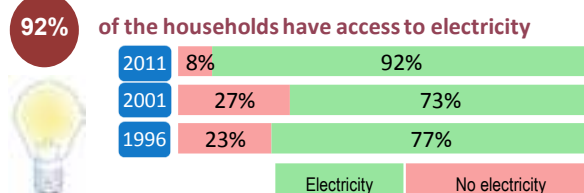
Labour



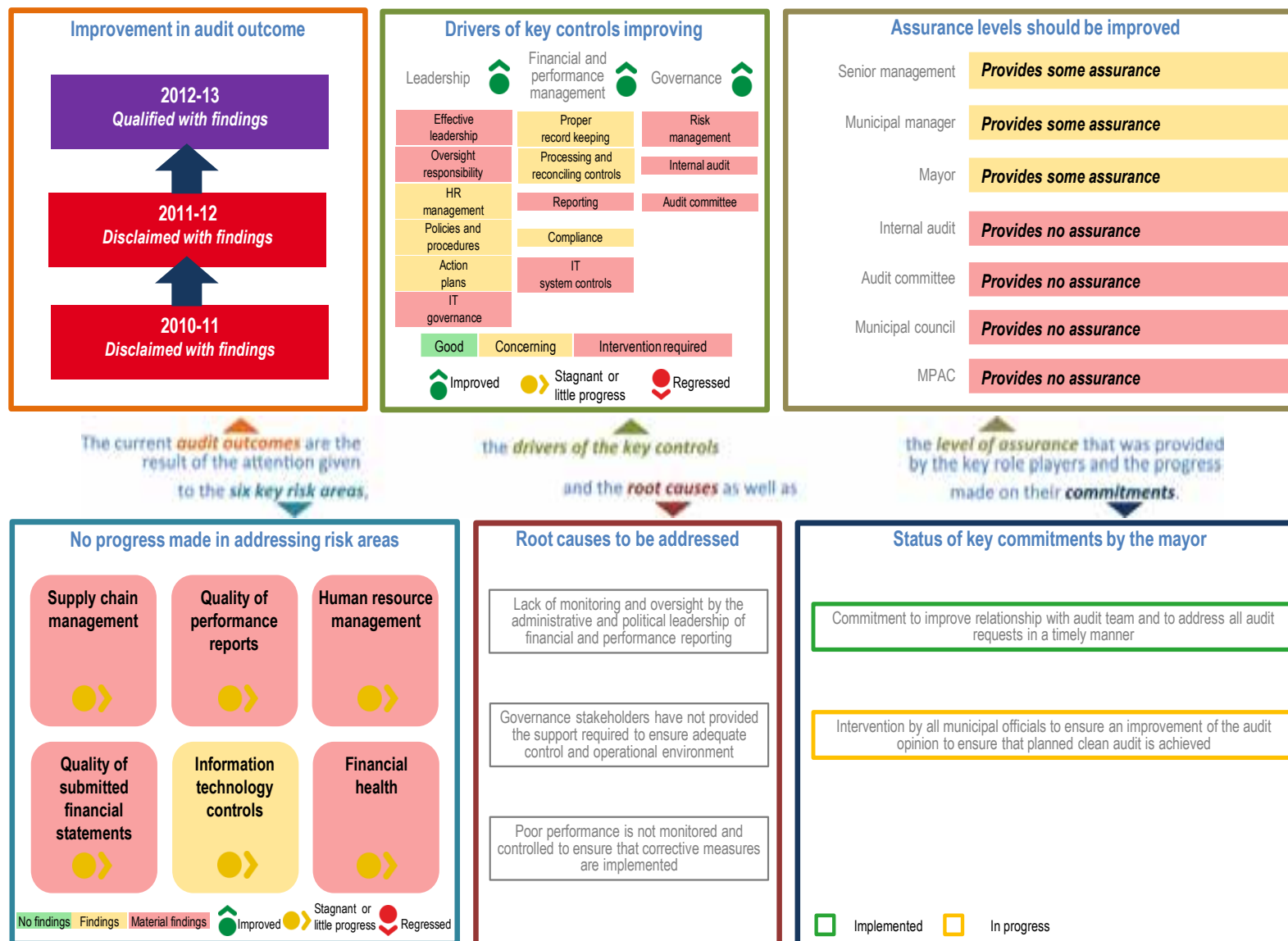
Households



Basic services



INKWANCA LOCAL MUNICIPALITY



Inkwanca Local Municipality

■ *Qualified*

Improvement in audit outcome

The improvement in the audit outcome was as a result of an improved leadership tone and an improvement in the submission of documentation during the audit process. The municipality did, however, depend on consultants to prepare the financial statements at a cost of R1 618 000 (2011-12: R914 280). Material misstatements still existed in the submitted financial statements, and the municipality also relied on the audit process to identify and correct misstatements to improve their audit outcome. Due to this reliance on consultants and the audit process, the sustainability of this improvement is doubtful, also because there was no transfer of skills from the consultants to municipal officials.

Six key risk areas

Although the outcome improved, there has not yet been an improvement in the key risk areas. As noted above, the quality of the financial statements did not improve, as the municipality relied on consultants and the audit process. HR management remained a significant concern, as the municipality still lacked skilled and capable staff. However, progress was made in filling critical vacancies during the year, such as that of the chief financial officer.

Material findings remained in the areas of SCM as well as the performance report, as the municipality did not adhere to SCM requirements and did not implement the relevant frameworks for reporting on performance. This was made even worse by inadequate oversight and review at a leadership level, often due to a lack of expertise in these areas.

IT controls remained unsatisfactory, specifically relating to weak access and security controls, as responsibility for these areas had not been allocated to an adequately trained official.

The financial health and sustainability of the municipality is a significant concern, specifically relating to the overspending of the approved budget as well as the municipality's inability to collect debt and pay creditors on a timely basis.

Key controls and root causes

The improvement in key controls was as a result of the positive impact of the municipal leadership and the implementation of basic disciplines for the regular processing, monitoring and reconciling of transactions. Notwithstanding this, the

following controls must still be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The leadership and governance structures should oversee financial and performance reporting. The internal audit unit needs to be further capacitated to ensure the effectiveness of the governance structures.
- Financial statements (with skills being developed in the finance section without reliance on consultants), performance reports and reports on compliance with legislation should be prepared and reviewed on a monthly basis, while the credibility of the information should be ensured.
- Performance monitoring of staff and effective HR management processes should be implemented to ensure that appointed officials are equipped with the required skills and competencies for their positions, and that their performance is managed throughout the year to allow for corrective measures in the event of poor performance.

Impact of key role players on audit outcomes

We met with the mayor four times during the financial year. These interactions were beneficial and had a positive impact on the audit outcome. The correct tone by the mayor (who met his commitment of ensuring audit information was available) and senior management meant that the audit process was taken seriously and assistance was provided by all levels of staff.

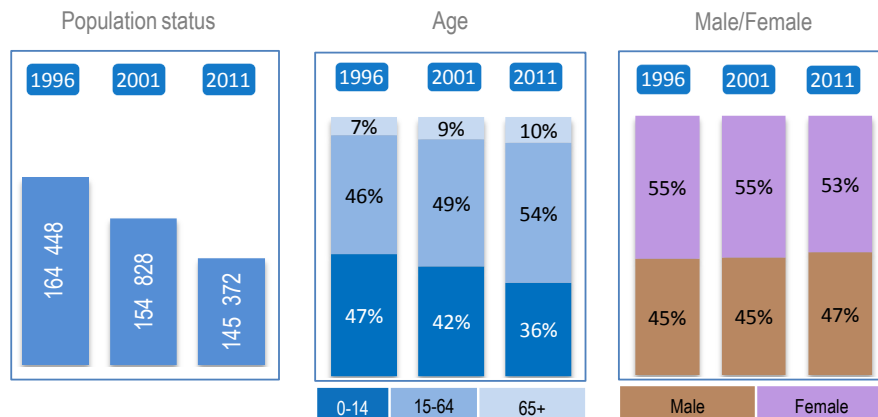
No assurance was provided by the audit committee, as the internal audit unit was not fully staffed and resourced to be able to fulfil their mandate. This should be addressed urgently.

MPAC met only once during the year under review, and therefore provided only limited assurance. They should strengthen their oversight function to improve the audit outcome.

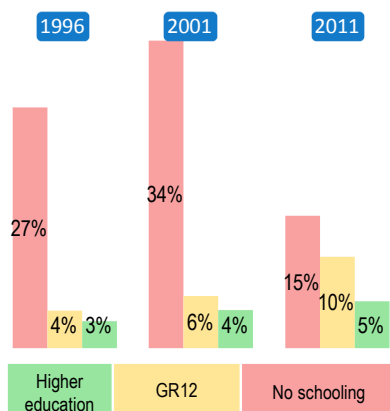
INTSIKA YETHU MUNICIPALITY

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Population

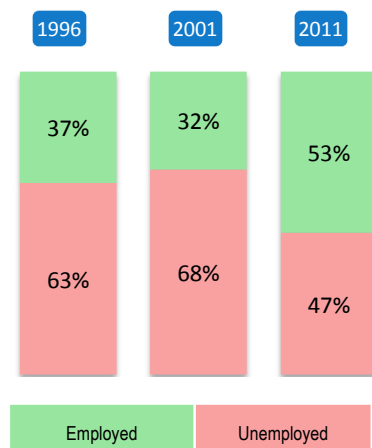


Education

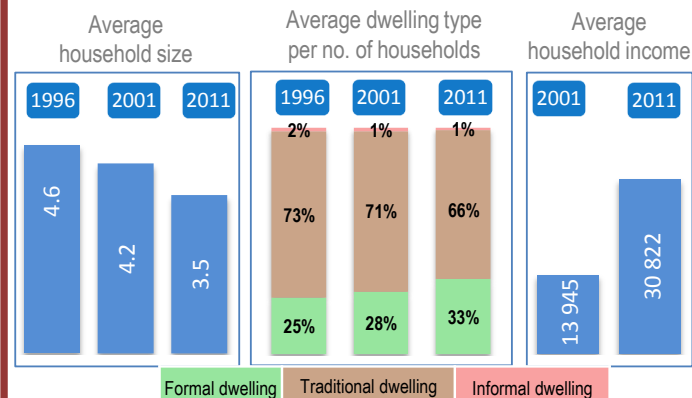


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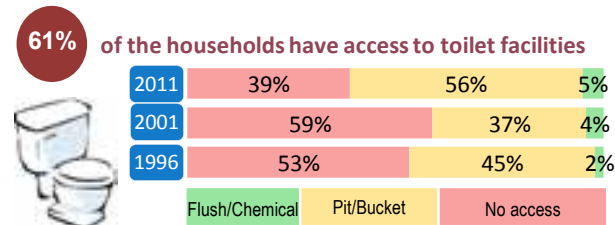
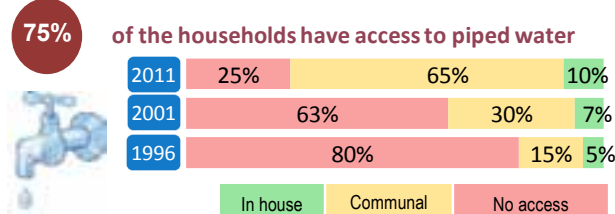
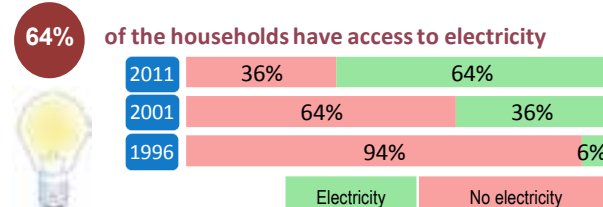
Labour



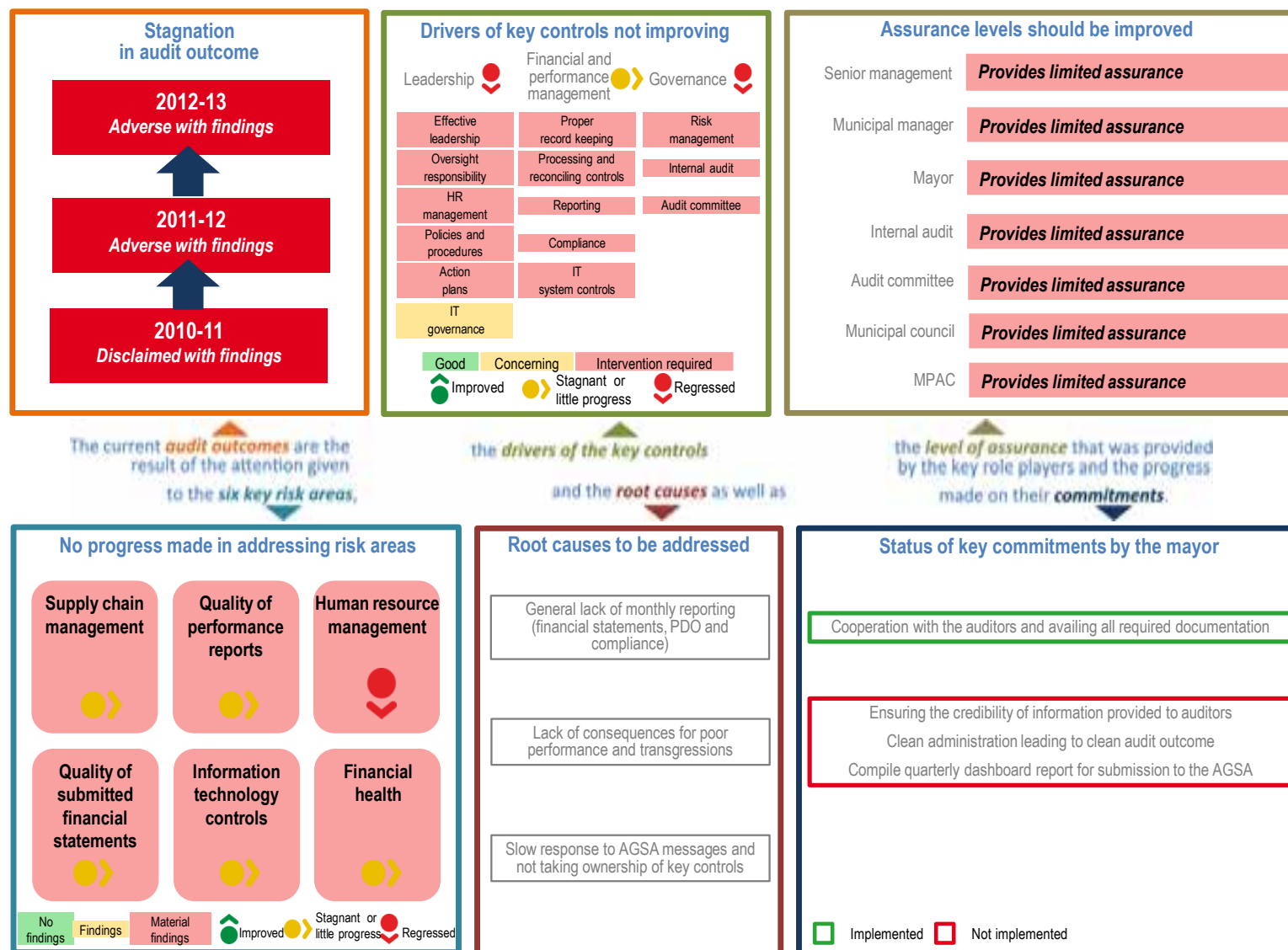
Households



Basic services



INTSIKA YETHU LOCAL MUNICIPALITY



Intsika Yethu Local Municipality

■ Adverse

No movement in audit outcome

There was no improvement in the audit outcome, which moved from a disclaimer of opinion in the previous year to an adverse opinion in the year under review. The municipality ensured that all documentation requested for auditing was submitted, but did not ensure the credibility and accuracy of this information.

The municipality continued to depend on the services of consultants to assist with the preparation of financial statements at a cost of R3,2 million (2011-12: R286 406). The municipality did not obtain value for money from the use of these consultants, as the disclosures in the financial statements were not complete and material misstatements were identified in this regard during the audit process.

Six key risk areas

A poor leadership tone, together with a lack of skilled staff who could effectively discharge their roles and responsibilities, resulted in a stagnation in the status of all six key risk areas. The financial statements presented for audit purposes had not been adequately prepared and reviewed before being submitted, while the annual performance report was not aligned to the annual performance plan or supported by adequate audit evidence.

The status of SCM remained unsatisfactory, primarily as a result of the municipality in many instances disregarding the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process. HR management was ineffective during the year, resulting in the overall vacancy rate increasing from 32% in the previous year to 41% in the year under review.

IT controls remained unsatisfactory, specifically relating to access controls, the backup of data and the general IT control environment. In addition, the municipality's financial health was still of concern, as they were unable to collect debt and consequently pay creditors within 30 days.

Key controls and root causes

There was a regression in both the leadership and governance key controls

from the previous year, as the municipality still focused on trying to manage the audit instead of responding to our messages and taking ownership of internal controls by instilling basic financial and performance disciplines. The following controls must thus be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Daily and monthly processes should be implemented to verify the credibility of in-year financial, performance and compliance reports, thus setting the correct tone for efficient and effective oversight.
- Effective HR management processes should be implemented to ensure that adequate and sufficiently skilled officials are in place, whose performance must be monitored throughout the year. There should also be consequence management for all officials not adhering to laws, regulations and policies.
- The political and administrative leadership should effectively oversee financial and performance management and compliance with legislation, and focus on the key controls required to strengthen the control environment.

Impact of key role players on audit outcomes

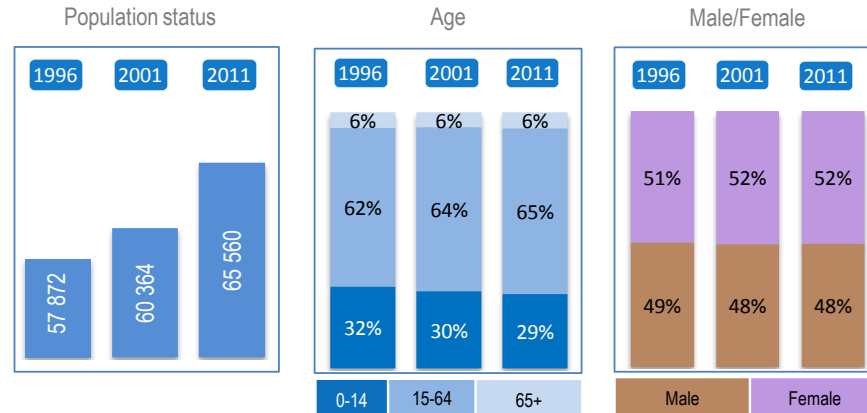
Senior management provided limited assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to discharge their responsibilities effectively. To improve the audit outcome, management needs to monitor and review monthly and quarterly reporting. The assurance levels should also be improved by directing the work of the internal audit unit, the audit committee and MPAC towards evaluating and monitoring the credibility of financial and performance information and compliance with legislation.

Our interactions with the mayor during the financial year had some impact on the audit outcome, especially relating to improving the audit process. Efforts were made to submit information, but there was no improvement in the underlying internal controls and the quality of the information submitted. Furthermore, not all commitments were implemented.

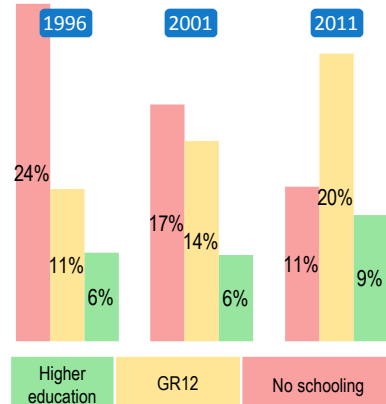
INXUBA YETHEMBA MUNICIPALITY

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Population

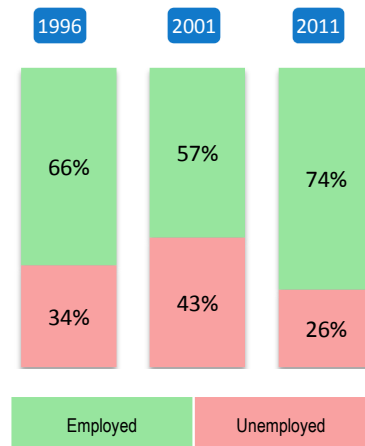


Education

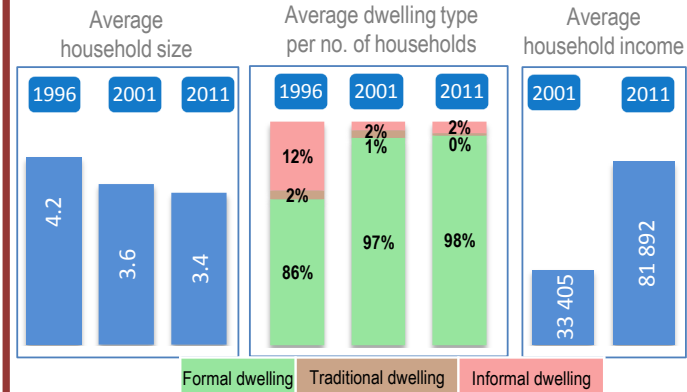


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

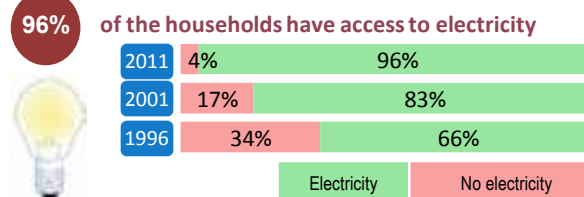
Labour



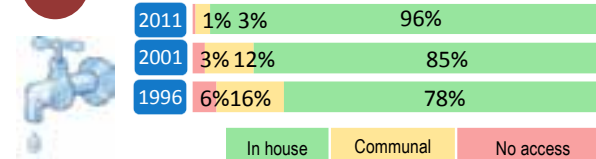
Households



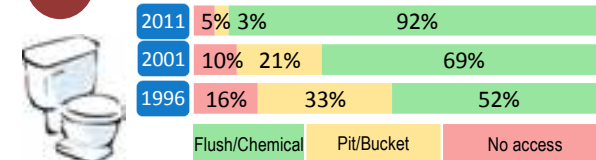
Basic services



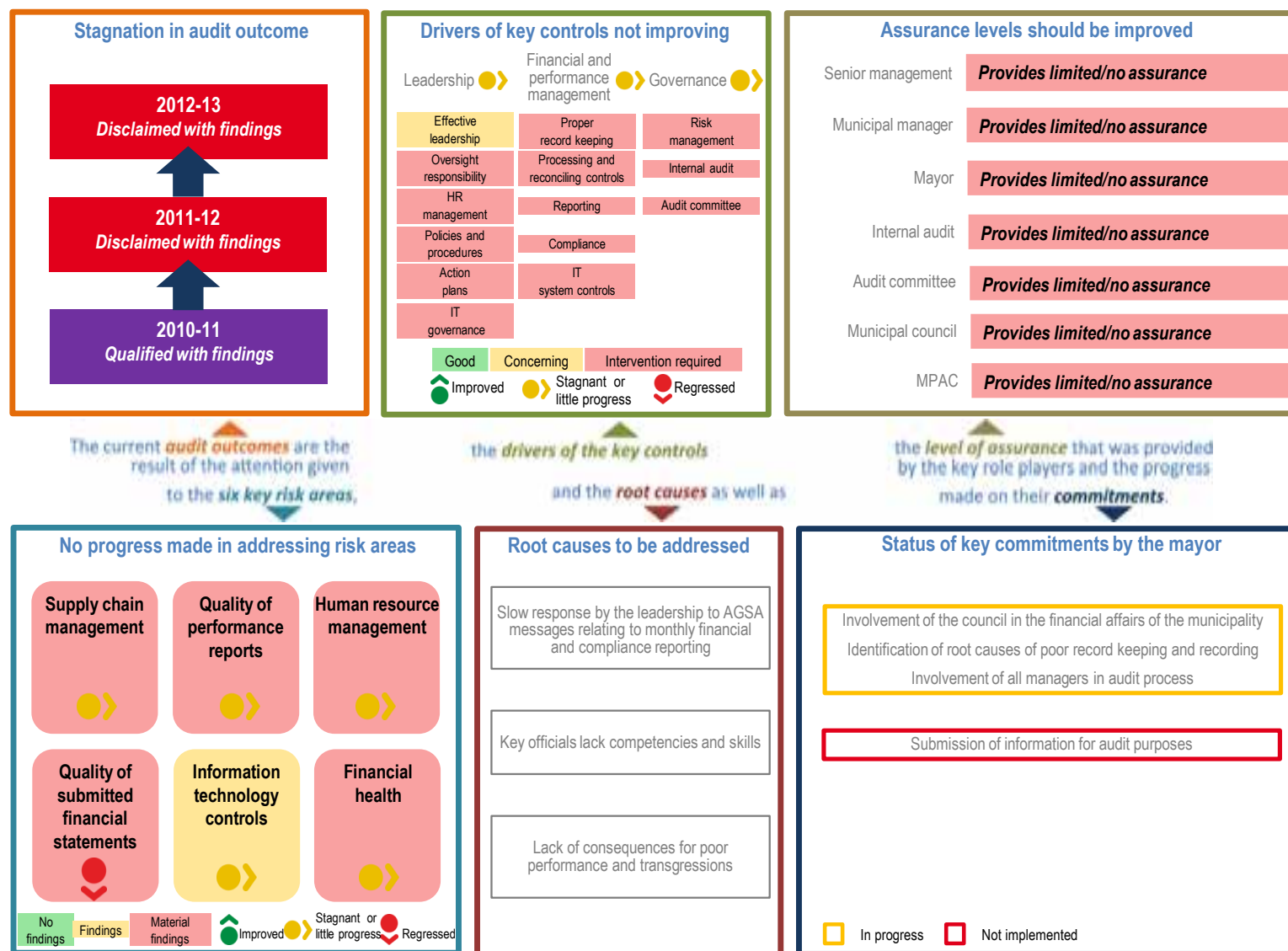
99% of the households have access to piped water



95% of the households have access to toilet facilities



INXUBA YETHEMBA LOCAL MUNICIPALITY



Inxuba Yethemba Local Municipality

■ *Disclaimed*

No movement in audit outcome

The stagnation in the audit outcome over the past two years was due to the municipality not addressing significant weaknesses in the overall control environment. As the municipality did not respond timeously to external audit findings raised in the previous period, the audit action plan was only implemented towards the end of the year. The municipality failed to ensure that there was a proper document management system and could not provide supporting documentation for a significant number of transactions and balances within the financial statements.

The municipality continued to rely on the services of consultants to assist with accounting services as well as the preparation of an asset register that complied with Standards of Generally Recognised Accounting Practice, at a cost of R3,8 million. However, the use of consultants did not contribute to any improvement in the audit outcome.

Six key risk areas

No actions were taken to address prior concerns around the six key risk areas. The lack of leadership intervention and no consequence management further heightened the serious concerns. As a result, there were still numerous material findings on all of the key risk areas. The financial statements were prepared by the chief financial officer, but these did not comply with the applicable accounting policies and the relevant accounting standards. The regression in the quality of the financial statements was also due to significant differences identified between the general ledger and the financial statements, for which no adequate explanations or supporting documentation could be provided.

The lack of improvement in SCM was due to the municipality not always complying with the applicable regulations when procuring goods and services. There was also no movement in HR management, due to the poor management of vacancies. The quality of the annual performance report did not improve and the municipality should focus on the presentation, consistency and measurability of the performance information, as well as on ensuring that adequate documentation is available to support the reported performance.

We could not assess the financial health indicators due to limitations imposed on the audit, as a result of a lack of accountability for financial management and poor oversight by the leadership. Improvements in the area of IT controls are still

required, specifically relating to the security of the IT systems, as the leadership did not make IT a strategic priority.

Key controls and root causes

The drivers of internal control continued to regress despite our quarterly evaluations, recommendations and interactions with both the political and administrative leadership. This brings the seriousness of the leadership to turn the municipality around into question. The municipality should focus on implementing a full and proper record management system; performing daily, weekly and monthly processing and reconciliations; and overseeing financial and performance management. The executive leadership, accounting officer and those charged with governance should address the root causes of the poor audit outcome and inadequate controls as follows:

- Prepare monthly or quarterly reports and financial statements that are supported by credible supporting documents.
- Accelerate the development, implementation and monitoring of action and turnaround plans to improve the audit outcome.
- Implement and instil formal consequence management in the culture of the municipality as part of performance management.

Impact of key role players on audit outcomes

The senior leadership in the municipality provided very limited or no assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to effectively discharge their responsibilities.

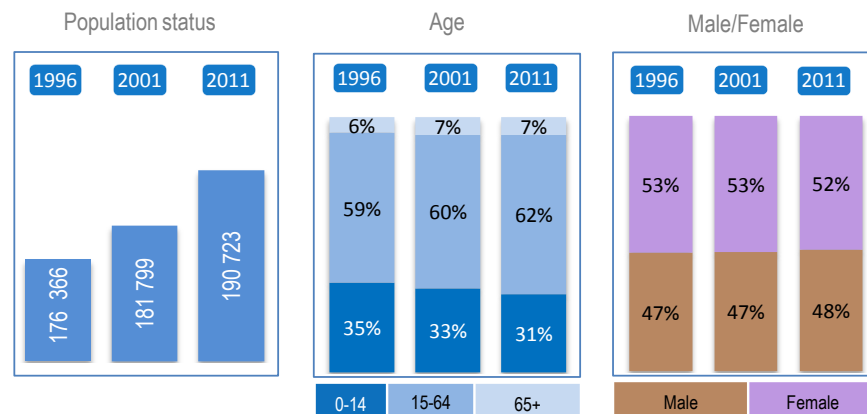
The level of assurance provided by MPAC, the mayor, the council and the audit committee was also limited by the credibility of the information provided to them. The internal audit unit was not sufficiently capacitated to perform the required reviews of the control environment, or to evaluate and monitor the credibility of financial and performance information. Until such time as senior management focuses on the daily disciplines and the monitoring and oversight of such disciplines, the assurance provided by none of the levels will improve.

We met with the mayor five times during the financial year. Unfortunately, these interactions had no impact on the audit outcome, as the mayor was not receptive to our messages and did not implement our recommendations, while commitments did not specifically address the root causes of the poor audit outcome.

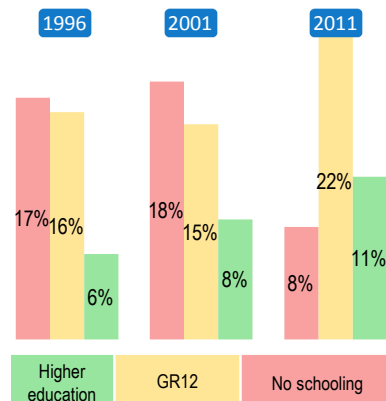
LUKHANJI MUNICIPALITY

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Population

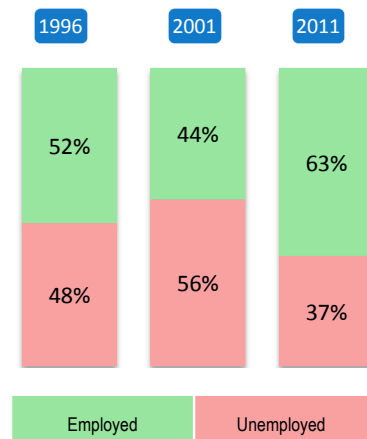


Education

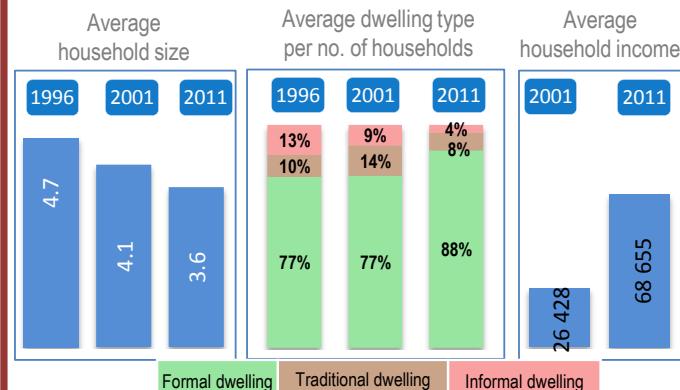


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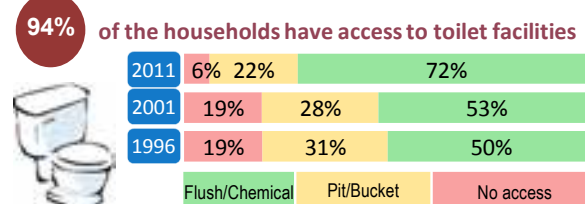
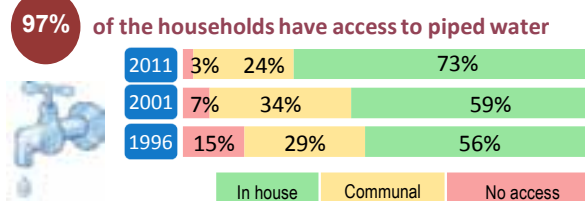
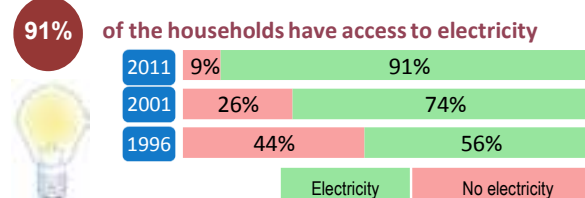
Labour



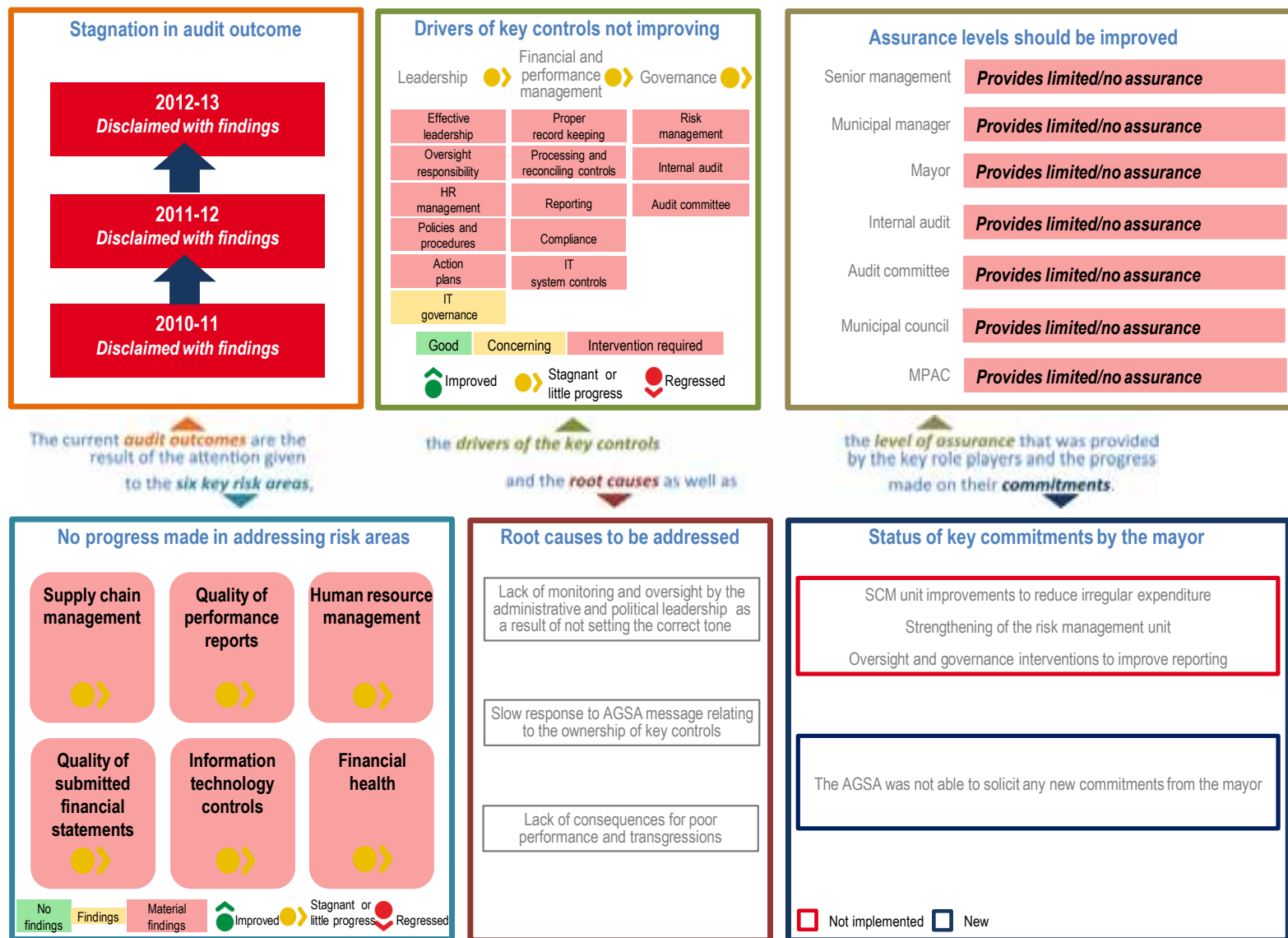
Households



Basic services



LUKHANJI LOCAL MUNICIPALITY



Lukhanji Local Municipality

■ *Disclaimed*

No movement in audit outcome

The stagnation of the municipality on a disclaimer of audit opinion for the past three years indicates that the municipal leadership did not adequately perform their leadership responsibilities. This was evident by the slow response to audit messages and the leadership not taking ownership of instilling basic disciplines and controls.

While we expected an improvement based on the previous year's commitments, the outcome highlights the recurring nature of matters reported on performance and financial management as well as non-compliance with legislation. As the municipality did not address prior year audit findings at a root-cause level, deficiencies in the underlying accounting records remained widespread. As a result, the appointment of consultants at a cost of R902 000 to assist with the preparation of financial statements had no impact on the outcome.

Six key risk areas

Weaknesses relating to the organogram were not addressed to ensure that the municipality was adequately staffed to meet its financial and service delivery objectives. Staff in financial and performance management positions did not have the required skills and competencies to discharge their roles and responsibilities effectively. As a result, there was no movement in the status of any of the six key risk areas.

Implementing SCM regulations and the relevant frameworks for reporting on predetermined objectives and financial matters remained a challenge within the municipality. The lack of skills and consequences for poor performance was further evidenced by the numerous deficiencies identified in the financial statements. This was made even worse by inadequate oversight and review at a leadership level.

IT access and security controls remained a risk for the municipality, significantly increasing the fraud risk, as staff had unlimited access to IT applications in certain functional areas.

It was not possible to assess the financial health of the municipality, due to the disclaimer of opinion on the financial statements, which had an impact on the reliability of the financial health indicators.

Key controls and root causes

The deterioration in the key controls was caused by a lack of effective leadership, a failure to implement daily disciplines for the regular and frequent monitoring of the processing and reconciling of transactions, and the municipality's filing systems not working optimally throughout the financial year.

The following controls must be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The leadership and governance structures should regularly and consistently oversee financial and performance reporting and compliance with legislation.
- Effective HR management should be implemented to ensure that adequate and sufficiently skilled officials are in place and are held accountable for their performance.
- Daily and monthly financial and performance disciplines should be implemented, and must be consistently monitored and reviewed.

Impact of key role players on audit outcomes

We met with the mayor five times during the financial year, but these interactions had no impact on the audit outcome. Furthermore, the commitments made by the mayor were not honoured.

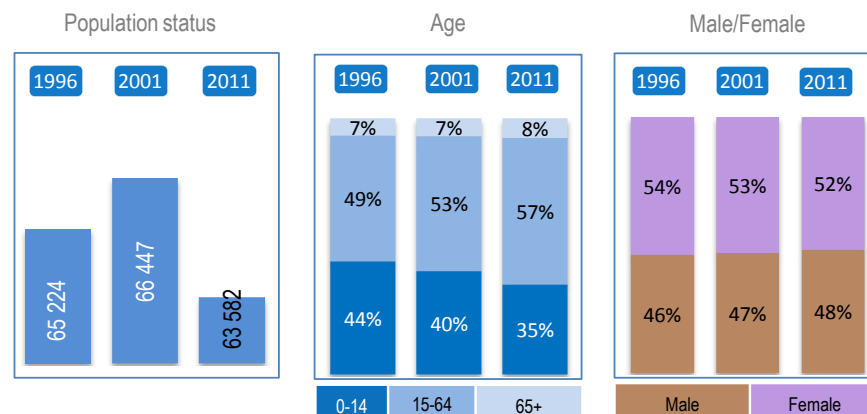
Senior management provided no assurance, which directly affected the credibility of the information produced and the ability of the other assurance providers to discharge their responsibilities effectively. The assurance provided was further negatively affected by the capacity constraints within the internal audit unit and the resultant impact on audit committee responsibilities.

In order to set a platform for improvement, the council, MPAC and audit committee should address inadequate controls through overseeing in-year reporting by management. In addition, role players should use the internal audit unit and audit committee to confirm that their oversight is based on credible information.

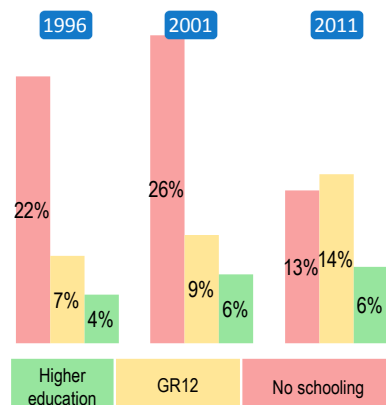
SAKHISIZWE MUNICIPALITY

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Population

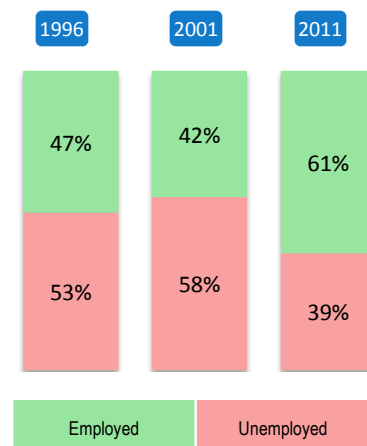


Education

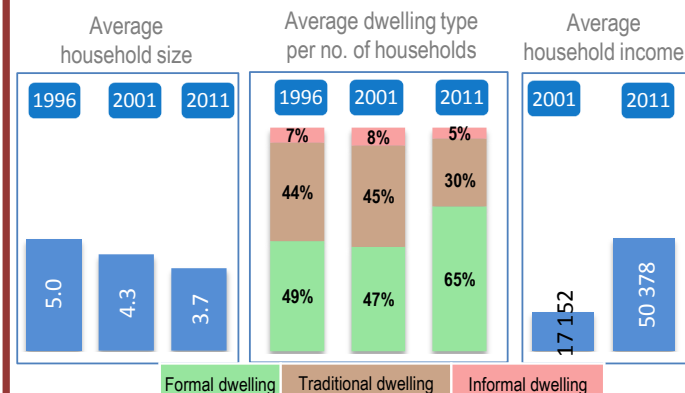


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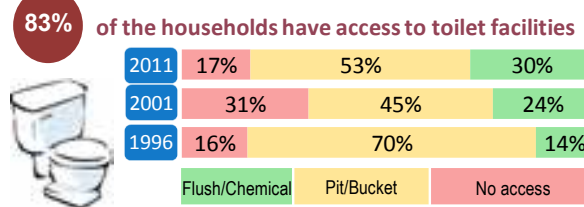
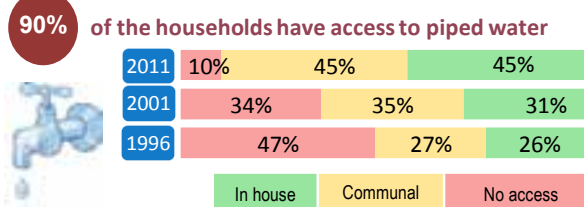
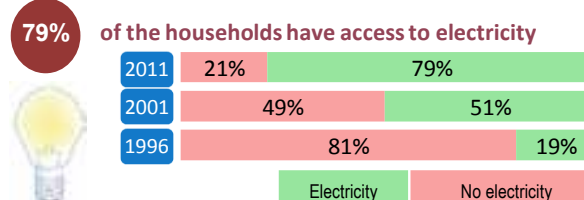
Labour



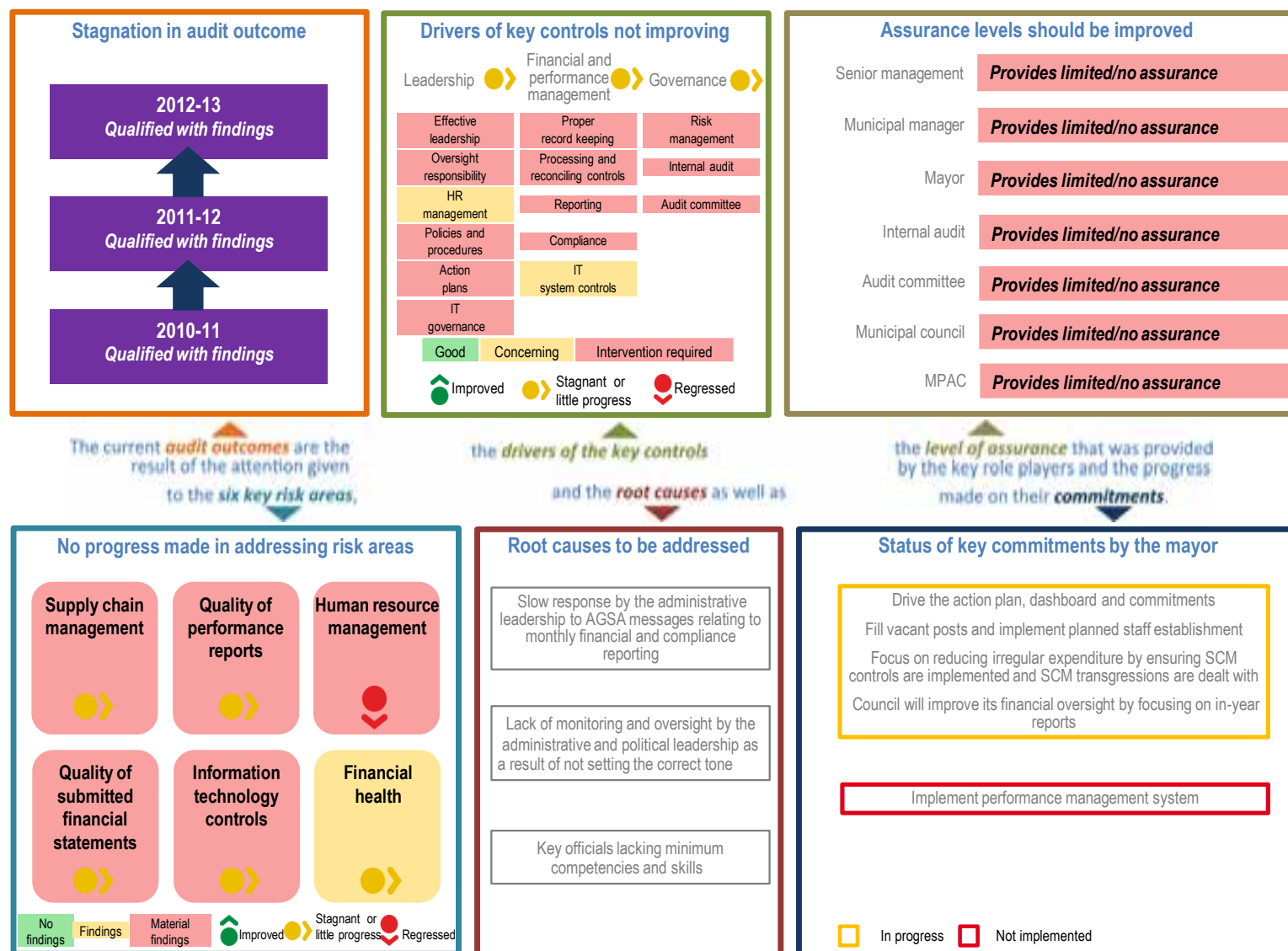
Households



Basic services



SAKHISIZWE LOCAL MUNICIPALITY



Sakhisizwe Local Municipality

■ *Qualified*

No movement in audit outcome

Although the municipality had fewer qualifications than in the previous year, their audit opinion remained unchanged. This was largely due to a lack of skills, as management positions were vacant for extended periods.

There was no improvement in performance reporting or compliance with legislation. This stagnation was the result of management not implementing external audit recommendations, and a lack of consequences for poor performance.

The municipality used consultants to assist in the preparation of the financial statements and performance report at a cost of R1,2 million. Skills were transferred and the work completed reduced the number of qualification items that would otherwise have been reported.

Six key risk areas

It is evident from the lack of movement in the audit outcome that daily, weekly and monthly financial reporting and monitoring disciplines have not filtered into the operations of the municipality, and as a result there was no improvement within the six key risk areas.

The SCM unit was under-capacitated, which resulted in this area remaining a challenge. In addition, there was poor monitoring and oversight of the activities of this unit throughout the year.

The leadership did not effectively monitor key deliverables, as performance management and reporting systems were not implemented and there were inadequate skills and competencies to manage this critical process.

An IT governance framework had not yet been approved and IT system controls had not been designed to ensure the reliability of the systems and the availability, accuracy and protection of information.

A lack of year-round financial discipline as well as insufficient review processes resulted in the inadequate assurance and credibility of the financial statements. As a result, the financial statements had to be adjusted during the audit process to avoid additional qualifications.

Key controls and root causes

Although the municipality had an audit intervention plan, it was not adequately implemented and monitored, while the leadership did also not take ownership of the required interventions.

In order for the municipality to improve and to realise the benefits of a well-functioning administration that delivers quality services to its citizens in accordance with its mandate, the administrative and political leadership must perform the following:

- Implement daily and monthly monitoring processes to verify the credibility of in-year financial, performance and compliance reports, thus setting the correct tone for efficient and effective oversight.
- Implement an effective performance management system that enables the leadership to hold staff accountable and instil the principle of consequence management.
- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, in accordance with the approved organogram.

Impact of key role players on audit outcomes

The senior leadership provided limited assurance, which directly affected the credibility of the information produced and the processes used, which also lessened the level of assurance provided by the council and MPAC. Until senior management focuses on the essential financial, performance and compliance disciplines, and the monitoring and oversight thereof, the assurance provided will not improve.

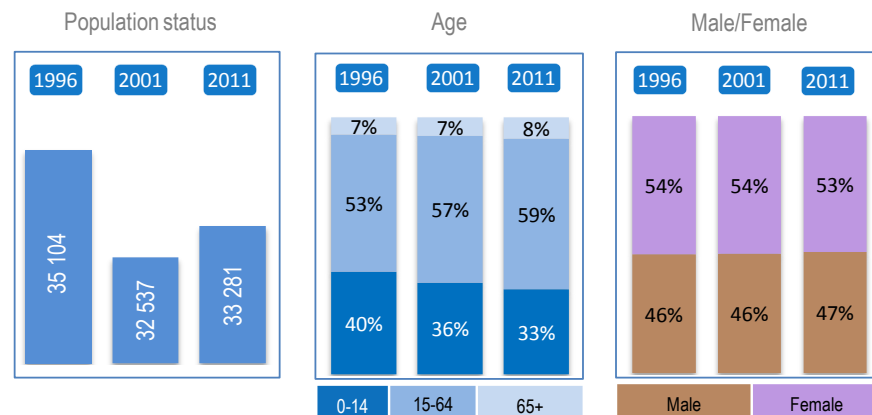
We met with the mayor three times during the year. Despite the mayor's openness to our messages, these interactions had a minimal impact on the audit outcome, as our recommendations were not adequately implemented and monitored.

The level of assurance provided by the audit committee and internal audit unit was limited. This can be improved if the internal audit unit is better utilised and directed. To pave the way forward, all role players need to work together towards an environment that promotes accountability.

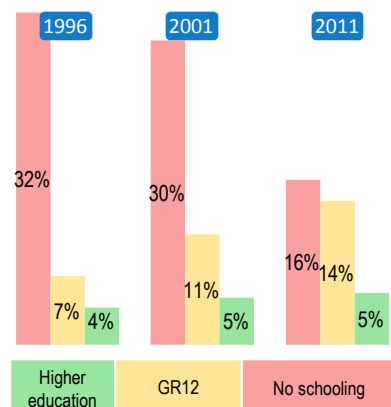
TSOLWANA MUNICIPALITY

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Population

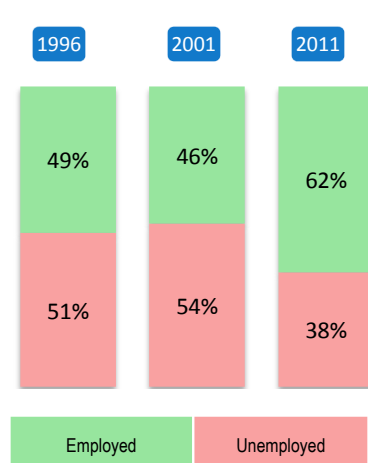


Education

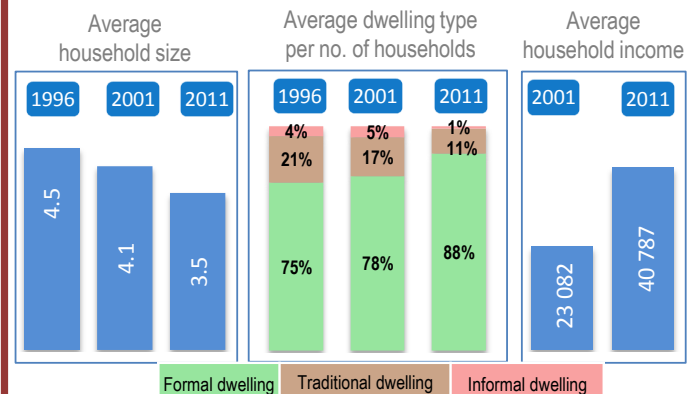


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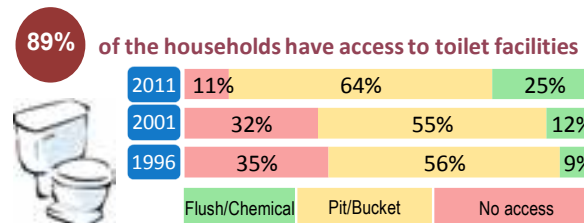
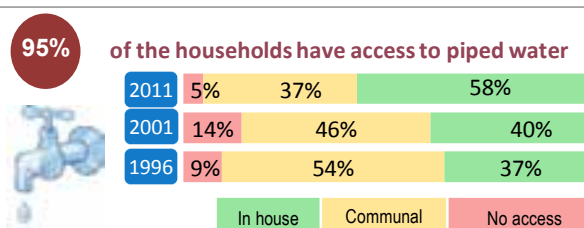
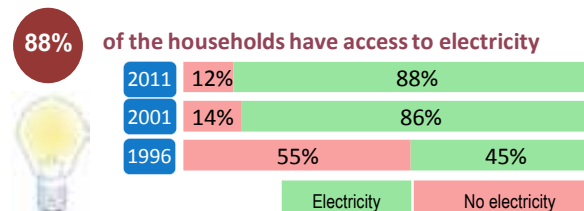
Labour



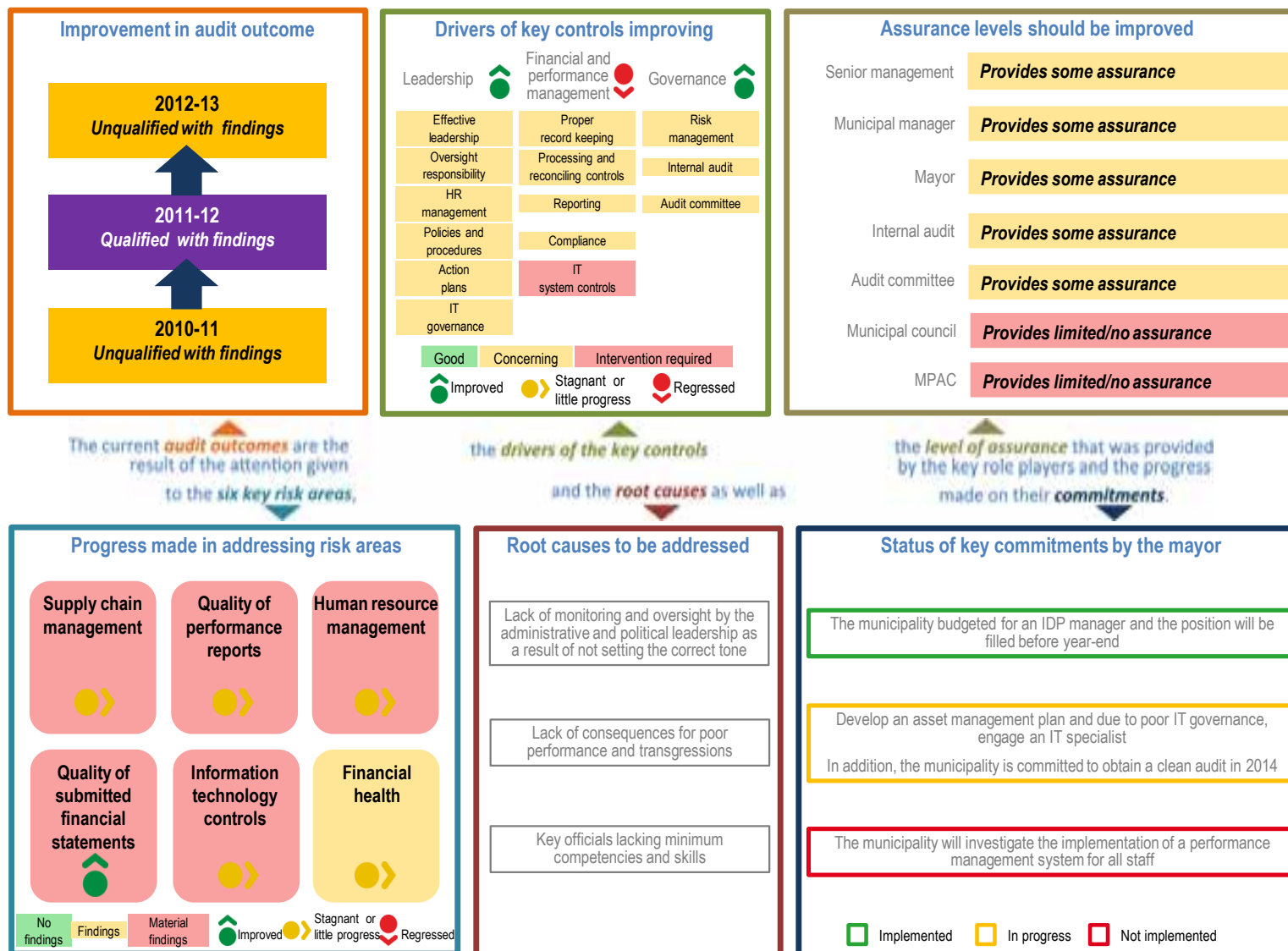
Households



Basic services



TSOLWANA LOCAL MUNICIPALITY



Tsolwana Local Municipality

■ Unqualified

Significant movement in audit outcome

The municipality improved from a qualified to an unqualified opinion with findings, as they responded to our messages to address prior year qualifications. This was done without using consultants but with the improved use of an action plan. However, some reliance was still placed on the audit process to identify and correct audit adjustments, as daily and monthly financial and performance disciplines were not embedded within the control environment. If this is not addressed adequately, it could affect the sustainability of the audit outcome in the following financial year.

Six key risk areas

The leadership did not adequately monitor key deliverables, as performance management and reporting systems were inadequate and the municipality lacked the necessary skills and competencies to manage this critical process. As a result, an annual performance report was not submitted for audit purposes.

194 Although the municipality managed to reduce the amount of irregular expenditure significantly, the application of, and the monitoring of compliance with, the SCM policy and regulations need to be addressed.

Despite the quality of the submitted financial statements improving from the previous year, material adjustments were again identified and corrected through the audit process, as indicated above.

IT access and security controls as well as HR management remained major challenges, as a result of a lack of capacity due to vacancies.

To sustain the current audit opinion and achieve a clean administration, the above areas should be addressed. The municipality should also not tolerate the inadequate execution of controls, deviations from legislation or a disregard for other financial management improvement projects.

Key controls and root causes

Although there was an improvement in the audit outcome, the key controls did not significantly improve. This was largely due to the processes that resulted in the improvement not being embedded in the control environment and daily financial and management disciplines not yet being institutionalised adequately.

The mayor, council, MPAC, municipal manager and other governance structures must strengthen the following controls to improve the audit outcome even further:

- Implement monthly processes to verify the credibility of in-year financial, performance and compliance reports, thus setting the correct tone for efficient and effective oversight.
- Implement consequence management through a performance management system for all staff.
- Fill all critical vacancies with appropriately qualified individuals who have the necessary skills and competencies.

Impact of key role players on audit outcomes

We met with the mayor three times during the financial year and these interactions had some impact on the audit outcome. However, the mayor must be more actively involved in overseeing financial and performance information, by focusing on the credibility of information provided by management.

Although the audit committee and internal audit unit made recommendations to management, the committee did not always follow up on the implementation thereof. In order to further improve the assurance level of senior management, processes to verify the credibility of information will have to be embedded in the control environment.

The desired impact of MPAC was not yet felt during the year, as no quarterly reports were submitted to the council, which hampered the effectiveness of their oversight role.

All role players should work together, continuously monitor the implementation of audit action plans, and assess whether the action plans adequately address the root causes of findings. These practices should be entrenched in the monthly disciplines to strengthen the control environment and ultimately lead to a sustained improvement. In addition, accurate and empowering financial and performance reports will enable effective oversight by the audit committee and other oversight bodies.

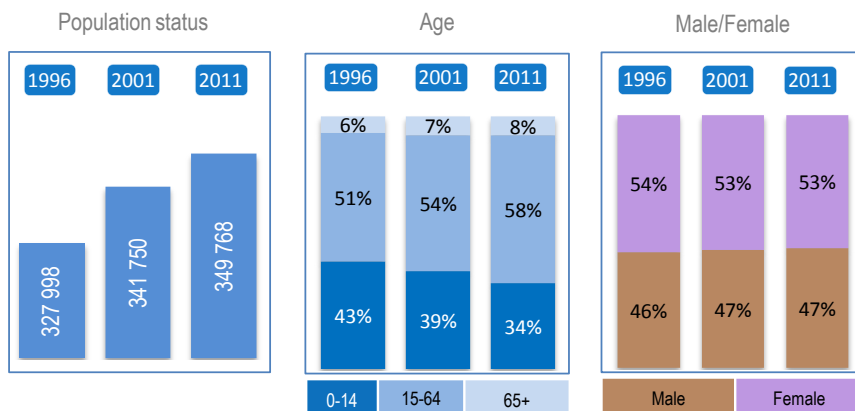
JOE GQABI DISTRICT

195

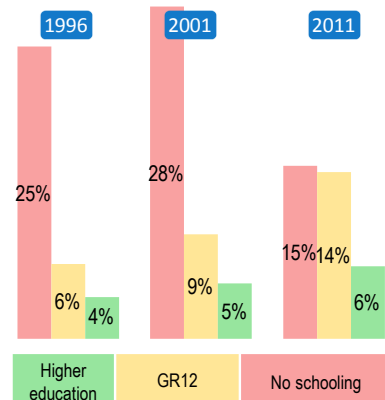
JOE GQABI DISTRICT MUNICIPALITY

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Population

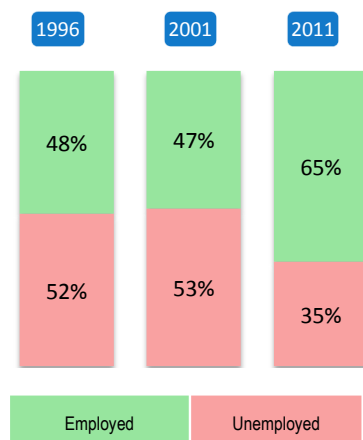


Education

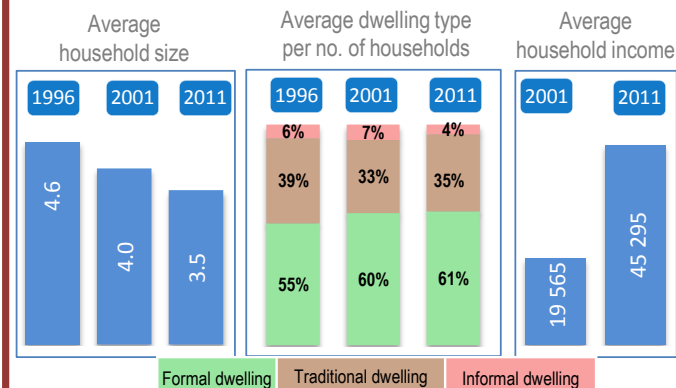


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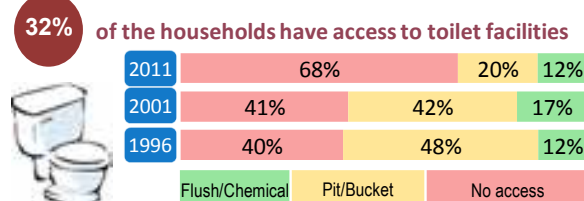
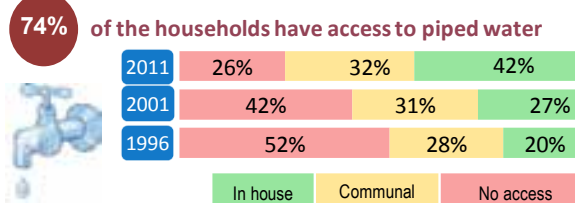
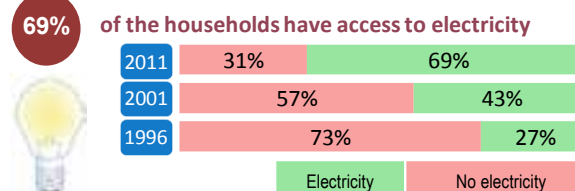
Labour



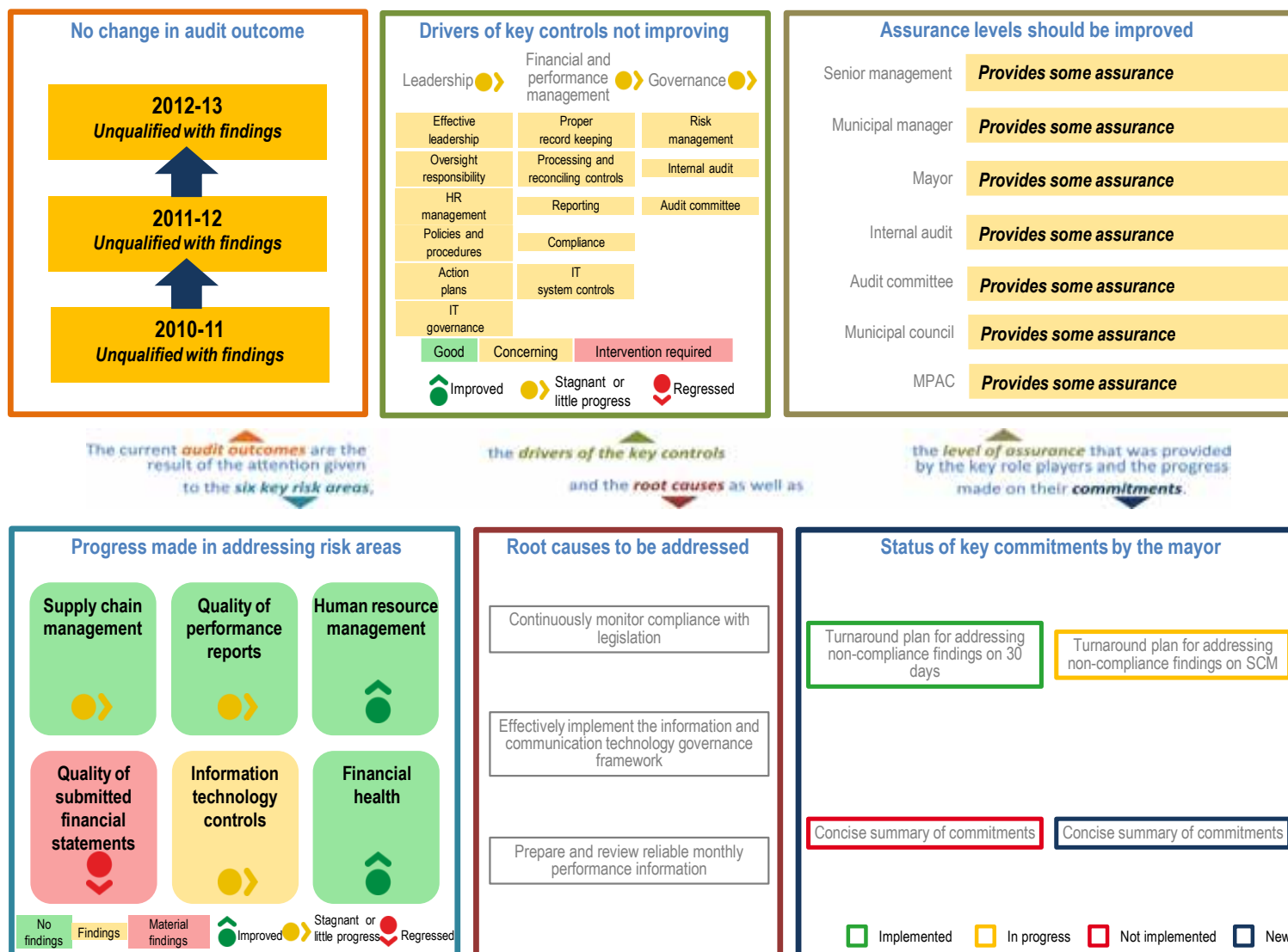
Households



Basic services



JOE GQABI DISTRICT MUNICIPALITY



Joe Gqabi District Municipality

■ *Unqualified*

No movement in audit outcome

Although the district municipality has received an unqualified audit outcome with findings for the past three years, steady progress has been made towards the ideal of a well-functioning administration, good financial management and accountability, as the number of non-compliance findings has decreased. The municipality is characterised by effective leadership and key personnel who have the appropriate technical skills and experience, but they had findings on non-compliance due to not following the proper procurement processes in urgent and emergency cases.

The municipality continued to rely on the services of consultants to assist with the preparation of financial statements and the valuation of infrastructure assets at a cost of R1 792 957 (2011-12: R2 741 871). The consultants' cost has decreased, as their scope of work is less each year due to the effective transfer of skills to municipal officials.

Six key risk areas

The quality of the financial statements regressed as material amendments were made due to a relaxation of the governance processes applied to the preparation of financial statements.

The SCM area did not show an improvement, and adherence to SCM regulations pertaining to urgent and emergency cases remained a concern, as it prevents the municipality from attaining the sustainable clean administration status.

Attention should be given to addressing the quality of the performance report, as adjustments were required to the submitted performance report due to a lack of daily, weekly and monthly disciplines and the effective monitoring thereof. Limited progress was made with regard to IT controls, as user account management was still unsatisfactory, mainly due to system limitations.

There were no findings on HR management and the financial health of the municipality, due to the positive response to our audit messages and the attention paid to addressing the root causes.

Key controls and root causes

The leadership effectively discharged oversight responsibilities by focusing on key controls as well as implementing and monitoring appropriate action plans where necessary. The key controls require only a slight improvement to ensure an all-

round movement into the good and sustainable category. The following controls should be strengthened to achieve this positive movement:

- Continuously monitor compliance with legislation and implement consequence management for deviations from legislation.
- Effectively implement the information and communication technology governance framework.
- Imbed the preparation and review of reliable daily, weekly and monthly performance information in the culture of the municipality. The accounting officer should develop focused information management templates for both financial and performance matters.

Impact of key role players on audit outcomes

Senior management members understood their role in working towards obtaining clean administration and facilitating effective oversight. However, their assurance was not at the required level, especially in the areas of SCM and performance management. The work of the internal audit unit and audit committee should be directed towards the evaluation of performance information and compliance with legislation.

We met with the mayor three times during the financial year and these interactions had some impact on the audit outcome, as he took our messages seriously and set up an action plan to address the prior year findings on performance information and non-compliance with procurement processes.

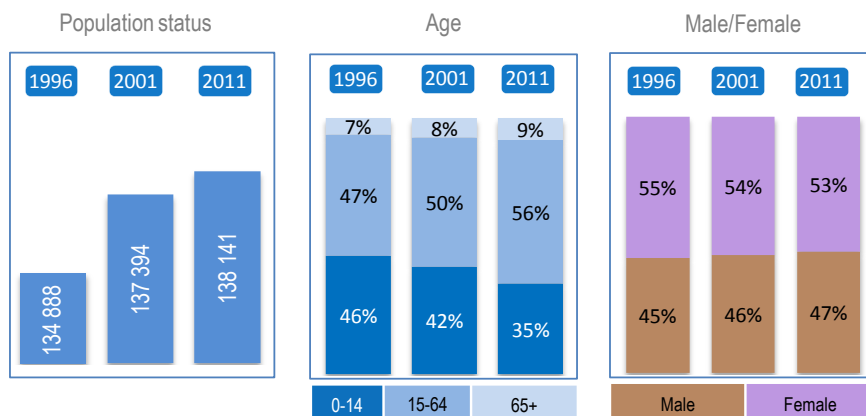
The council committed to implement the previous year's commitments fully, which were to evaluate the turnaround plan to address non-compliance findings related to SCM.

Going forward, all role players should work together towards addressing weaknesses in the key controls.

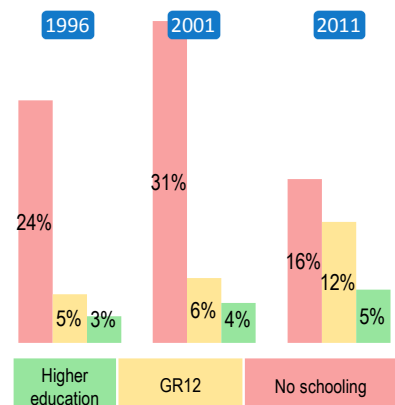
ELUNDINI MUNICIPALITY

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Population

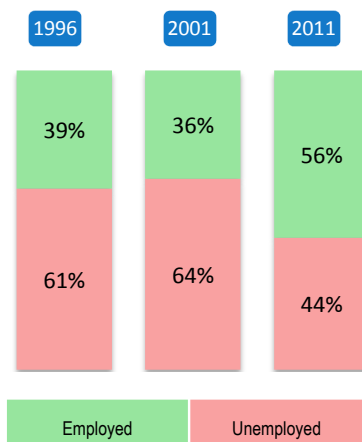


Education

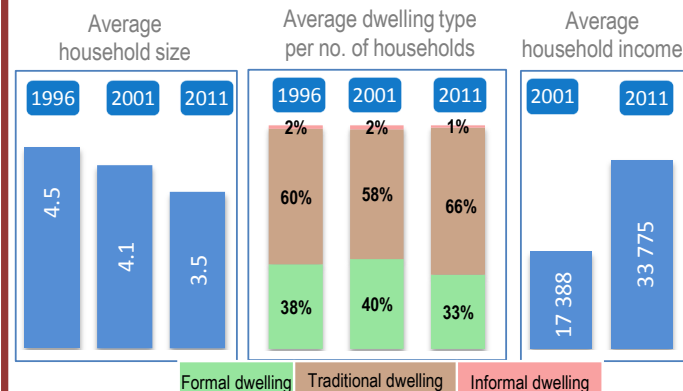


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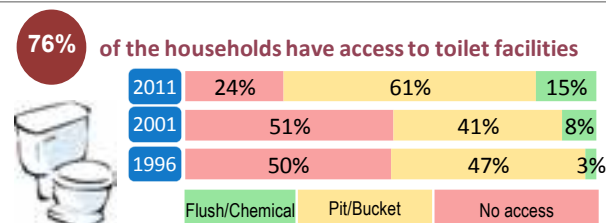
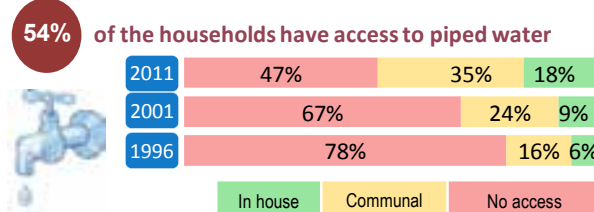
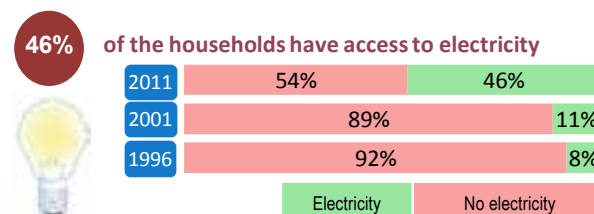
Labour



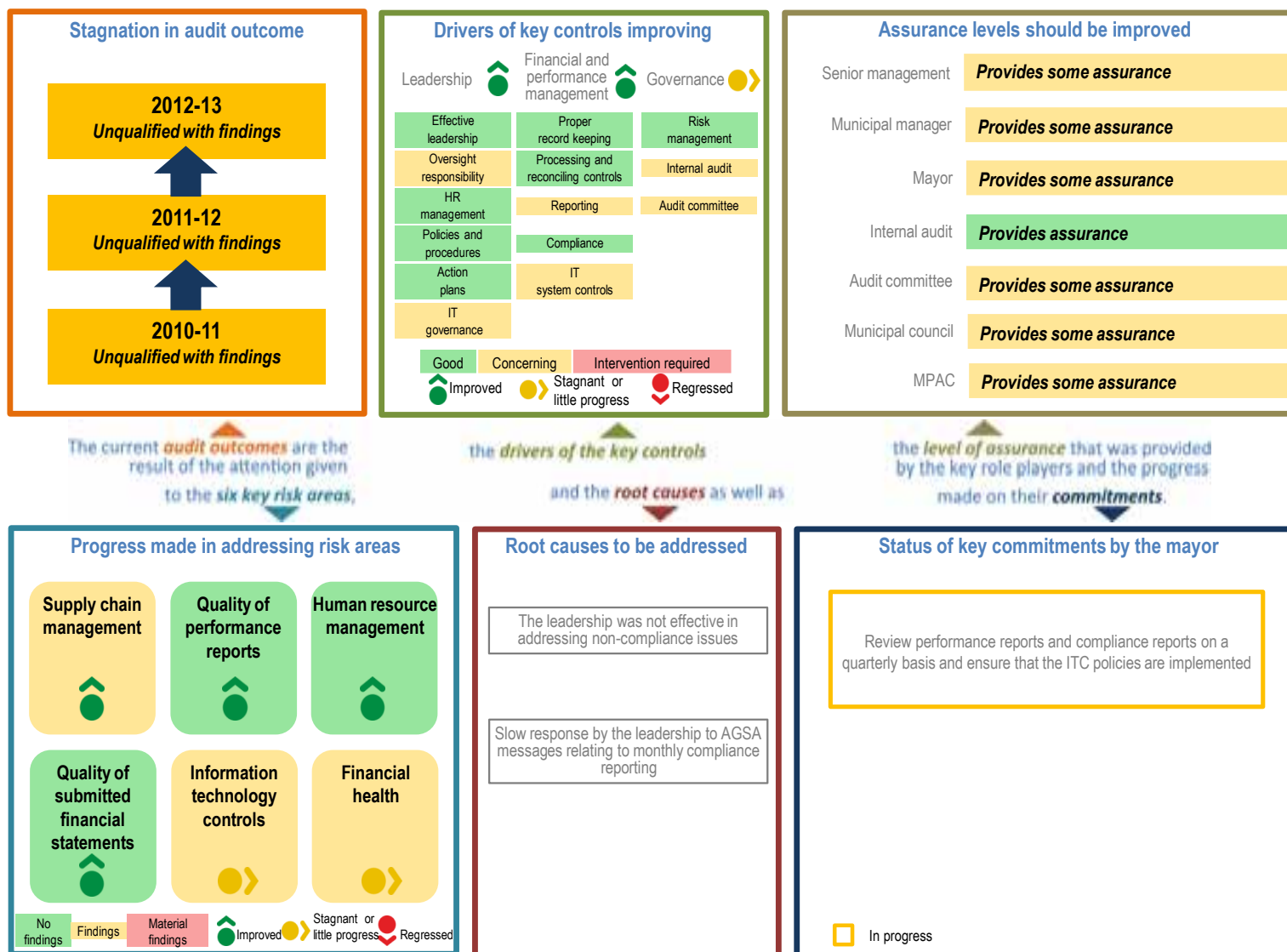
Households



Basic services



ELUNDINI LOCAL MUNICIPALITY



Elundini Local Municipality

■ *Unqualified*

No movement in audit outcome

The audit outcome was maintained through the collective work of all role players and an effective leadership. Although the municipality did not achieve a clean audit, it continued to address the number of findings on non-compliance. The involvement of key officials, stability within the leadership and the correct tone set by the mayor made an integral contribution towards this achievement.

The municipality continued to rely on the services of consultants to assist with the preparation of financial statements for auditing at a cost of R1 068 660 (2011-12: R1 291 075). The consultants added value, as the financial statements were of a good quality and no material amendments were required.

Six key risk areas

There was an improvement in the six key areas, with no findings on HR management and the quality of performance reports.

Progress was noted in the area of SCM, as the municipality correctly identified and reported irregular expenditure incurred during the year; they should now enhance the controls already in place to ensure that no irregular expenditure is incurred in future.

In respect of the IT controls, the information and communication technology governance framework had been approved, but was still being implemented. Once implemented, it should produce positive results in the IT environment.

The main concern in respect of the financial health analysis was that the municipality overspent its operating expenditure as a result of depreciation and impairments that were not adequately budgeted for. However, this did not have any impact on the service delivery of the municipality.

Key controls and root causes

The overall improvement in the key controls was due to the leadership and oversight focusing on key controls as well as on the progress made on commitments. This was mainly achieved by the municipality taking full ownership of the key controls, with the support of the internal audit unit, as well as actively monitoring these controls on a quarterly basis. The strengthening and enhancement of the daily and monthly financial controls, and the related monitoring thereof, assisted in producing credible and accurate information.

The following controls must still be strengthened to improve the audit outcome even further:

- Review and monitor compliance with legislation.
- Improve skills for year-end reporting to enable the preparation of financial statements and to reduce reliance on consultants.

Impact of key role players on audit outcomes

Senior management members understood their role in working towards obtaining clean administration and facilitating effective oversight. As a result, there were adequate processes to generate credible information on which to base decisions. However, some levels of assurance were not at the expected level, especially in the area of unauthorised expenditure.

Our interactions with the mayor had a positive impact on the audit outcome, as she was open to our messages and set the tone for implementing the required actions.

The internal audit unit and audit committee were effective and assisted in addressing risks that could negatively affect the control environment.

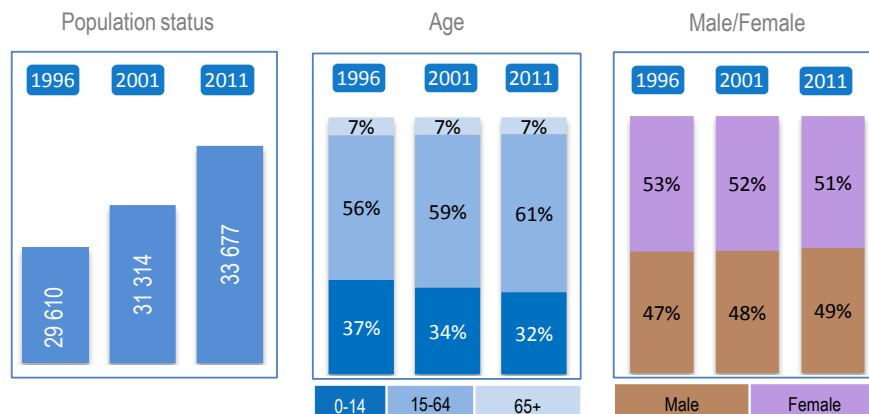
Although the council and MPAC performed the necessary oversight functions, there was not always evidence of the reviews performed. The council and MPAC have committed to review the quarterly performance and compliance reports going forward, in an effort to monitor the actions taken by management to address the audit findings as well as to assess the municipality's achievement of its objectives.

The role players, including the governance and oversight bodies, should not become complacent with the achievements of the municipality thus far, but should continue to execute their duties with diligence to improve the current audit outcome and to achieve the ultimate goal of a clean audit and clean administration.

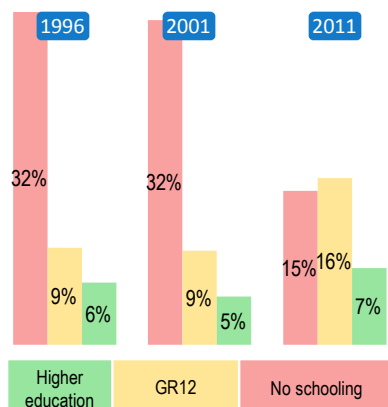
GARIEP MUNICIPALITY

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Population

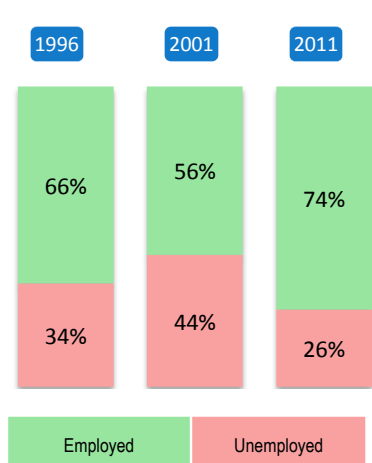


Education

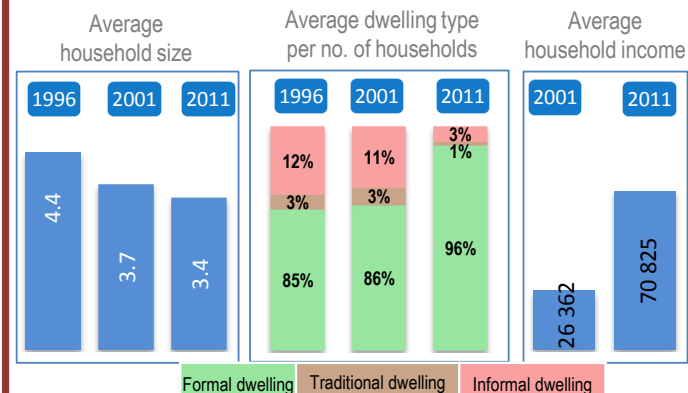


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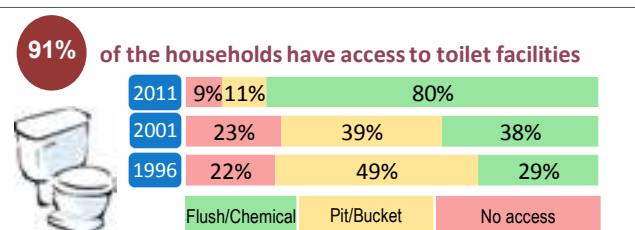
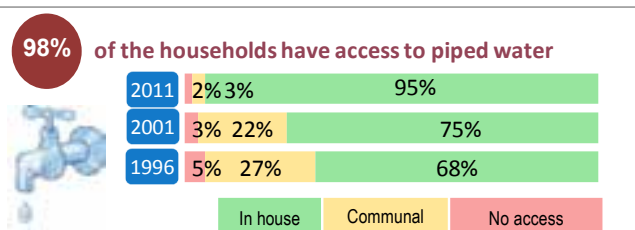
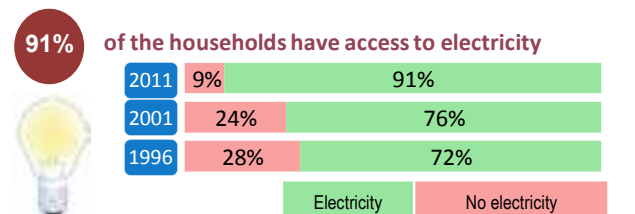
Labour



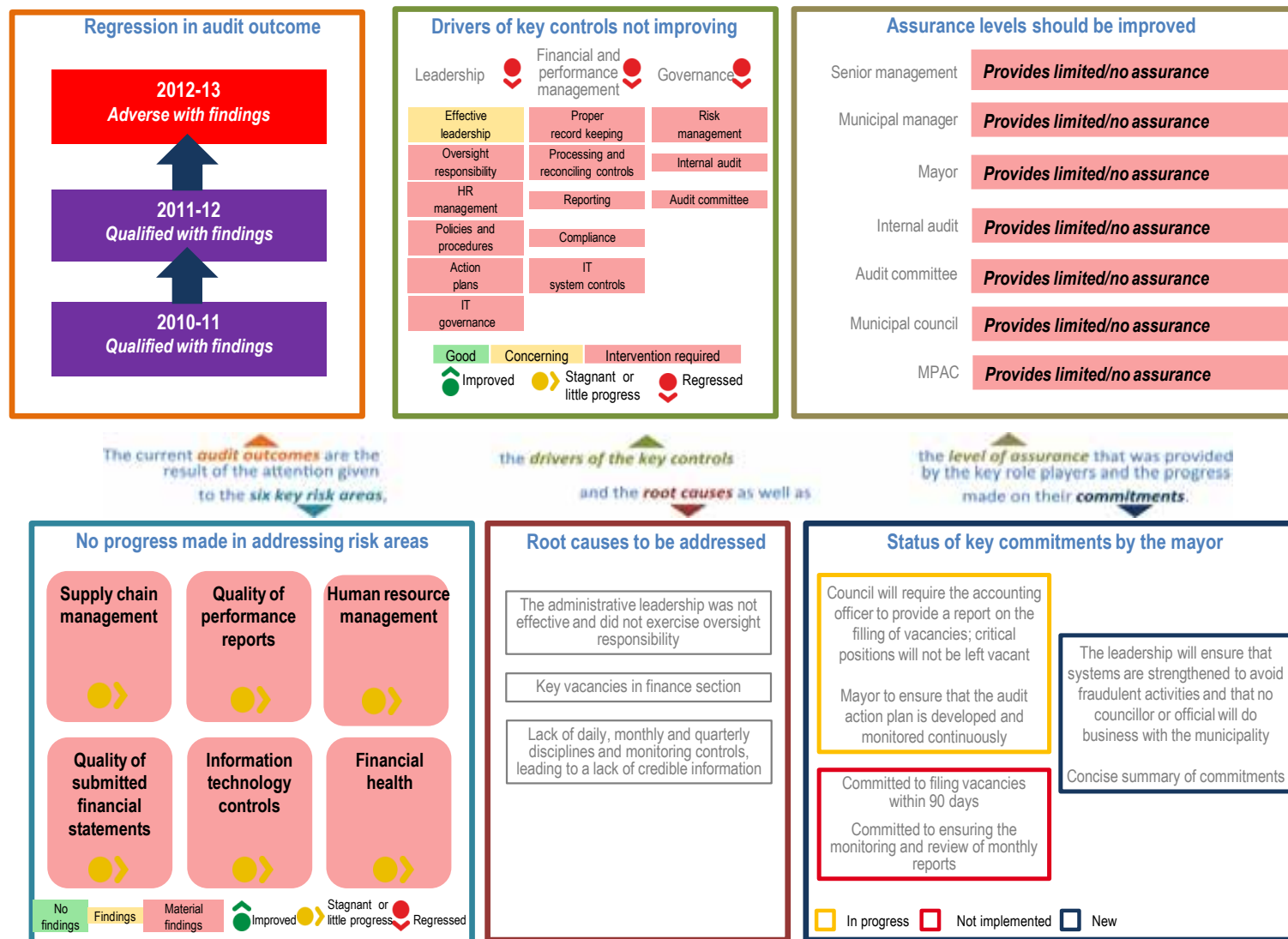
Households



Basic services



GARIEP LOCAL MUNICIPALITY



Gariep Local Municipality

■ Adverse

Regression in audit outcome

The regression in audit outcome points to an inappropriate leadership tone by both the administrative and the political leadership. The municipality regressed because of a lack of controls over daily processing and regular reviews, as well as the high vacancy rate and lack of adequate skills within the finance section, which led to a regression in the quality of the financial statements submitted for auditing. Furthermore, the municipality did not address prior year audit findings at a root-cause level, while deficiencies in the underlying accounting records remained widespread, resulting in an unsatisfactory control environment. As a result, the 2012-13 audit outcome underlines the recurring nature of matters reported on performance and financial management as well as compliance with legislation.

Also of concern is the municipality's continued reliance on the services of consultants to assist with the preparation of financial statements at a cost of R1,6 million (2011-12: R1,4 million). The municipality did not effectively manage the consultants, who did not transfer skills and did not have an impact on the audit outcome.

Six key risk areas

There was no improvement in the status of any of the six key risk areas.

There were critical vacancies in the finance section, which contributed to the numerous deficiencies in the financial statements, as skilled staff were not available to prepare good-quality financial statements.

The leadership did not ensure that there were adequate SCM controls. A significant amount of irregular expenditure was incurred that was not detected or prevented by the internal controls of the municipality.

As there was no system to monitor performance information, the indicators and targets reported in the annual performance report were not reliable.

IT controls remained a challenge within the municipality. The financial health of the municipality deteriorated due to poor cash flow, which could hamper service delivery.

Key controls and root causes

The deterioration in the key controls was caused by a lack of effective leadership and a failure to implement regular monitoring disciplines regarding the processing and reconciling of transactions. The following controls must thus be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- There should be stability in the leadership, and governance structures should oversee financial and performance reporting.
- Effective HR management should be implemented, including the filling of vacancies, to ensure that adequate and sufficiently skilled officials are in place, whose performance is monitored and who are held accountable for their actions.
- Effective controls should be designed and implemented over daily, monthly and quarterly disciplines; the preparation and review of performance reports; compliance with legislation on a monthly basis; and detailed reviews of the IT systems to ensure the credibility of information produced.

Impact of key role players on audit outcomes

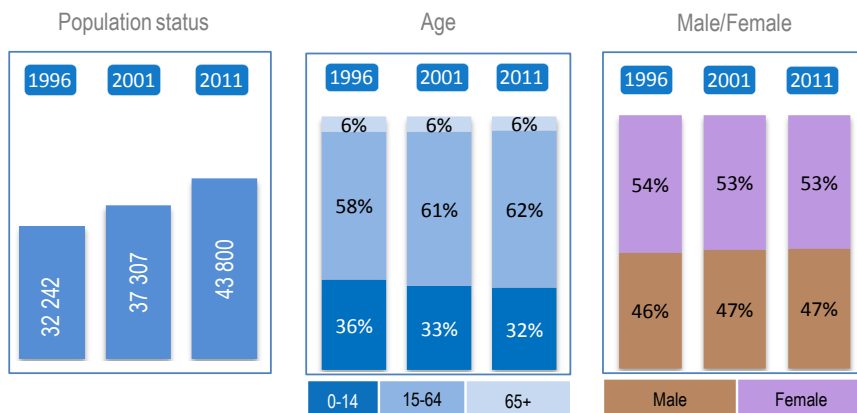
Senior management provided no assurance, as they did not address deficiencies in internal control. This directly affected the credibility of the information produced and the ability of the other assurance providers to discharge their duties effectively. The internal audit unit and audit committee were not effective, as management did not implement all of their recommendations. MPAC committed to fully implement the previous year's commitments (which were to review the controls over daily and monthly processing and reconciling of transactions each quarter), but their actions were insufficient to ensure an improved outcome, as they were not provided with empowering financial and performance reports to enable effective oversight.

We met with the mayor three times during the financial year, but these interactions had no impact on the audit outcome, as the mayor did not hold management accountable and failed to implement our recommendations. Furthermore, the commitments made by the mayor were not implemented. The council and MPAC should address the root causes of the poor audit outcome and inadequate controls by overseeing in-year reporting and insisting on processes to ensure the credibility of information.

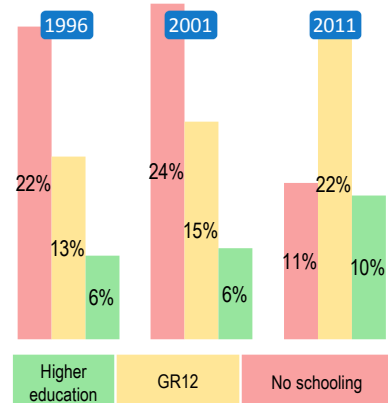
MALETSWAI MUNICIPALITY

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Population

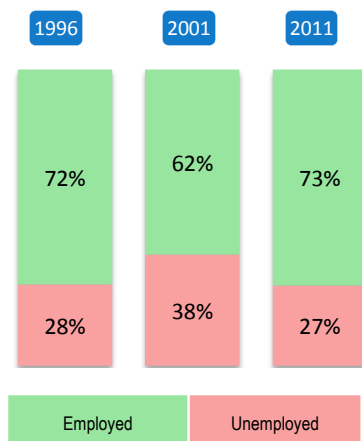


Education

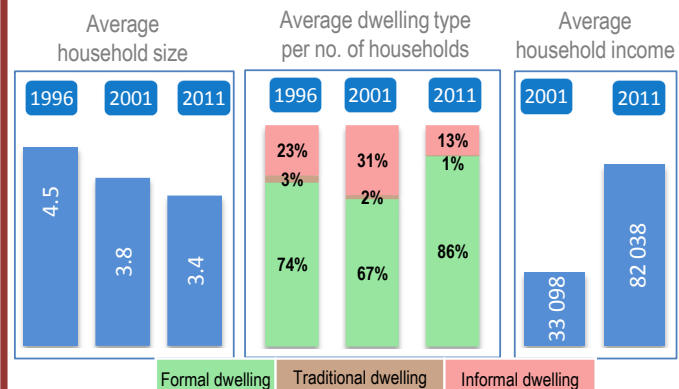


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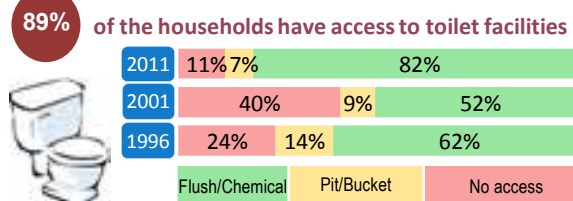
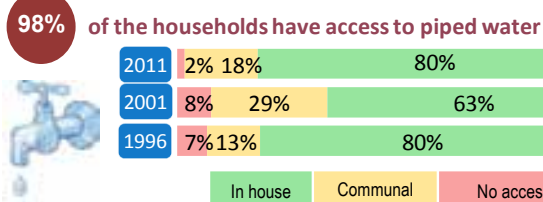
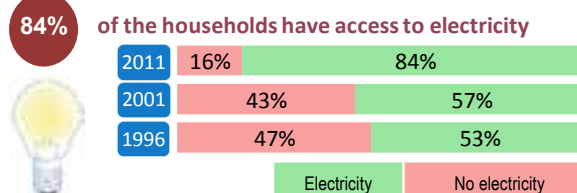
Labour



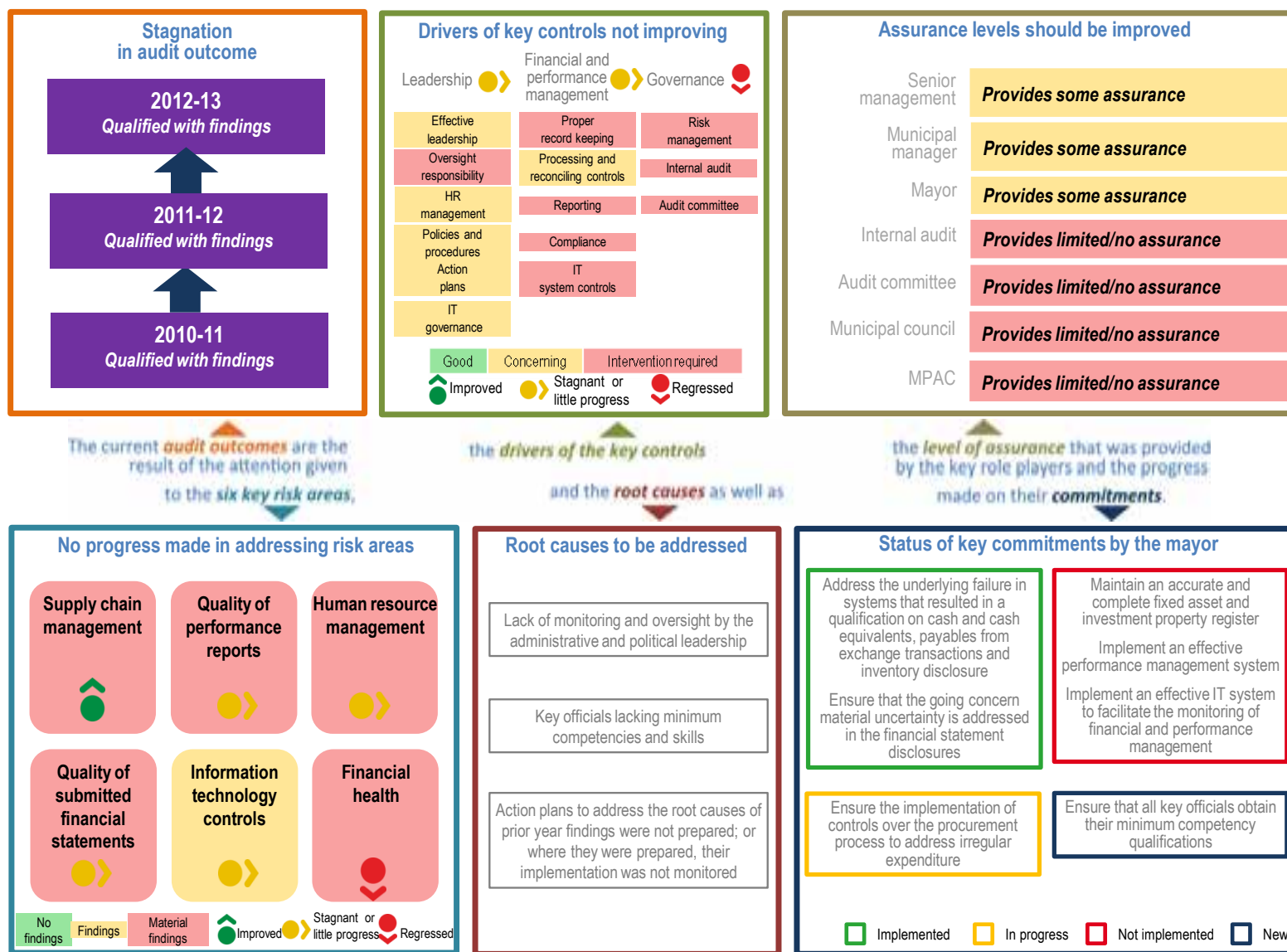
Households



Basic services



MALETSWAI LOCAL MUNICIPALITY



Maletswai Local Municipality

■ *Qualified*

No movement in audit outcome

The audit opinion of the municipality remained unchanged in the year under review, though with fewer qualification areas. Although the municipality undertook to address all prior year qualification areas through the implementation of the audit action plan, this was only partly achieved. This process did not commence timeously, resulting in the council, management, internal audit unit and audit committee not adequately implementing and monitoring the plan.

As a result, the municipality had to rely on consultants at a cost of R456 031 with respect to financial processes and reporting. Limited skills were transferred from the consultants to municipal staff, indicating that this situation will continue in the next financial period unless the municipality is capacitated with the necessary skills.

Six key risk areas

There was limited improvement in the six key risk areas. The only improvement was with respect to SCM, as there was a significant reduction in the amount of irregular expenditure. However, instances of approved deviations from prescribed procurement processes increased from the previous year, indicating that the SCM system was still a high-risk area that senior management and those charged with governance should focus on.

Financial health regressed, as the municipality disclosed a material uncertainty with regard to its ability to operate in the near future. Income generation was hampered by the large poor population supported by the municipality, which will have a negative impact on future service delivery.

The four remaining key risk areas, namely HR management, IT controls, the quality of financial statements and the performance management system, showed limited or no improvement from the previous year. The leadership did not adequately monitor key deliverables and ensured that senior management was held accountable for the lack of financial discipline within the municipality. This resulted in the quality of the submitted financial statements and performance report remaining poor.

The municipality's over-reliance on consultants and the audit process to identify and correct misstatements stemmed from the lack of the required internal skills and competencies to manage these critical processes.

Key controls and root causes

Consistent with the lack of improvement in the audit outcome, was the limited improvement in the key controls. This was due to the absence of adequately designed and implemented basic internal controls in respect of record management as well as daily and monthly processing and reporting activities. In order to set a platform for improvement and address the root causes of the poor audit outcome, the leadership, council, MPAC and audit committee must strengthen the following controls:

- Ensure the credibility of all information processed and reported, which should be strictly enforced and monitored by all role players. This can only be implemented effectively if processes of accountability are strengthened.
- Professionalise the municipality by focusing on recruitment and training within the municipality to build competencies and skills.
- Accelerate the implementation and monitoring of the action and turnaround plans already drafted at the municipality.

Impact of key role players on audit outcomes

We met with the mayor five times during the financial year. These interactions did not have a significant impact on the audit outcome, as the municipal leadership did not proactively address the failures in key controls we had communicated.

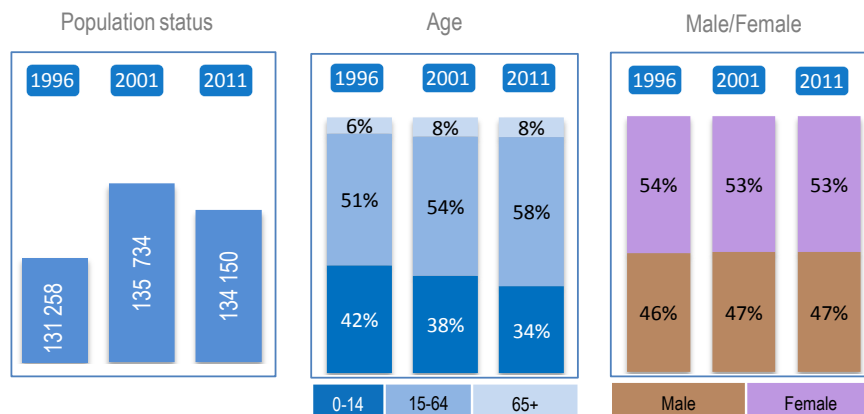
The governance structures were not effective in the year under review. There is a need for more active involvement in overseeing controls at the municipality, by focusing on the credibility of the information provided by senior management. This should be a priority area for the internal audit unit and audit committee.

The council committed to fully implementing the action plan compiled to address prior year audit findings, but this commitment was not fully honoured due to the late implementation of the plan and a lack of monitoring by this oversight body.

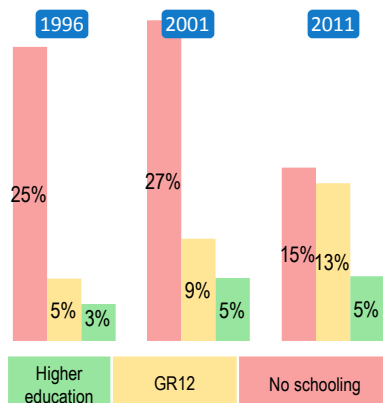
SENQU MUNICIPALITY

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Population

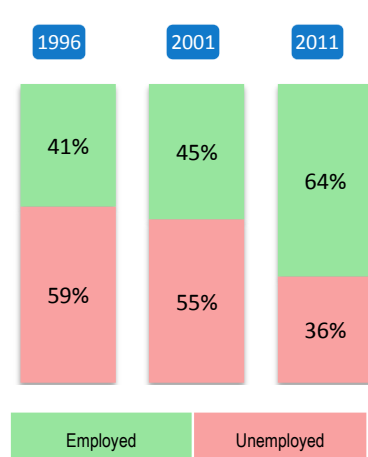


Education

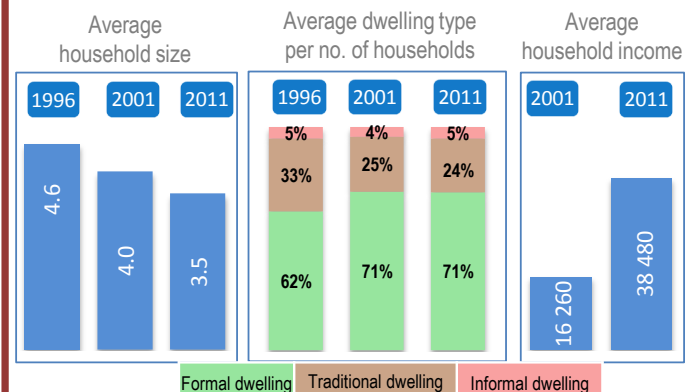


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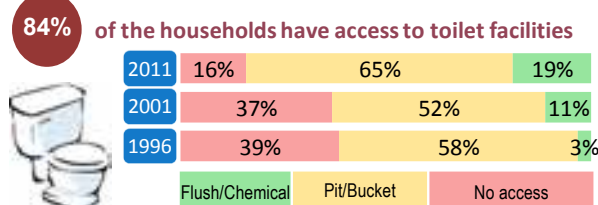
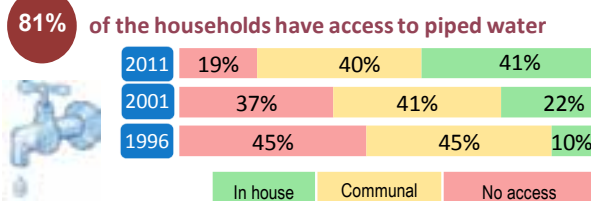
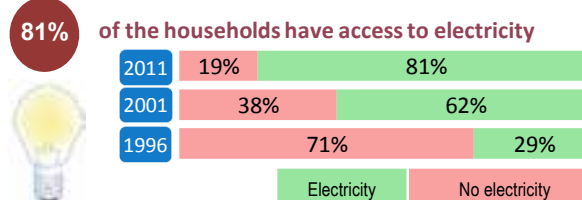
Labour



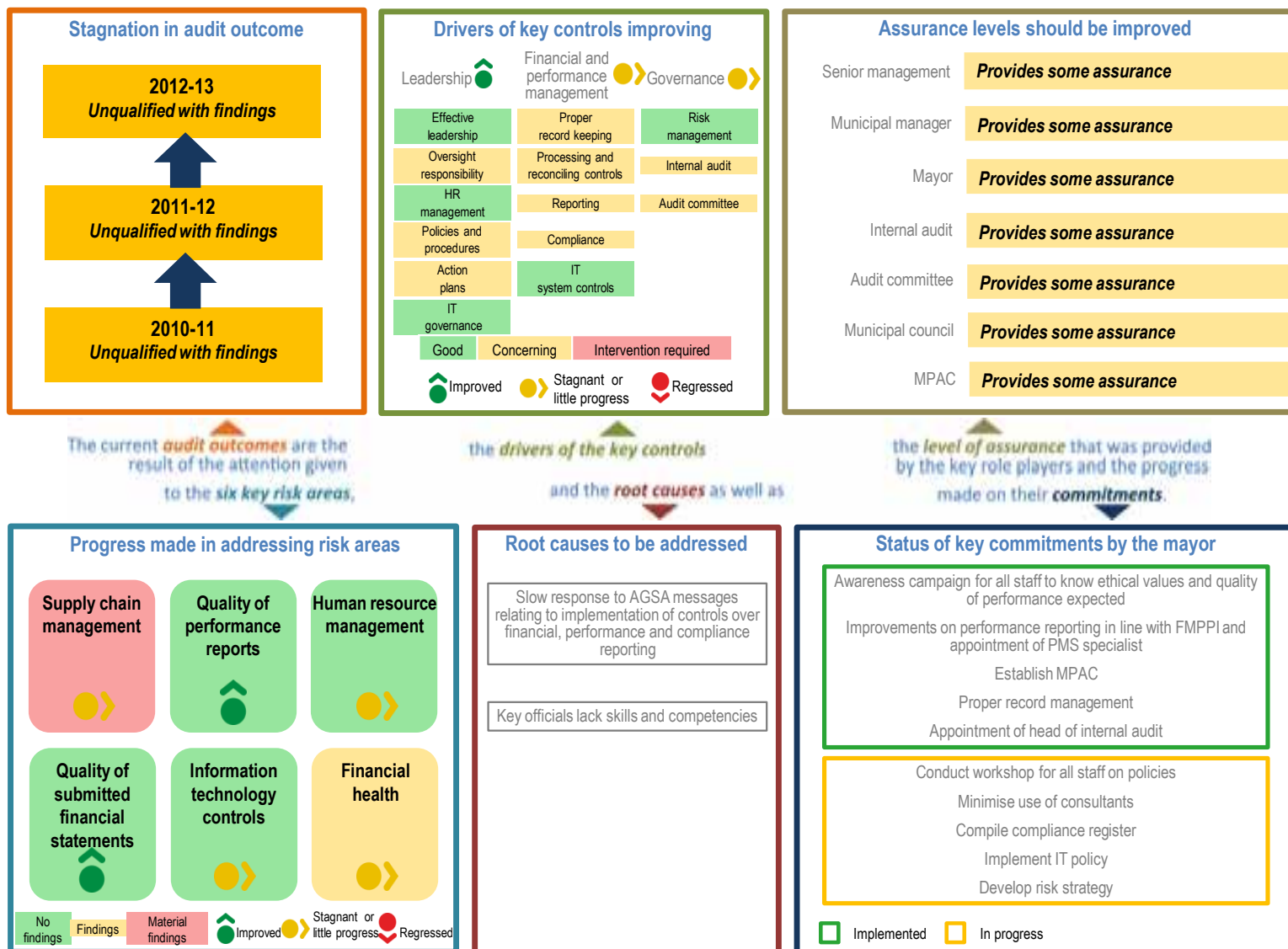
Households



Basic services



SENQU LOCAL MUNICIPALITY



Senqu Local Municipality

■ Unqualified

No movement in audit outcome

There was no significant movement in the audit outcome, and the municipality remained unqualified with findings on non-compliance but with no findings on performance reporting.

As a result of a lack of skills and capacity, the municipality appointed consultants to prepare financial statements and the performance report at a cost of R2 million (2011-12: R2 million) and R3,8 million, respectively, which had a positive impact on the audit outcome. However, there were no staff to perform these functions and the audit outcome is not sustainable should consultants not be used.

Six key risk areas

Although there were no material misstatements in the financial statements and performance report, there was a lack of year-round financial discipline and sufficient review processes over certain transactions. Reliance was placed on consultants at year-end to bring the financial and performance information records into a credible position, which resulted in some assurance and credibility regarding the financial and performance information during the year.

The municipality can achieve a clean audit if it monitors compliance more thoroughly. Some progress was noted with regard to compliance with SCM regulations, as the municipality managed to reduce the amount of irregular expenditure significantly. However, the regular monitoring and review of compliance with legislation needs to be improved.

The financial health status remained unchanged, due to significant underspending of the capital budget as a result of poor planning and budgetary control.

Key controls and root causes

There was an improvement in the key controls, due to adequately designed and implemented basic controls with respect to record management.

In order to set a platform for achieving a clean audit, the council, MPAC and audit committee must strengthen the following controls:

- Accelerate the implementation and monitoring of compliance with legislation.
- Implement year-round financial disciplines to provide credible information.

Impact of key role players on audit outcomes

We met with the mayor three times during the financial year. These interactions had some impact on the audit outcome, as we discussed audit matters and ways to address the root causes of weaknesses in key controls proactively. There is a need for more active involvement in overseeing the monitoring of compliance and daily disciplines at the municipality, by focusing on the credibility of the information provided by management.

The leadership, internal audit unit and audit committee provided some assurance, but there needs to be an increased focus on compliance with SCM legislation and some of the daily disciplines to achieve a clean audit.

The council was proactive and committed to fully implement the action plan compiled to address prior year audit findings. This commitment was to a large extent honoured in the year under review.

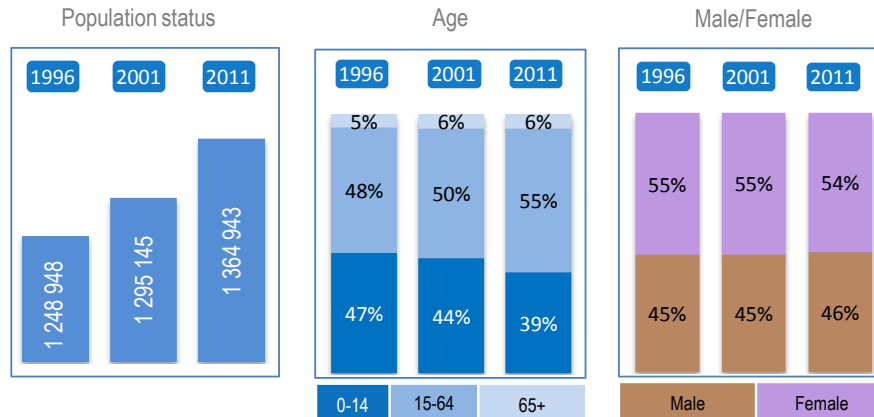
OR TAMBO DISTRICT

215

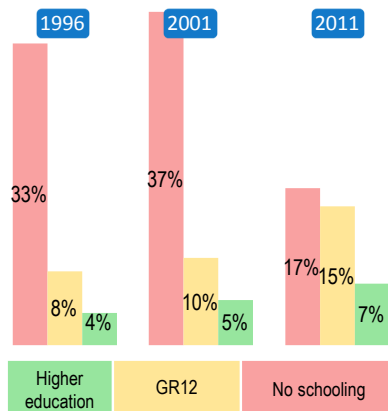
OR TAMBO DISTRICT MUNICIPALITY

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Population

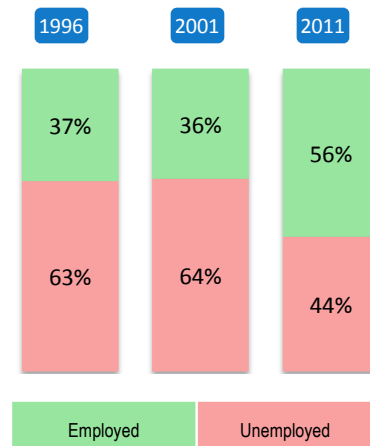


Education

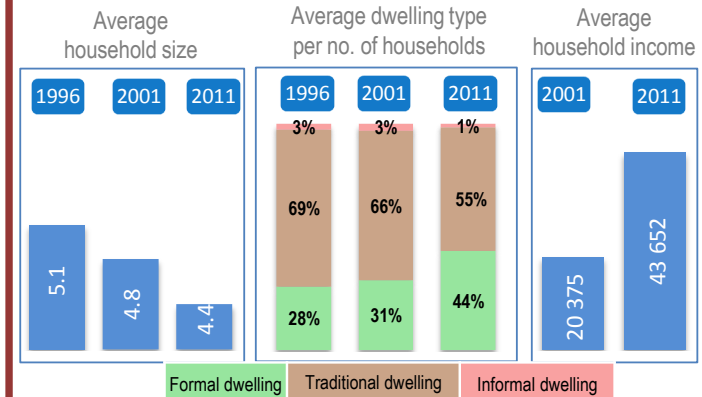


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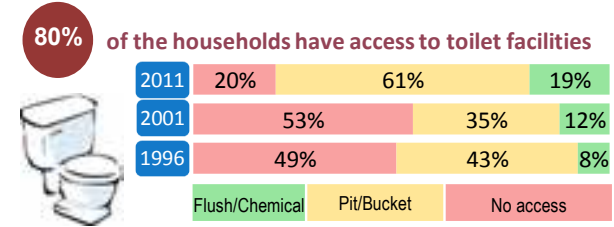
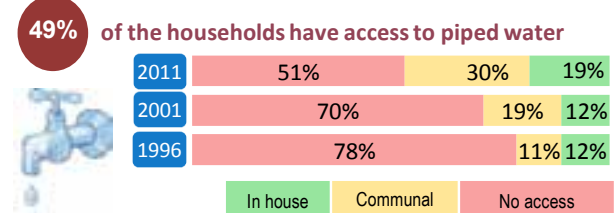
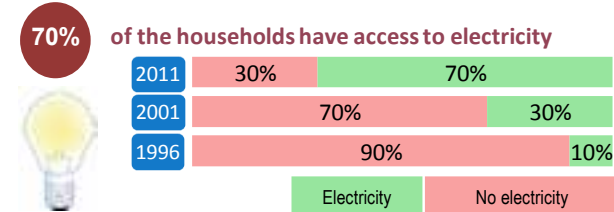
Labour



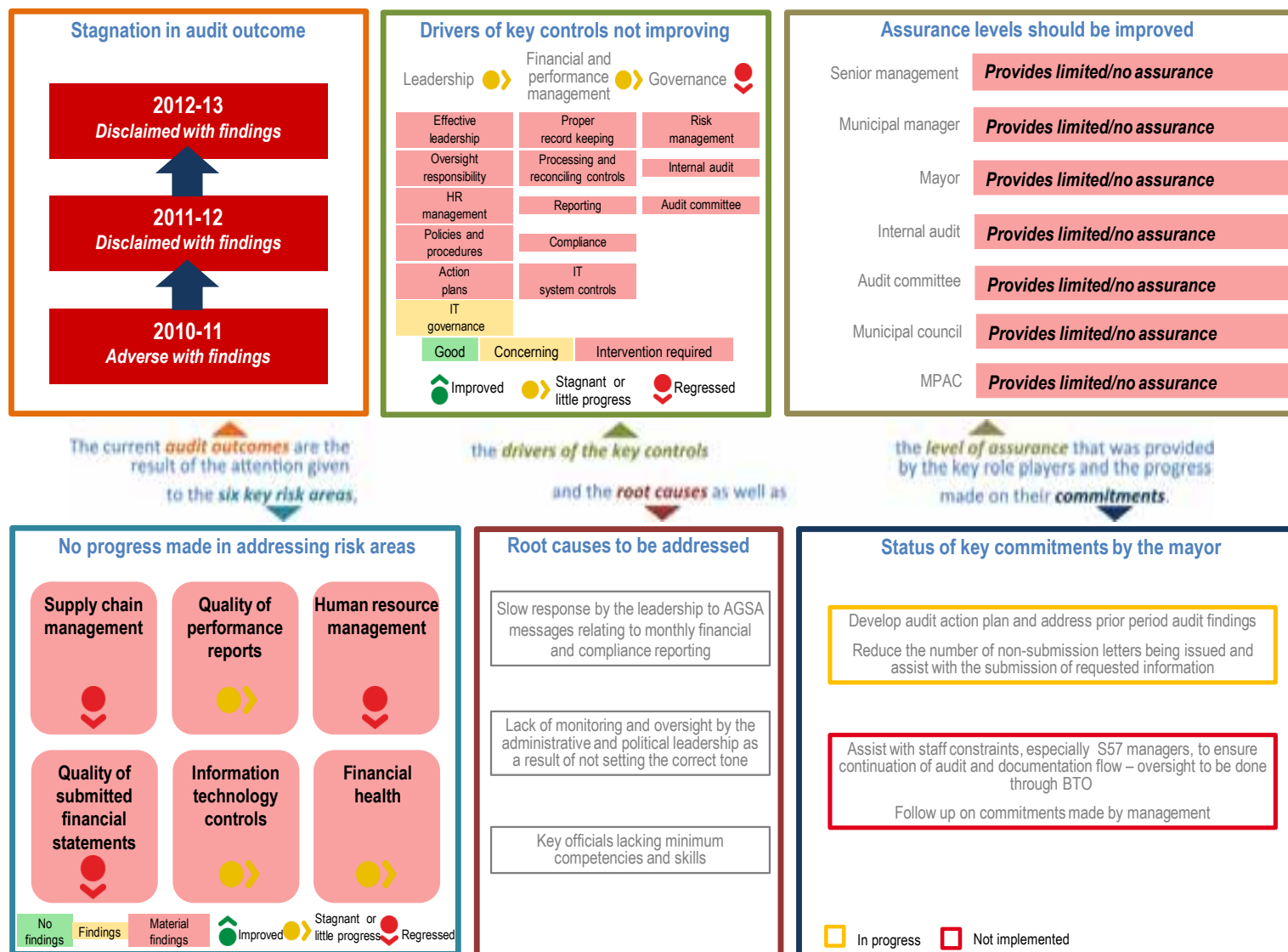
Households



Basic services



OR TAMBO DISTRICT MUNICIPALITY



OR Tambo District Municipality

■ *Disclaimed*

No movement in audit outcome

The stagnation in the audit outcome was due to leadership instability, vacancies in top management, a culture of good governance and accountability not being embedded, and practices that promote clean administration not being entrenched within daily, weekly and monthly activities. The ineffectiveness of governance structures also called into question the reliability of the evidence obtained and the authenticity of the accounting records and documentation.

Due to a lack of skills and capacity, the municipality continued to rely on consultants for the preparation of financial statements at a cost of R2,6 million (2011-12: R2,2 million). Due to the deep-rooted challenges in the accounting records and the day-to-day financial administration not functioning, the consultants could not contribute to an improvement in the audit outcome.

Six key risk areas

218 No actions were taken to address prior year concerns regarding the six key risk areas.

The lack of decisive leadership intervention and consequence management resulted in regressions in SCM, HR management and the quality of submitted financial statements. HR management was affected by poor management and a lack of leadership to deal with vacancies. With regard to SCM, there were significant transgressions in the procurement of goods and services. This breakdown in SCM controls increased the risk of fraudulent transactions. The deterioration in the quality of the financial statements was as a result of a lack of supervision and monitoring of daily, weekly and monthly financial activities. There was also a poor document management system, which resulted in the municipality failing to provide supporting documentation for audit purposes.

The quality of the annual performance report did not improve with regard to the presentation, consistency and measurability of performance information.

A lack of accountability for financial management and poor oversight by the leadership contributed to our inability to assess the financial health indicators, due to the limitations imposed on the audit.

Improvements in the IT controls are still required, specifically relating to the security of the IT systems, user access controls and service continuity, due to the leadership not making IT a strategic priority.

Key controls and root causes

The deterioration, or lack of improvement, in the key controls that resulted in the municipality continuing to receive disclaimers was due to a failure to implement daily disciplines over processing and reconciling of transactions as well as the filing and safeguarding of documentation.

In order for the municipality to improve and to realise the benefits of a well-functioning administration that delivers quality services to its citizens in accordance with its mandate, the administrative and political leadership and governance structures should focus on the following:

- Stability is required at leadership level and a culture of decisive leadership should be embraced. The correct leadership tone needs to be set so that the leaders effectively discharge their responsibilities of monitoring and oversight.
- The municipality should be professionalised by filling all critical vacancies with appropriately qualified and skilled officials.
- Proper consequence management for poor performance and transgressions should be implemented for all officials as part of the performance management system.
- Daily, weekly and monthly disciplines should be entrenched into municipal activities, systems and processes, thus promoting a culture of clean administration.

Impact of key role players on audit outcomes

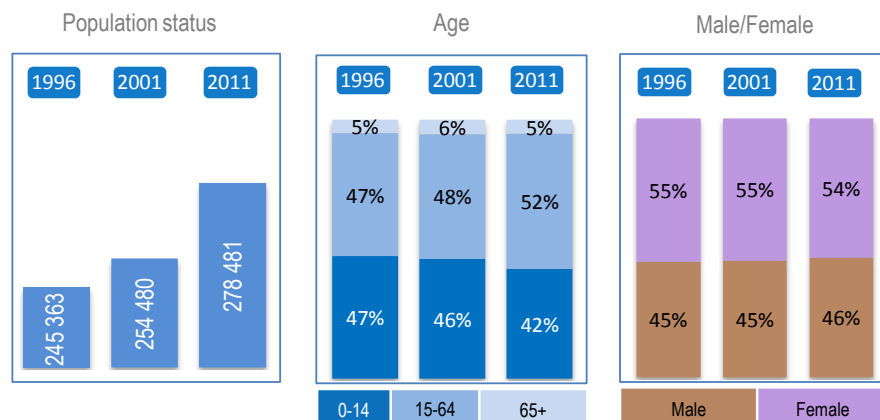
The leadership did not create an environment favourable for producing credible information. This had a direct impact on the effectiveness of the oversight bodies, as they were unable to fully execute their responsibilities and provide adequate assurance.

We met with the mayor three times during the financial year. Unfortunately, these interactions had no impact on the audit outcome, as the mayor did not take action to address the poor control environment or follow up previous commitments.

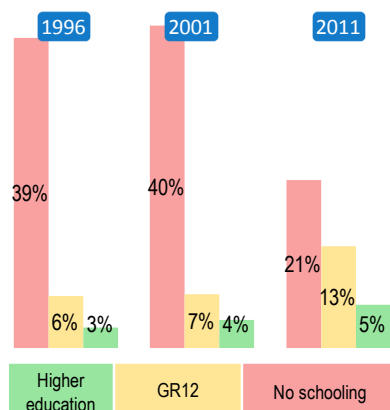
INGQUZA HILL MUNICIPALITY

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Population

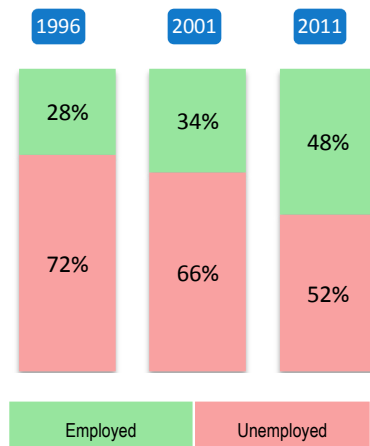


Education

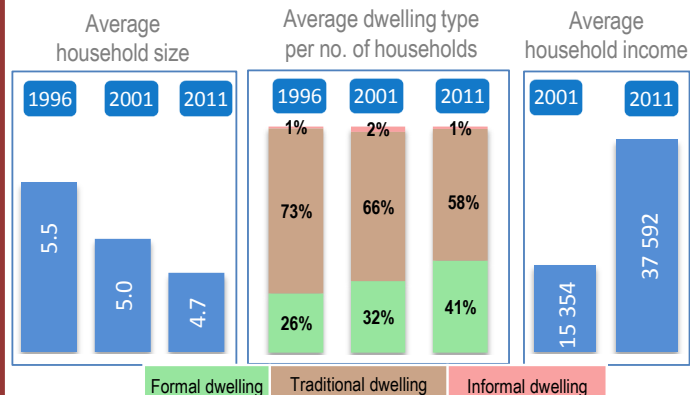


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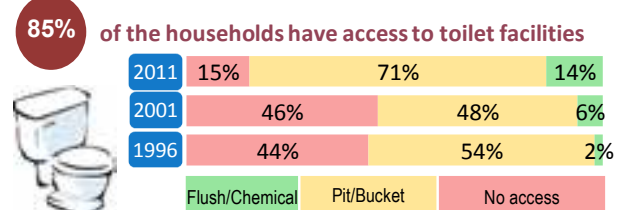
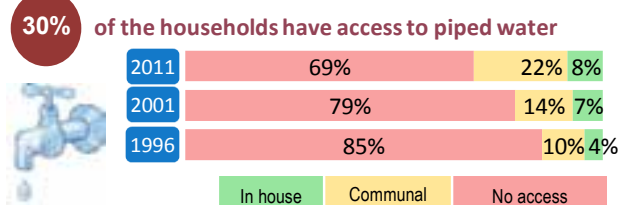
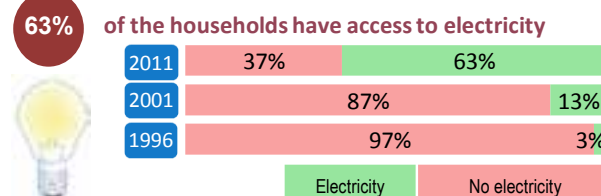
Labour



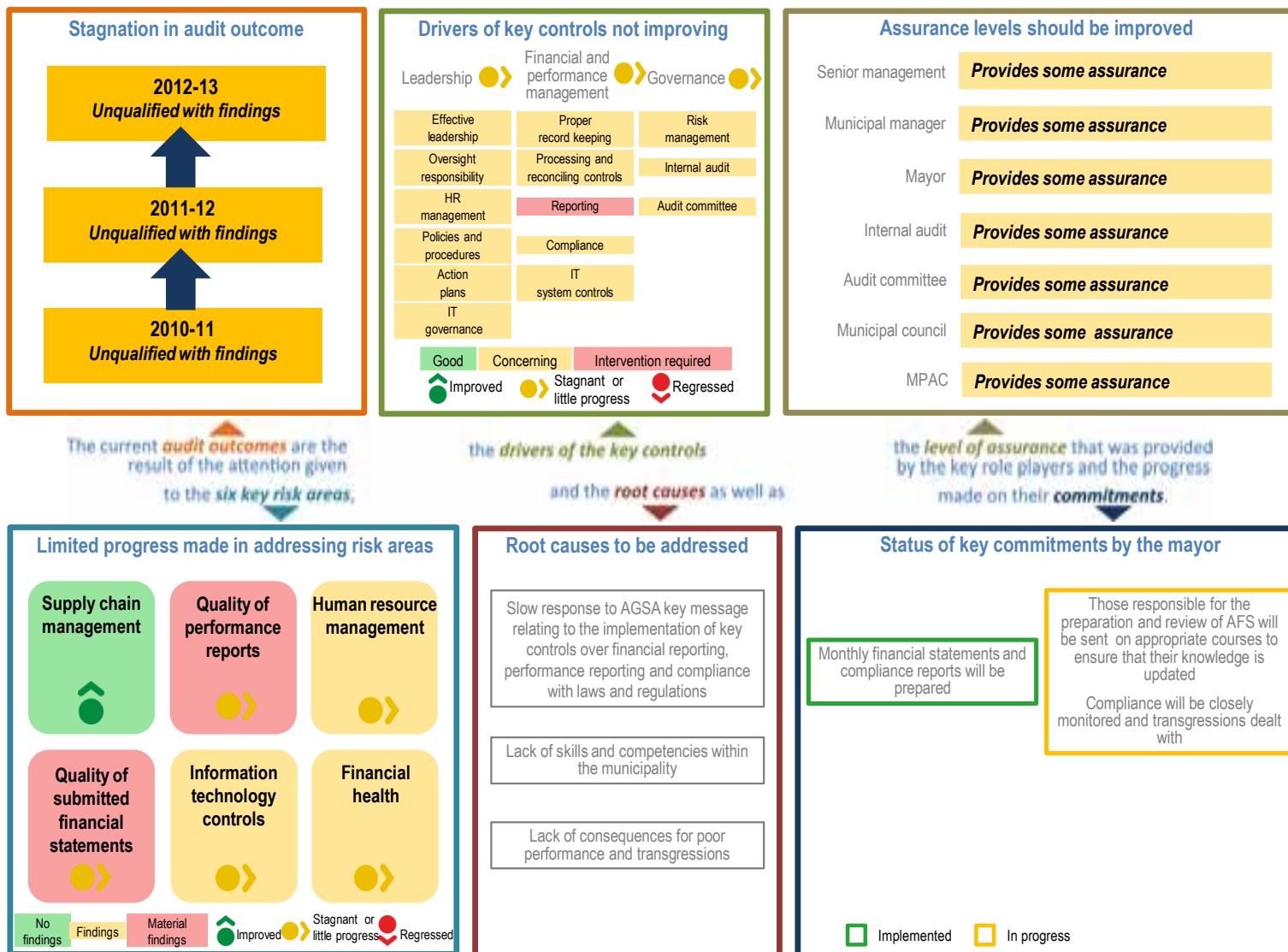
Households



Basic services



INGQUZA HILL LOCAL MUNICIPALITY



Ingquza Hill Local Municipality

■ *Unqualified*

No movement in audit outcome

Although the audit outcome has not changed from the previous year, the municipality made some progress towards obtaining an unqualified audit opinion with no findings on the performance report or non-compliance, as the number of compliance focus areas reported on was reduced from 10 in the previous year to one in the year under review. This improvement was due to an improved leadership tone towards reporting, as monthly and quarterly reports were prepared and submitted to the council.

It is commendable that the municipality has sustained an unqualified opinion for the past three years. However, for the municipality to sustain the outcome and ultimately become a well-functioning administration, its leadership should take ownership of instilling basic disciplines and institutionalising a culture of daily, weekly and monthly controls.

Six key risk areas

The municipality addressed all of the SCM findings reported in the previous year, as the leadership adopted an appropriate tone towards SCM transgressions.

The financial statements submitted for auditing needed material adjustments during the audit. This was because the in-year reports were not subjected to credibility testing by the audit committee and internal audit unit.

The quality of the annual performance report did not improve because responsible officials lacked the necessary competencies and skills to report in accordance with the requirements.

The lack of movement in respect of HR management can be attributed to inadequate monitoring of HR processes. The municipality should ensure that the weaknesses giving rise to these findings are adequately addressed so that they do not escalate into material findings.

The head of the IT unit did not have the appropriate skills to manage this critical area. As a result, controls relating to user access to the IT system were not adequately implemented.

Although the municipality did not have material financial health concerns, some indicators require attention. These indicators were the result of a weak control environment.

Key controls and root causes

Overall, the drivers of key controls remained stagnant because the audit action plan developed after the previous year's audit was not fully implemented. The following controls must thus be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The municipality should implement effective HR management to ensure that adequate and sufficiently skilled officials are in place. These officials must be held accountable for their actions and their performance must be monitored regularly.
- The monthly and quarterly reports submitted to the council should be evaluated for credibility and should include financial, performance and compliance matters. The internal audit unit and audit committee should be involved in the process of establishing credibility.
- MPAC and the council should monitor the actions taken by the leadership to ensure that the action plan developed to address the root causes of the audit findings is implemented. They should further ensure that an adequate performance management system is in place.

Impact of key role players on audit outcomes

All role players provided some assurance relating to the significant risk areas of the municipality. This can be enhanced further if proper processes to ensure credibility are enforced. In addition, all role players should work together to address the root causes of the findings reported in the audit report to provide the level of assurance required to achieve sustained improved outcomes.

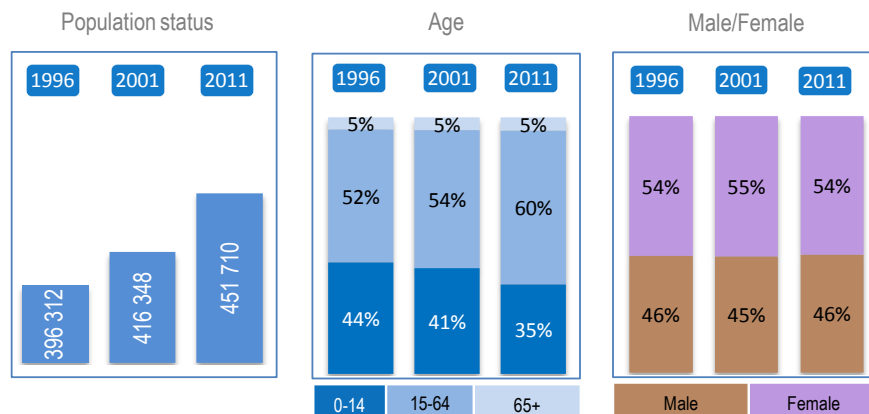
All governance structures (including MPAC and the audit committee) should ensure that reports are credible and that all audit committee recommendations are followed up and fully implemented.

We met with the mayor four times during the financial year. These interactions did not have the desired impact on the audit outcome, as commitments made were not fully implemented.

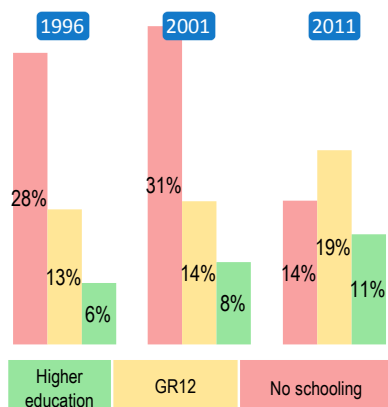
KING SABATA DALINDYEBO

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Population

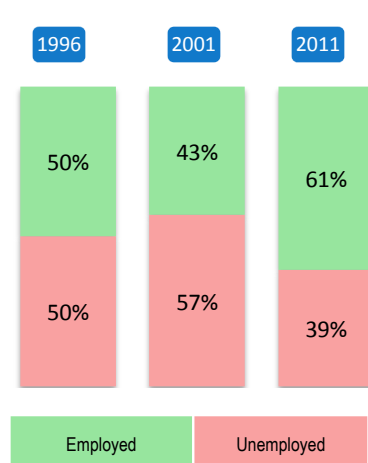


Education

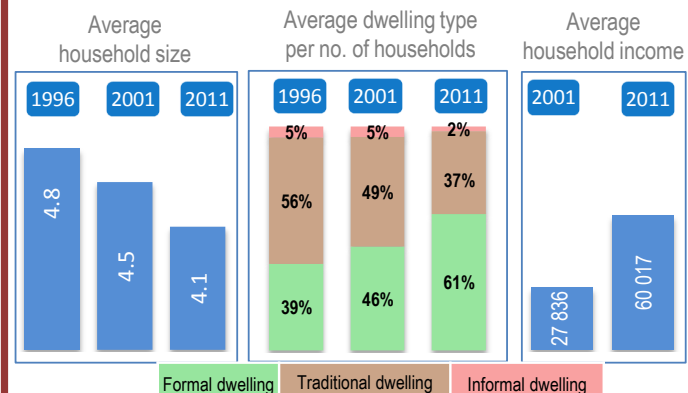


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

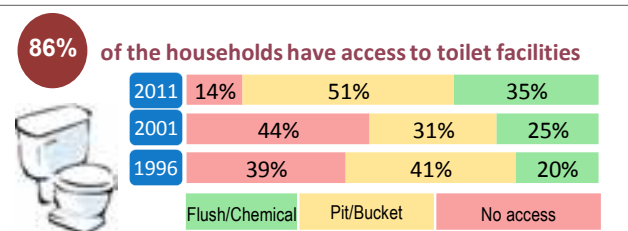
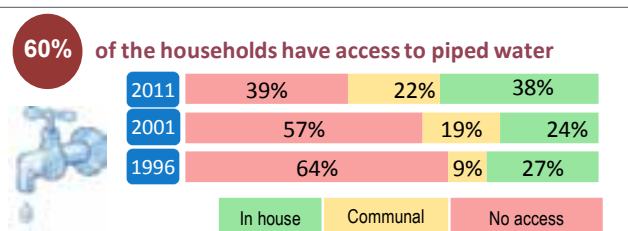
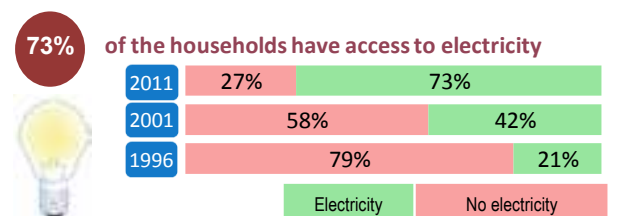
Labour



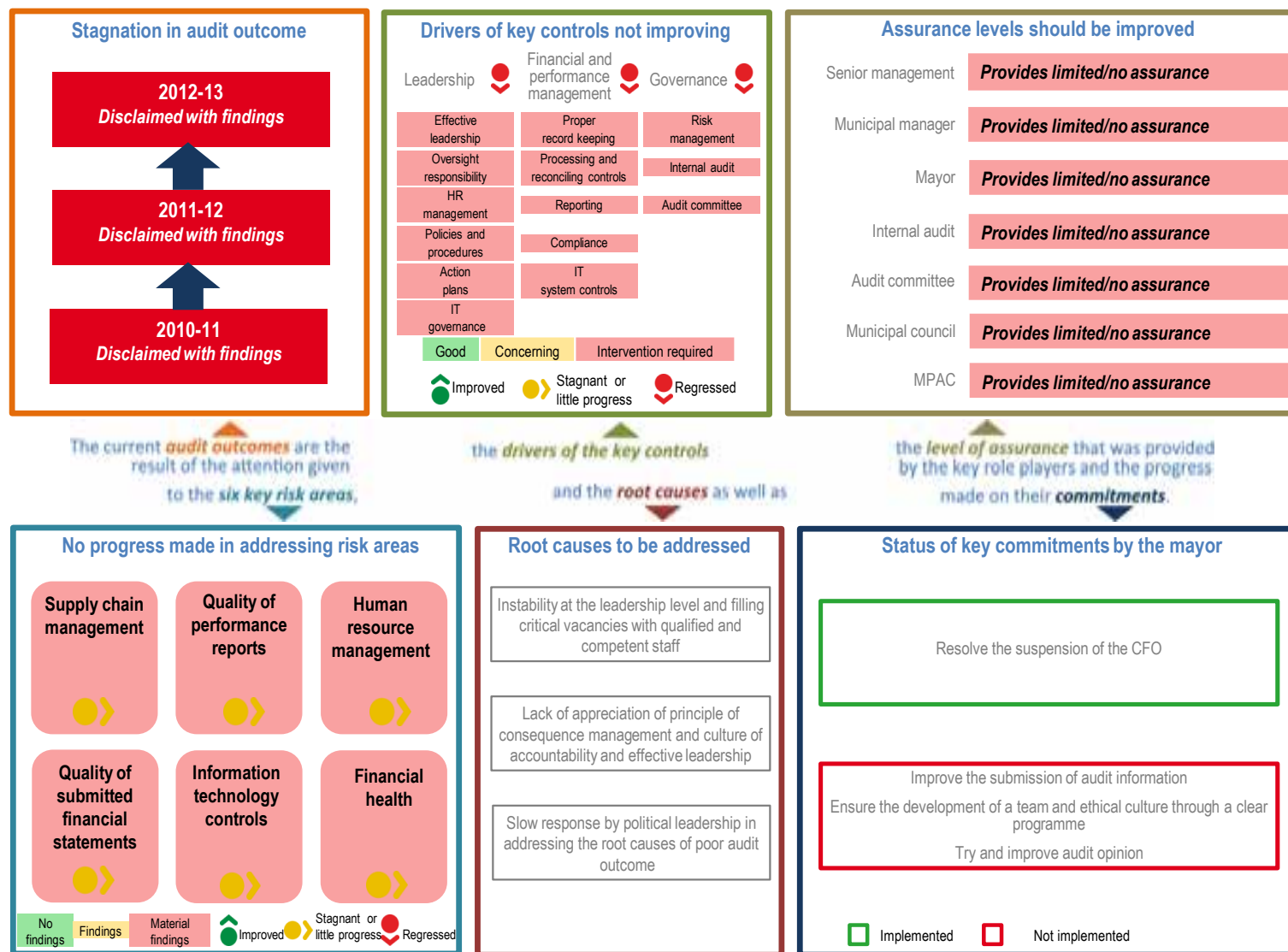
Households



Basic services



KING SABATA DALINDYEBO LOCAL MUNICIPALITY



King Sabata Dalindyebo Local Municipality

■ *Disclaimed*

No movement in audit outcome

The municipality has shown no forward movement from a disclaimer of audit opinion for the past four years. To the contrary, the municipality has further regressed in virtually all areas subjected to auditing. The municipality continued to fail to provide supporting documentation for a significant number of transactions and balances in the financial statements. This was due to leadership instability, vacancies in top management, a culture of good governance and accountability not being embedded, and practices that promote clean administration not being entrenched within daily, weekly and monthly activities.

The further regression of the control environment and the ineffectiveness of all structures of governance created an environment that did not support accountability and was susceptible to fraud. Due to the current status of administration as well as the political and administrative leadership's failure to respond to our messages over the past four years, we would have withdrawn from the engagement in terms of the International Standards on Auditing, had it not been for the legislated requirement to perform the audit of the municipality.

As a result of a lack of skills and capacity, the municipality continued to rely on consultants for the preparation of financial statements at a cost of R1,8 million (2011-12: R2 million). However, due to the poor accounting records and the lack of financial and performance disciplines within the municipality, the consultants were unable to have an impact on the audit outcome.

Six key risk areas

No actions were taken to address prior challenges in the six key risk areas. The lack of leadership intervention and no consequence management further worsened the challenges in these critical areas. As a result, there were still numerous material findings in all of the key risk areas.

The poor financial and performance disciplines and failure to address the skills gap contributed to the poor quality of the financial statements. Inadequate systems and controls as well as a lack of skills to effectively monitor and supervise HR management and SCM resulted in a regression in these critical areas. These issues also contributed to the poor quality of the performance report, which was found to be unreliable and not useful to the user, due to the many errors it contained. A lack of accountability for financial management and poor oversight by the leadership contributed to the poor state of financial health. The municipality is

cash-strapped and had to receive financial assistance from the Provincial Treasury to settle a claim against the municipality.

Key controls and root causes

The drivers of internal control continued to regress despite our quarterly evaluations, recommendations and interactions with both the political and the administrative leadership. This brings the genuine commitment of the leadership to turn the municipality around into question. The leadership should address the root causes of the poor audit outcome as follows:

- Stability at leadership level should be ensured and a culture of decisive, effective and dedicated leadership embraced. The correct leadership tone should be set to discharge leadership responsibilities of monitoring and oversight effectively.
- The municipality should be professionalised by filling all critical vacancies with appropriately qualified and skilled officials.
- Proper consequence management for poor performance and transgressions should be implemented for all officials as part of the performance management system.
- Daily, weekly and monthly disciplines should be entrenched in municipal activities, systems and processes, thus promoting a culture of clean administration.

Impact of key role players on audit outcomes

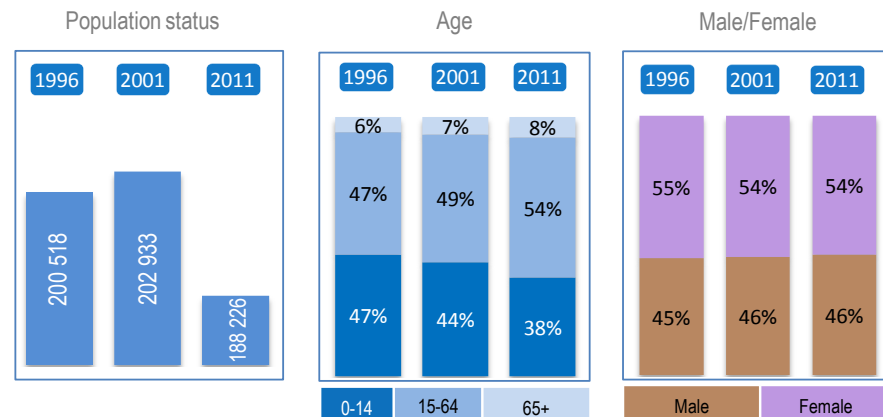
The leadership did not create an environment favourable for producing credible information. This had a direct impact on the effectiveness of the oversight bodies, as they were unable to fully execute their responsibilities and provide adequate assurance. The audit committee continued to assist the leadership in the pursuit of accountability but had no impact, as their effectiveness was limited by the inaccurate information submitted to them and the poor participation by senior management.

We met with the mayor eight times during the year. These interactions had no impact on the audit outcome, as our recommendations were not implemented. It is critical that the challenges within this municipality are addressed and that the processes required to enable oversight are implemented as a matter of urgency.

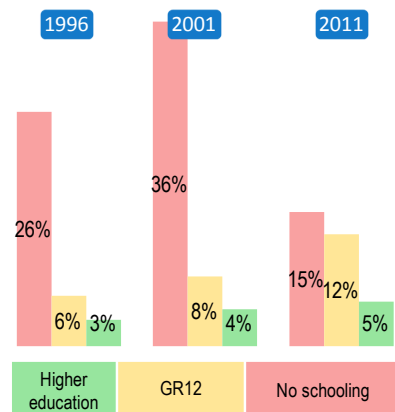
MHLONTLO MUNICIPALITY

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Population

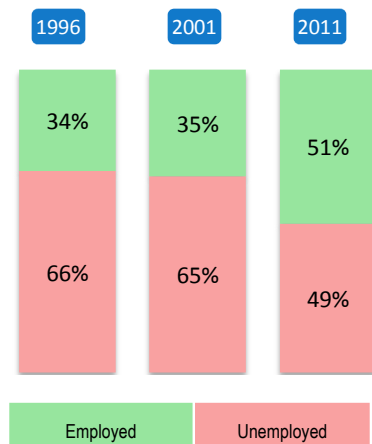


Education

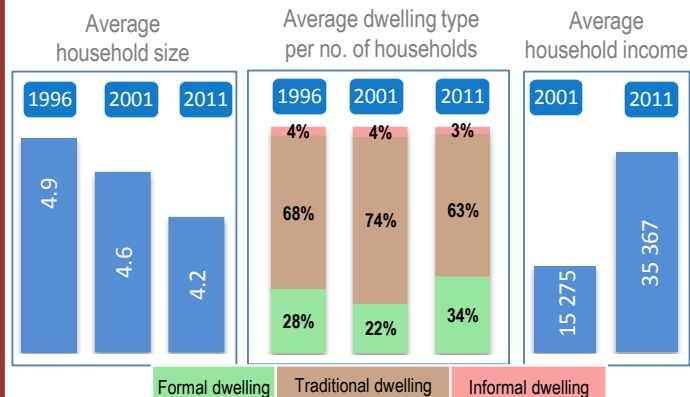


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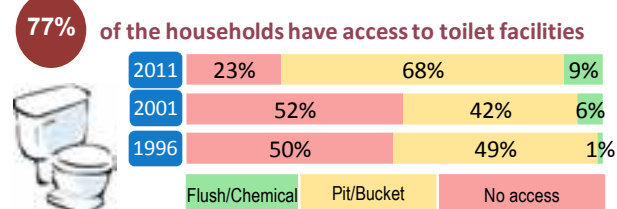
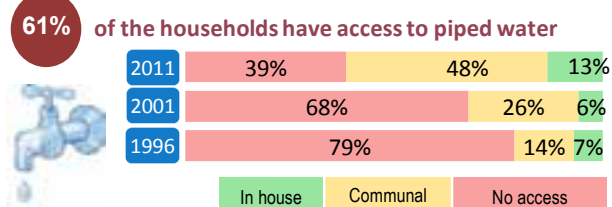
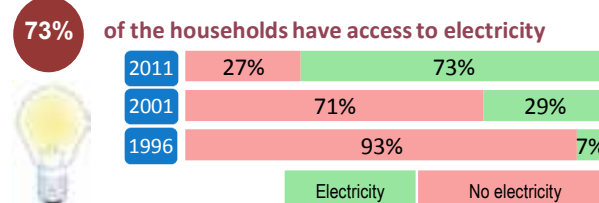
Labour



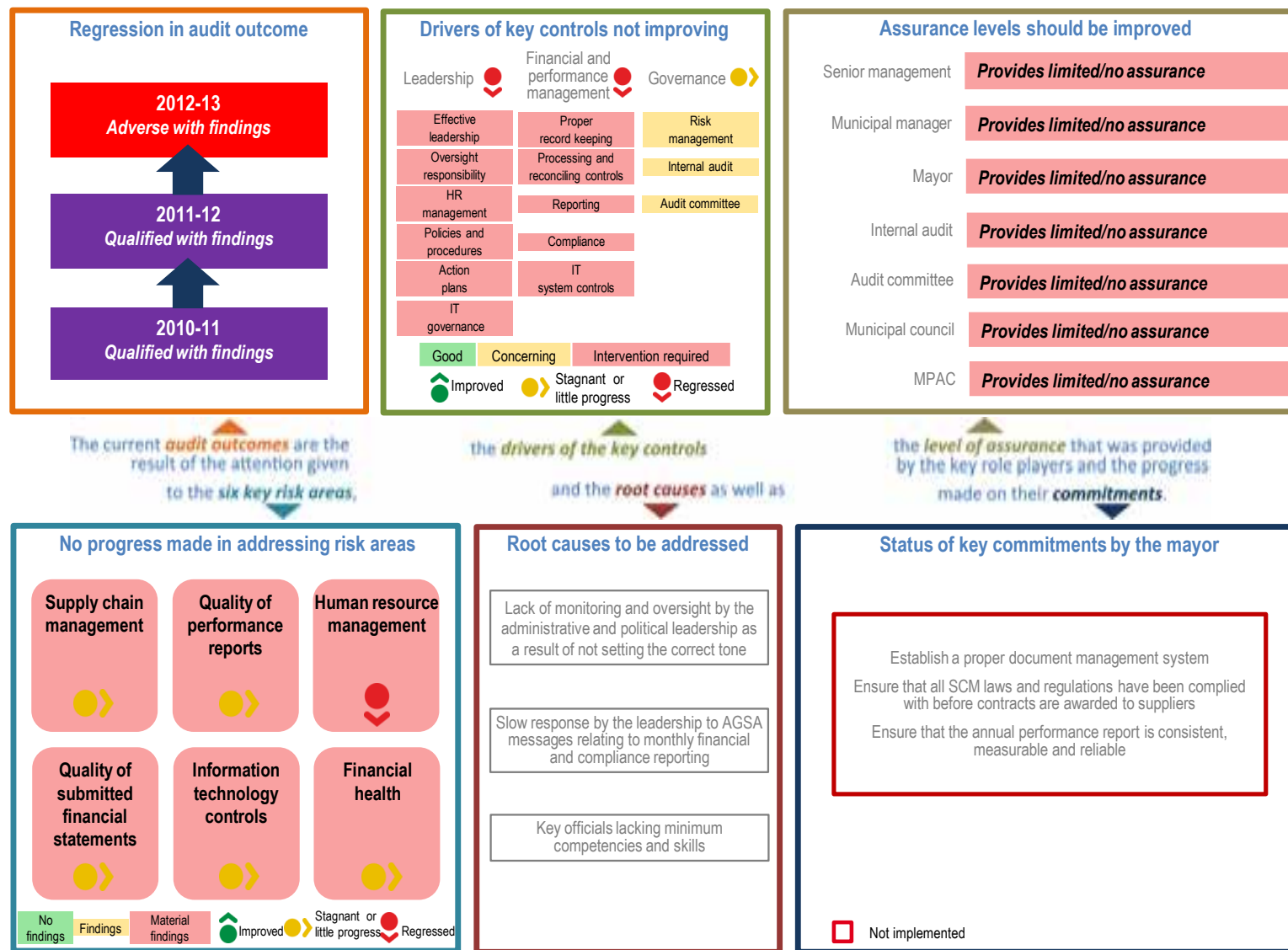
Households



Basic services



MHLONTLO LOCAL MUNICIPALITY



Mhlontlo Local Municipality

■ Adverse

Regression in audit outcome

The regression from a qualified opinion to an adverse opinion was as a result of the instability of both the administrative and the political leadership, combined with a slow response to our messages and the leadership not taking ownership of instilling basic disciplines and controls.

The municipality did not address prior year audit findings at a root-cause level, and deficiencies in the underlying accounting and performance information records remained widespread. As a result, the outcome regressed, despite the municipality relying on consultants at a cost of R1,4 million to assist with the preparation of financial statements.

Six key risk areas

Management and the leadership did not pay enough attention to the key risk areas. The suspension of the municipal manager and the position of chief financial officer becoming vacant during the course of the audit further weakened the municipality's capacity to address weaknesses in these areas.

Prior year SCM findings were not addressed. The position of head of the SCM unit was vacant for the entire financial year, resulting in a lack of proper leadership and increased instances of non-adherence to SCM legislation.

The quality of the financial statements and performance report also showed no improvement, due to a lack of skills and competencies in these areas. HR management also remained unsatisfactory as a result of these deficiencies.

The overall financial health of the municipality regressed, as a result of significant underspending of the conditional grant and capital budgets as well as the non-recovery of outstanding debt, which had a negative impact on the cash flow.

No progress was made to improve IT controls. The municipality still had no documented formal policies and procedures with regard to IT systems.

Key controls and root causes

The deterioration in the key controls was caused by a lack of effective leadership as well as a failure to monitor the processing and reconciliation of transactions regularly. The following controls must thus be strengthened to create a sound

control environment that supports reliable financial and performance reporting and compliance with legislation:

- The leadership and governance structures should oversee financial and performance reporting, and implement performance and consequence management for poor performance and transgressions, respectively.
- Adequate action plans that address root causes and respond to our messages should be implemented and monitored, specifically regarding credible monthly and quarterly financial, performance and compliance reporting.
- Vacancies should be filled with appropriately qualified and experienced officials, and the leadership should ensure that existing staff obtain the minimum competencies required for their roles.

Impact of key role players on audit outcomes

Senior management provided no assurance, as evidenced by the many deficiencies identified during the audit and the adverse opinion. This was made even worse by the suspension of the accounting officer and the non-renewal of the chief financial officer's contract during the audit. It is critical that stability be returned to the administrative leadership of the municipality to improve the assurance provided by the senior management group.

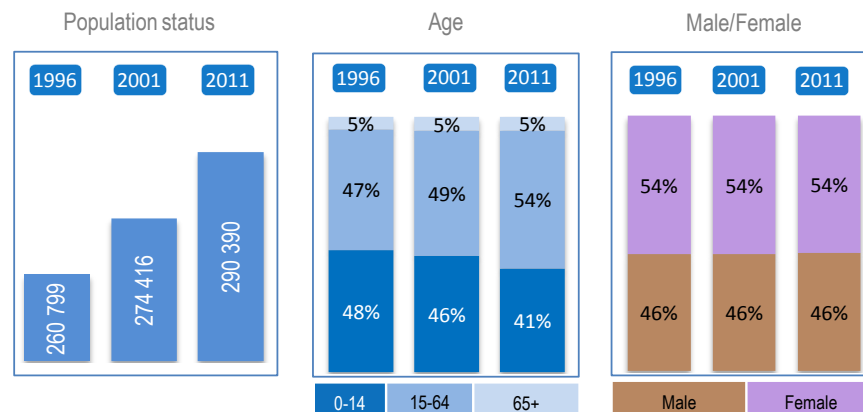
The level of assurance provided by the audit committee was negatively influenced by the fact that they often received incomplete and outdated information. Even though the internal audit unit discharged their responsibilities, management failed to implement their recommendations. The assurance that can be provided in these circumstances is therefore limited.

Our interaction with the mayor had no impact on the audit outcome and previous commitments were not honoured. The mayor left office before the audit report was issued, and a new mayor was only recently appointed. In addition, MPAC and the council provided no assurance, as they did not hold management accountable.

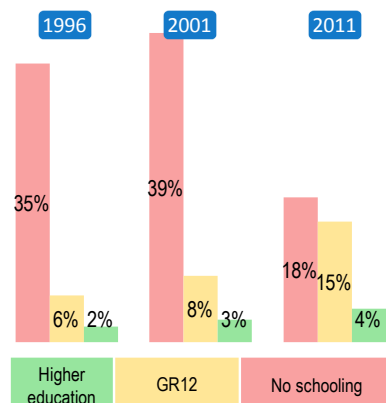
NYANDENI MUNICIPALITY

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Population

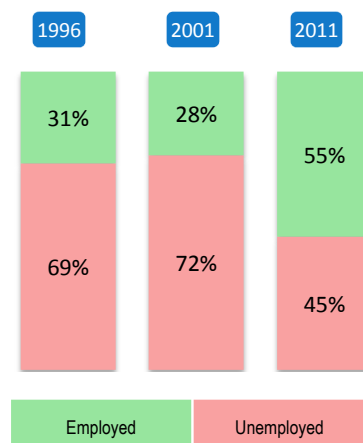


Education

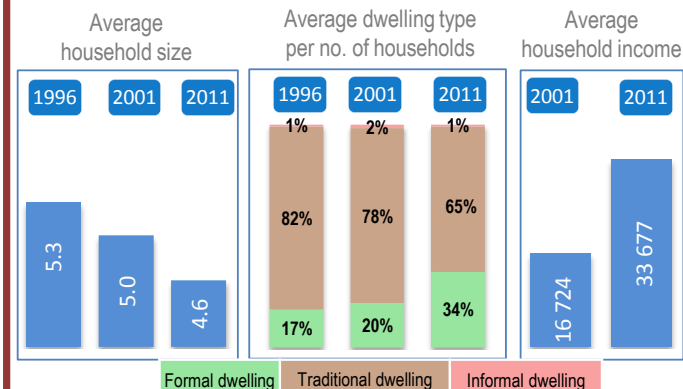


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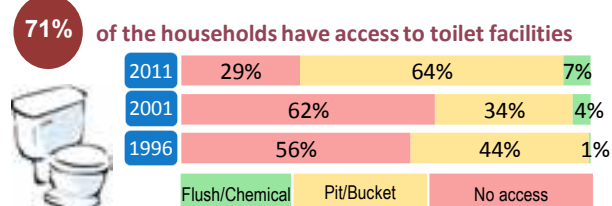
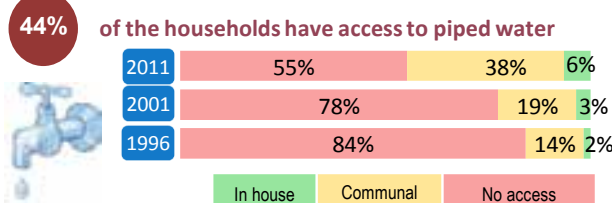
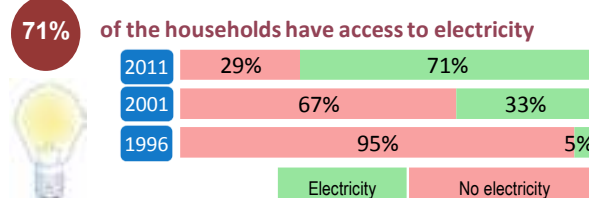
Labour



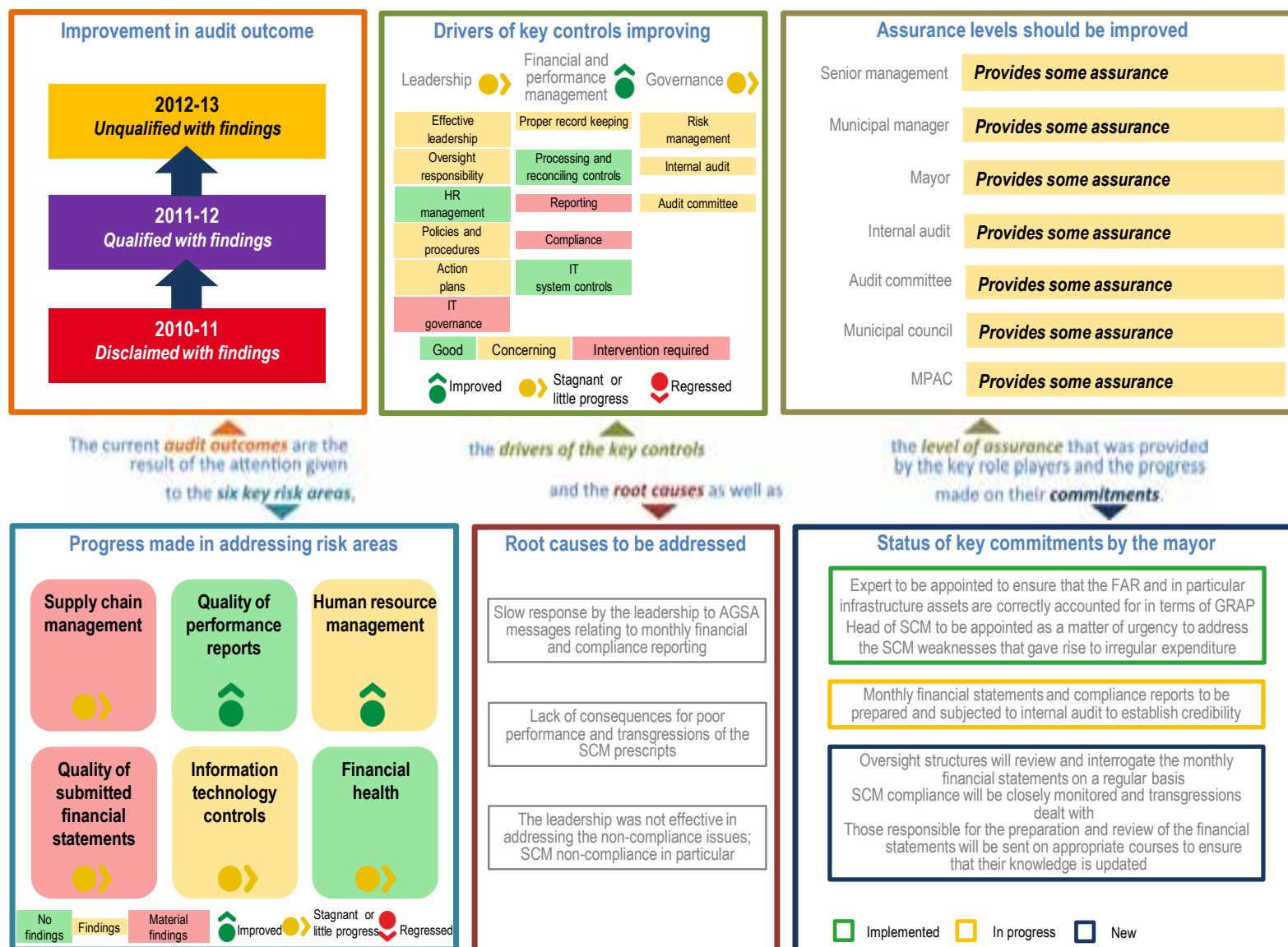
Households



Basic services



Nyandeni Local Municipality



Nyandeni Local Municipality

■ *Unqualified*

Significant improvement in audit outcome

The improvement in the audit outcome was as a result of the leadership adopting an appropriate tone and taking ownership of our messages in responding appropriately to the two qualification areas reported in the previous year. It is commendable that the municipality achieved an unqualified report without the assistance of consultants. However, for the municipality to sustain the outcome and ultimately become a well-functioning administration that delivers quality services to its citizens in accordance with its mandate, the leadership should take ownership of instilling basic disciplines and institutionalising a culture of daily, weekly and monthly controls.

Six key risk areas

The financial statements submitted for auditing were subjected to material adjustments during the audit, which raises concerns regarding the sustainability of the improved audit outcome. This was because monthly financial statements were not prepared and reviewed during the year. The improvement in the usefulness and reliability of the annual performance report was due to the accounting officer taking ownership of the municipality's performance reporting, and implementing appropriate processes and procedures to ensure accurate reporting on performance.

A significant amount of irregular expenditure, which related to non-compliance with SCM requirements, was reported during the year under review. This was due to a lack of leadership, as a head for the SCM unit was only appointed towards the end of the financial year. The performance management system did not adequately deal with the above SCM non-compliance and as a result the transgressions were not handled in terms of consequence management.

The head of the IT section had not been appointed at an appropriate level within the municipality and did not have the required IT skills to manage the municipality's IT requirements adequately, thus increasing the risk of business continuity and access control failures. The financial health of the municipality remained sound and as a result we reported no material financial health findings.

Key controls and root causes

There was no significant improvement in the key controls. This was largely due to the processes that resulted in the improvement of the audit outcome not being embedded in the control environment.

The following controls must be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The leadership should adopt an appropriate tone regarding the control environment, which must include taking action where internal control systems are not followed.
- Monthly financial, performance and compliance reports should be prepared and reviewed by the audit committee and internal audit unit to ensure their credibility.
- SCM-related record keeping should be improved to ensure that SCM decisions can be verified against the SCM policy. In addition, consequence management should be applied for all SCM transgressions.
- MPAC and the council should monitor the actions taken by the mayor to ensure that the action plan prepared by the municipality to address the root causes of the audit report findings is implemented. They should further ensure that there is an adequate performance management system.

Impact of key role players on audit outcomes

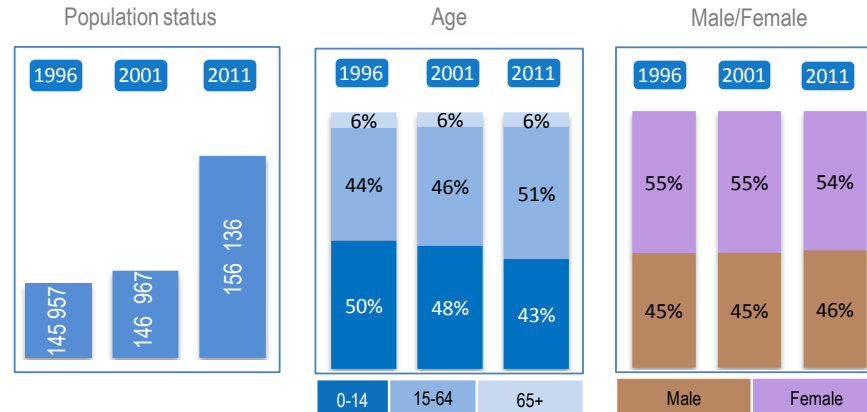
Although all role players provided some assurance, the desired level of assurance was not provided, as the municipality had a number of non-compliance findings. To ensure that the audit outcome improves further, the assurance levels should be strengthened, by management implementing internal and external audit recommendations and the council directing the work of the audit committee towards evaluating monthly financial reports and compliance with SCM prescripts. This is currently not done to the extent required, which is the reason for the limited level of assurance provided.

We met with the mayor three times during the financial year. These interactions had a significant impact on the audit outcome, because the implementation of commitments resulted in the prior year qualifications being addressed.

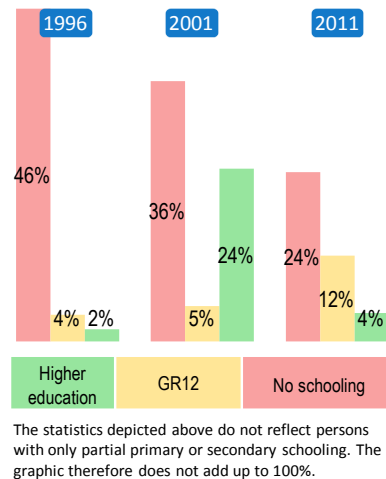
PORT ST JOHNS MUNICIPALITY

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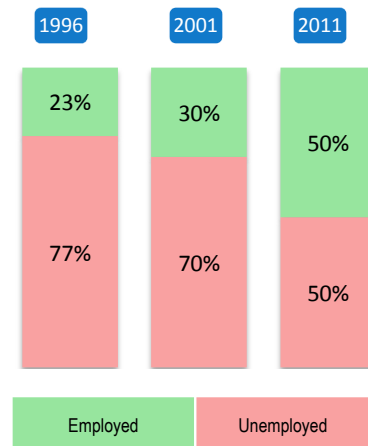
Population



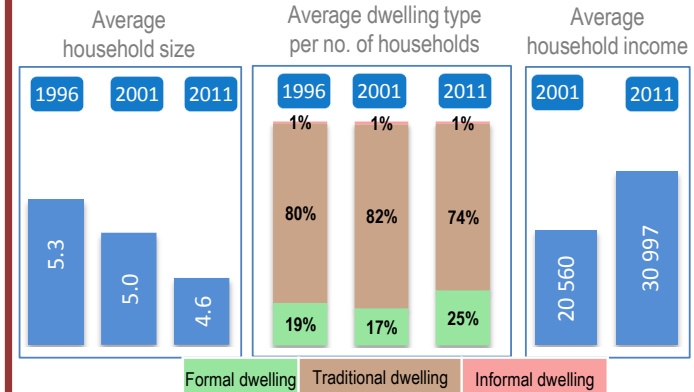
Education



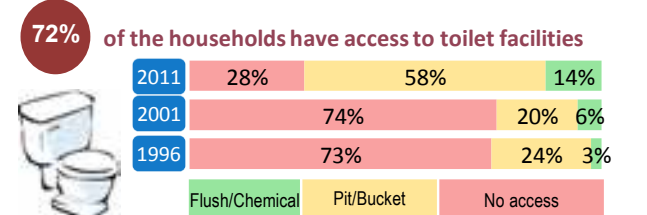
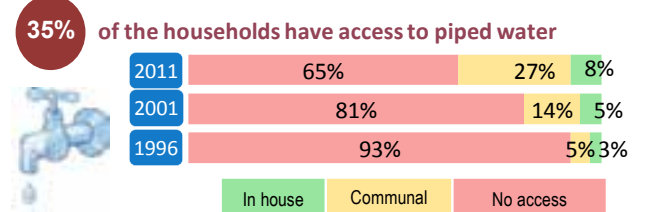
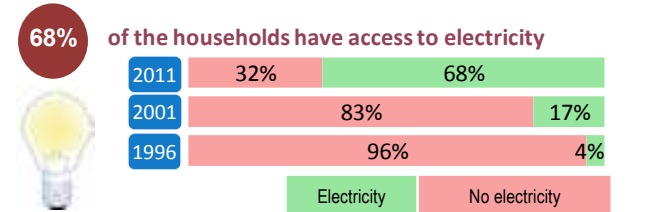
Labour



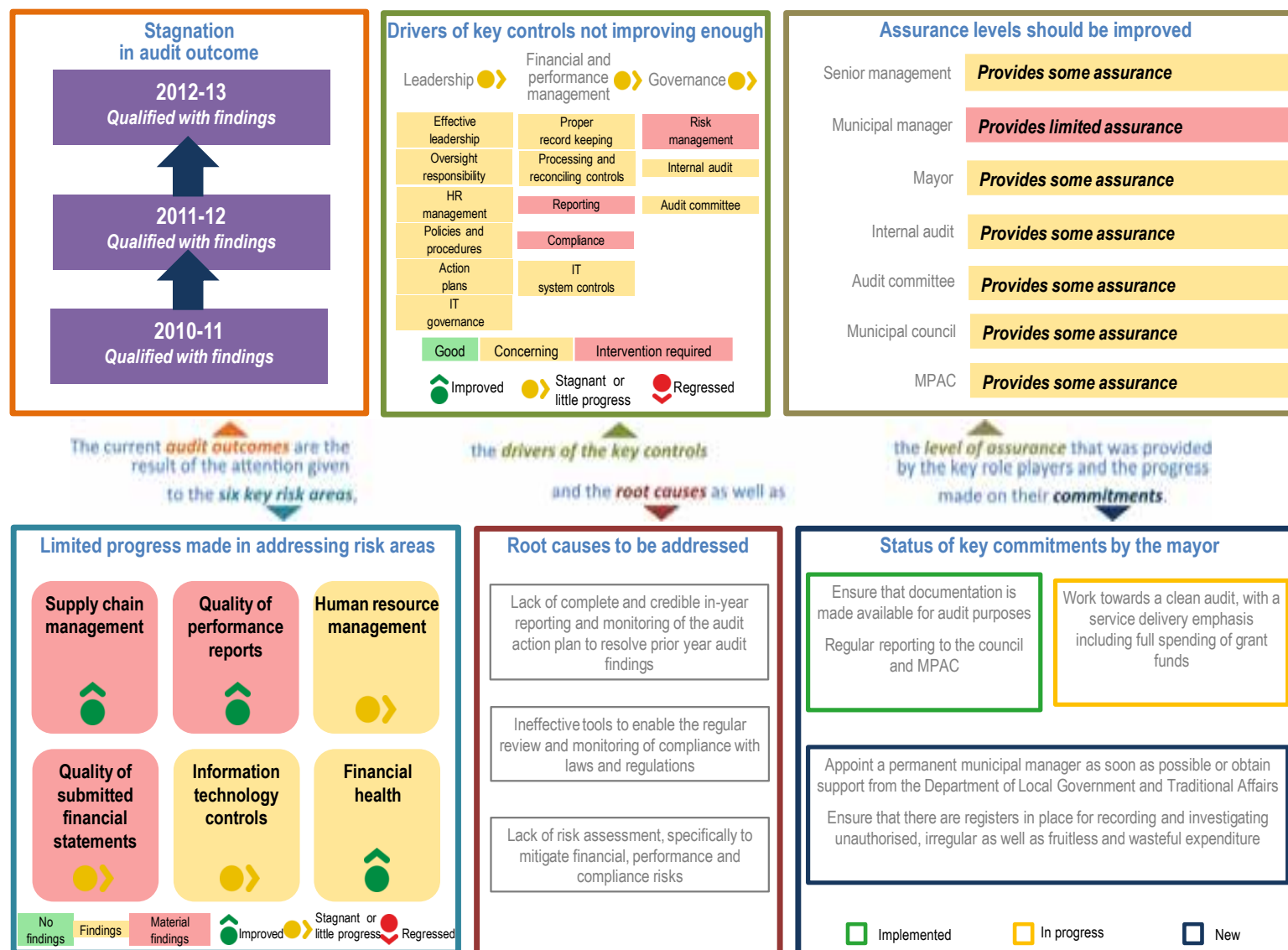
Households



Basic services



PORT ST JOHNS LOCAL MUNICIPALITY



Port St Johns Local Municipality

■ *Qualified*

No movement in audit outcome

Although the audit outcome has stagnated on a qualified financial opinion with findings on non-compliance and the performance report, there has been a significant reduction in the extent of material areas qualified. The sustainability of the improvements is a concern, however, as a number of audit adjustments were still required. The audit action plans were not implemented throughout the year and too much was left for the financial statement preparation process, resulting in some material findings not being resolved.

The municipality made use of consultants to assist with the reconciliation of value-added tax and irregular expenditure of prior periods at a cost of R0,67 million. Unfortunately, the consultants did not transfer skills or add value, since these items were again qualified.

Six key risk areas

238 Progress was made in addressing the key risk areas, most notably in the areas of SCM, the quality of performance reports and financial health. Although material findings were still reported on SCM and the performance report, there was a significant reduction in the extent of these findings. SCM processes were improved during the year under review and 80% of the findings from 2011-12 were resolved. Although there was an improvement in the quality of the performance report, there is still a need for consistent monitoring for there to be further improvement.

The financial health of the municipality improved due to better cash-flow management and the reconciliation of creditors. Some areas still need to be improved, however, most noticeably relating to the slow implementation of the debtors-cleansing process.

The quality of the submitted financial statements is still of concern, due to the many audit adjustments required after submission. These adjustments were necessary because of the extent of reconciliations and these matters only being reported at, or after, year-end.

Although two senior managers were appointed during the financial year, this only happened in the latter part of the year. Our key concern regarding HR management was that the municipal manager's suspension was not resolved, which put further strain on the capacity of senior management.

IT systems and controls should be enhanced, specifically in the areas of performance reporting and access controls.

Key controls and root causes

There was little progress regarding the key controls. Although most controls were in place, they were not always effective and did not yet have a positive or sustainable impact on the audit outcome, as they were not embedded in the control environment and did not operate consistently. The following controls must therefore be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Complete and credible in-year reporting should take place, whereby material audit findings are addressed during the year and not only in the final year-end reports.
- Effective tools to enable the regular review and monitoring of compliance with legislation should be implemented, which should include a coordinated calendar of compliance-related events.
- The risk assessment should be comprehensive; specifically address financial, performance and compliance risks; and include the required mitigating actions.

Impact of key role players on audit outcomes

Although the acting municipal manager did provide some assurance, he was assessed as only providing limited assurance due to the instability in this position. Going forward, senior management should ensure that all recommendations of the audit committee and the auditors are implemented. In addition, the audit committee and MPAC must insist on complete and credible quarterly reports on the audit action plan as well as financial, performance and compliance matters, to be able to effectively monitor these areas and improve the levels of assurance and oversight provided to further improve the audit outcome.

Our interactions with the mayor during the year had a positive impact on the audit outcome, including the better availability of audit documentation and improved performance reporting.

The Department of Local Government and Traditional Affairs provided support to the municipality through the secondment of a chief financial officer, which had a positive impact on the audit outcome. There is, however, a risk of regression if this support is withdrawn.

ANNEXURES

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Annexure 1 Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance and specific focus areas

Auditee	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas							Findings on predetermined objectives				Findings on non-compliance														Findings on specific focus areas				Unauthorised, irregular as well as fruitless and wasteful expenditure								
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for auditing	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	HR management and compensation	IT controls	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R		
Metropolitan municipalities																																												
Buffalo City Metro		R	R		R	R	R						A	A	R	A	R	R			R	R	R	R			R	R	A	A	N	R	A	R	R		R	R	R	F	14.50	182.50	0.93	
Nelson Mandela Bay Metro			R			R									R						R	R		A		N	A	N			N			R	R	R		R	R	R	F	270.80	1844.10	2.60
District municipalities																																												
Alfred Nzo District		R	R		R	R	R	A	R	R		N	A	R	R	R	R	R			R	R	R	A			R	R	R	A	A	A	R	N	R	A		R	R	R	M	102.60	19.60	0.40
Amathole District			R		A	R															R	R				A	A							R		N		N	N	R		58.70	170	0.48
Cacadu District			R			R															R	A					A							A	A		A	R	N			0.00	16.60	0.00
Chris Hani District		R	R		R	R	A	A	A	R	N	A	A	R	R	R	R	R			R	R	R	R			R	R	N				R	R	R	R		R	R	R		2.30	25.30	0.27
Joe Gqabi District			R			R															N	R				R	A							A			A	A	R			0.16	5.40	0.43
OR Tambo District		R	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R			R	R	R	R	R	R	R	R	R	R	N	R	R	R	N	N		R	R	R	M	9.20	246.20	15.00
Local municipalities																																												
Amahlati		R	R		R	R	A	A						A		R	N				R	R	R	R			N				R	N	N	R	R		R	R	R			7.60	3.80	140
Baviaans			R		A	R	R	A	A	A	A	A	A	R	N						R	A	A	R			R	R	R	A	R	R	N	R	R	R		R	N	R	M	12.00	0.22	160
Blue Crane Route		R	R		R	R	R		R		A			R	R	R	R				R	R	R	R	R	R	A	N	R	N	A	R	R	R	R	R		R	R	R	M	0.36	22.40	0.00
Camdeboo		R	R		R	R	R	A	A	A	A	A	A						N		R		N			N	N	N	N			R		N	A		N	R	F	15.10	130	0.00		
Elundini		A	R			R	R										A	A				R	A				A							A			R		N	F	3150	130	100	
Emalahleni		R	R		N	R	R	R	R			R	R	R	R	R	N		A	N		R	R	R	R	N	R	R	A	A	A	R	R	N	R	N		R	R	N	M	8.50	37.30	8.00
Engcobo		R	R		R	R	A	A	A		A			A	A	R	R				R	R	R	R	N	R	R	N	R	R	R	R	R	R	R	A		R	R	R	M	60.40	3.40	0.01
Gariep		R	R		R	R	R	A	R	N	N	N	N	N	N	R	R				R	A	R	N	N	R	R	N		A	A	R		N	N		R	R	R	M	0.00	8.60	0.00	
Great Kei		R	R		R	R	R	R	R	R	R	R	R	R	R	R	R				R	R	R	R	N	R	R	A	R	R	R	R	R	R	R	R		R	R	R	M	10.00	14.00	0.59
Ikwezi		R	R		R	R	R	R	R	A	R	A	R	R	A	R			N		R	R	A	R	R	A	R	R	R	R	R	A	R	R	N		R	R	R	M	12.90	3.20	140	
Ingquza Hill		R	R		R	R										R					R	A	A	A			A		A	A	A	A		A				N	R	F				
Inkwanca		R	R		R	R	R	N			R	R	R	R	R	R	R				R	R	R	R			R	R	N	R	R	R	N	A	N	N		R	R	R	M	17.10	12.50	0.00
Intsika Yethu		R	R		R	R	R	R	R	R	R	R	R	R		R	R				R	R	R	N	N	R	R	N	N	N	N	R	N	N	R	N		R	N	R	M	34.50	2.00	0.24
Inxuba Yethemba		R	R		R	R	R	R	R	R	R	R	R	R	R	R	R				R	A	A	R	R	R	N	R	R	R		R	R	R	R		R	R	R	M	0.00	15.80	0.42	
King Sabata Dalindyebo		R	R		R	R	R	R	R	R	R	R	R	R	R	R	R				R	R	R	R			N	R	R	N	R	R	R	R		R	R	R	M	1205.70	200.90	330.50		
Kou-Kamma		R	R		R	R	A	A		A	R	A	A	A	R	N					R	R	R	A	N	R	R	R	N	R	R	R	N	R			R	A	R	M	34.20	38.80	0.31	
Kouga		R	R		R	R	A	A	R	A	A			A		N	N	A			R	R	R	A	N	R	R	R	R	R		R	A		R			R	R	R	M	32.90	39.90	9.20
Lukhanji		R	R		R	R								R	N	R	A				R	R	A	R	R	R	N	R	R	R	R	R	R	R	R		R	R	R	M	60.20	77.90	0.12	
Makana																																												
Maletswai		R	R		R	R	R	A	A		R			R	R	R	N				R	R	A	R			R	R	N	R	R		N	R	R	R		R	R	R	M	12.20	0.56	140

Auditee	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas							Findings on predetermined objectives				Findings on non-compliance															Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure							
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for auditing	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	HR management and compensation	IT controls	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R	
Local municipalities																																											
Matatiele		A	R		R	R										A	A			R	N	A											N			R	A	R	F	0.00	0.00	0.01	
Mbhashe		R	R		R	R					R			R	A	R	R			R	R	R	R		A			A	R	R	A	A	R	N		R	R	R	M	33.30	9.00	2.60	
Mbizana		R	R		R	R	R	R	R		R	A	R	N	R	R	A			R	R	A	R	R		A	N	R	R	R	R	N	N		R	N	R	M	10.60	26.10	12.80		
Mhlontlo		R	R		N	R	R	A	R		N	R	N	R	N	R	R			R	R	R	R	R	R	A	A	R		A	R	N	R	N		R	R	R	M	2150	62.80	0.19	
Mnquma		N	R		A	N	N				N		N	N	N	N	N			R	R	N	R		R	R			N	N	N	R	N		R	R	R	F	45.00	74.00	0.00		
Ndlambe		R	R		R	R	A	N	A		R	A	A	R		R	R			R	R	R	R	N	R	A	N	R	R		R	R	R		R	A	R	F	0.00	69.80	0.00		
Ngqushwa		R	R		R	R	R	A	R	A	R	R	R	R	N	R	R			R	R	R	R	A	R	R	A		A	R	R	R	R	R		R	R	R	M	0.00	16.10	5.80	
Nkonkobe		R	R		R	N	A	R		N	A	R	R	N	R	R				R	R	R	N	R	R	N	N	A	R	A		R	N		R	A	A	M	0.00	1160	2.20		
Ntabankulu		R	R		N	R	R			A	N		R	R		R				R	R	R	N		R	N	N			R	N		R	N		R	N		M	13.70	46.00	2.80	
Nxuba		R	R		R	R	R	A	A		A	A	R	R	R	R	R			R	R	A	R		R	A	N	A	R	R	N	R	R	R		R	R	R	F	3.40	17.10	0.00	
Nyandeni		A	R		N	R	A		A	A	A	A	A		A					R	R		A		A		A	A	R				R			R	A	R		5.10	46.30	0.15	
Port St Johns		R	R		R	R	A	R	R		R		A	R	N	R	R			R	R	R	R		N	R			N	R	N	R	A		R	A	R	F	0.00	5.00	0.89		
Sakhisizwe		R	R		R	R					R			R	N	R	A		N	R	R	R	N		R	R	R	R	R	N	R	R	R	N		R	N	R	F	1160	2.90	0.00	
Senqu		A	R		R	R										A				A	A	A				N					A		R			R		N	F				
Sundays River Valley																																											
Tsolwana		R	R		R	R			A	A				A	A	R	A		N	R	R	A	A	A	R	A	N	R	R		N	A	R	R		R	R	R	F	0.56	0.50	0.02	
Umzimvubu		A	R		R	R										A	A			R	R	A	R			R			A				R	A		R	A	R	F	3.50	0.59	0.08	
Municipal entities																																											
Alfred Nzo Development Agency		R	R		R	R										N	A			R	R				R	A		R	R	A			R	N		R	A	R	F	0.00	3.10	0.28	
Amathole Economic Development Agency		N	R			R										N				R	N																N	F	0.00	0.00	0.02		
Blue Crane Route Development Agency		R	R		N	R	A	A	N			A	R	R	R	N				R	R	A	R	R	A	R		R		R			R	A		R	A	R	F	0.00	170	0.00	
Buffalo City Development Agency			R			R														R	A	N	A		N	R		A	A	A			A						M	0.00	0.00	0.00	
Chris Hani Development Agency		N	N					N		N		N	N						N	N	N				N			N	N				N		N		N	F	0.00	4.10	0.02		
Joe Gqabi Economic Development Agency		R	R		N	N										R	R			R		A			R								A		A		A		5.40	0.00	0.03		
Mandela Bay Development Agency			A			R																A											A		A	A							
Nkonkobe Economic Development Agency		A	R		R	R										A	A			R	R	A	R		A	R		A	R	A	N		R	A		R	A	N		0.00	150	0.00	
Ntinga OR Tambo Development Agency		R			R	R										R	R			A	A	A				A		A	A	A			A				A	R	M	0.00	4.40	0.08	
Port St Johns Development Agency		R	R		N	R			A	A	A	A		R	R		R				R	A	A		R		R	N				N		R			A	A	N	M	0.00	4.30	0.22
Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee									Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Financial health findings	Material unfavourable indicators	Unfavourable indicators	No material unfavourable indicators													Legend (Expenditure)	Improved	Regressed					

GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

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Glossary of key terminology used in this report

Adverse audit opinion (on financial statements)

The financial statements contain misstatements (see 'misstatement') that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.

Asset (in financial statements)

Any item belonging to the auditee, including property, infrastructure, equipment, cash as well as debt due to the auditee.

Assurance / assurance provider

As used in this report, a positive declaration that is intended to give confidence in the credibility of financial and performance reports tabled by auditees as well as confidence in the extent to which auditees have adhered to applicable legislation.

Through the audit report, we provide assurance on the credibility of auditees' financial and performance information as well as their compliance with legislation.

There are role players in local government, other than the external auditors, that are also required to contribute to assurance and confidence by ensuring that adequate internal controls are implemented to achieve auditees' financial, service delivery and compliance objectives. Such assurance providers include senior auditee officials, various committees (for example, municipal public accounts, performance and audit committees) and internal audit units.

Other role players that should provide assurance further include oversight structures and coordinating or monitoring departments (which are defined elsewhere in this glossary).

Capital budget

The estimated amount planned to be spent by auditees on capital items in a particular financial period; for example, fixed assets such as property, infrastructure and equipment with long expected lives and that are required to provide services, produce income or support operations.

Cash flow (in financial statements)

The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).

Clean audit

The financial statements receive a financially unqualified audit opinion and there are no material findings on the quality of the annual performance report or non-compliance with legislation.

Commitments from role players

Initiatives and courses of action communicated to us by role players in local government aimed at improving the audit outcomes.

<i>Conditional grants</i>	Money transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements.
<i>Consolidated financial statements</i>	Financial statements that reflect the combined financial position and results of a municipality and those of the municipal entities under its control.
<i>Creditors</i>	Persons, companies or organisations that the auditee owes money to for goods and services procured from them.
<i>Current assets (in financial statements)</i>	These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, infrastructure and equipment as well as long-term investments.
<i>Disclaimer of opinion (on financial statements)</i>	The auditee provided insufficient evidence in the form of documentation on which we could base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.
<i>Financial and performance management (as one of the drivers of internal control)</i>	<p>The performance of internal control and monitoring-related tasks by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee.</p> <p>These controls include the basic daily and monthly controls for processing and reconciling transactions, preparing regular and credible financial and performance reports as well as reviewing and monitoring compliance with legislation.</p>
<i>Financially unqualified audit opinion (on financial statements)</i>	The financial statements contain no material misstatements (see 'material misstatement'). Unless we express a clean audit opinion, findings have been raised on either the annual performance report or non-compliance with legislation, or both these aspects.
<i>Fruitless and wasteful expenditure</i>	Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on the late payment of creditors or statutory obligations as well as payments made for services not utilised or goods not received.
<i>Going concern</i>	The presumption that an auditee will continue to operate in the near future, and will not go out of business and liquidate its assets. For the going concern presumption to be reasonable, the auditee must have the capacity and prospect to raise enough financial resources to stay operational.

Governance (as one of the drivers of internal control)

The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.

Human resource (HR) management

The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled people as well as the adequate management of their performance and productivity.

Information technology (IT)

The computer systems used for capturing and reporting financial and non-financial transactions.

IT controls

Computer-related controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security.

IT governance

The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its strategies and objectives.

IT security management

The controls preventing unauthorised access to auditee networks, operating systems and application systems that generate financial information.

IT service continuity

The processes managing the availability of hardware, system software, application software and data to enable auditees to recover or re-establish information system services in the event of a disaster.

IT user access management

The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.

Internal control / key controls

The process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable legislation.

It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.

Irregular expenditure

Expenditure incurred without complying with applicable legislation.

Key drivers of internal control

Leadership (as one of the drivers of internal control)

The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance (which are defined elsewhere in this glossary.)

The administrative leaders of an auditee, such as municipal managers and senior management.

It can also refer to the political leadership (including the mayor and the council) or the leadership in the province (such as the premier).

Material finding (from the audit)

An audit finding on the quality of the annual performance report or non-compliance with legislation that is significant enough in terms of either its amount or its nature, or both these aspects, to be reported in the audit report.

Material misstatement (in financial statements or annual performance reports)

An error or omission that is significant enough to influence the opinions or decisions of users of the reported information. Materiality is considered in terms of either its rand value or the nature and cause of the misstatement, or both these aspects.

Misstatement (in financial statements or annual performance reports)

Incorrect or omitted information in the financial statements or annual performance report.

Net current liability

The amount by which the sum of all money owed by an auditee and due within one year exceeds the amounts due to the auditee within the same year.

Net deficit (incurred by auditee)

The amount by which an auditee's spending exceeds its income during a period or financial year.

Operational budget / operating budget

A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as service delivery costs, administration and salaries.

Oversight structures as well as coordinating and monitoring departments

Oversight structures consist of the provincial legislatures, the portfolio committees on local government and the National Council of Provinces.

Coordinating or monitoring departments include the Department of Performance Monitoring and Evaluation, the National Treasury and provincial treasuries, the national and provincial departments of cooperative governance as well as the offices of the premiers.

Property, infrastructure and equipment (in financial statements)

Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.

Qualified audit opinion (on financial statements)

The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.

Receivables / debtors (in financial statements)

Money owed to the auditee by persons, companies or organisations that have procured goods or services from the auditee.

Reconciliation (of accounting records)

The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.

Root causes (of audit outcomes)

The underlying causes or drivers of audit findings; in other words, why the problem occurred. Addressing the root cause helps ensure that the actions address the real issue, thus preventing or reducing the incidents of recurrence, rather than simply providing a one-time or short-term solution.

Supply chain management (SCM)

Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.

Unauthorised expenditure

Expenditure that was in excess of the amount budgeted or allocated by government to the auditee, or that was not incurred in accordance with the purpose for which it was intended.

Acronyms and abbreviations

AFS	annual financial statements
AG	auditor-general (the person)
AGSA	Auditor-General of South Africa (the institution)
APAC	Association of Public Accounts Committees
APP	annual performance plan
BCP	business continuity plan
CEO	chief executive officer
CFO	chief financial officer
CGICTPF	corporate governance of information and communication technology policy framework
CoGTA	Department of Cooperative Governance and Traditional Affairs
CWP	community works programme
DBSA	Development Bank of Southern Africa
DM	district municipality
DoRA	Division of Revenue Act
DPME	Department of Performance Monitoring and Evaluation
DPSA	Department of Public Service and Administration
DRP	disaster recovery plan
FMPPI	framework for managing programme performance information
GITO	government information technology officer
GRAP	Generally Recognised Accounting Practice
HR	human resources

ICT	information and communication technology
IDP	integrated development plan
IGR	inter-governmental relations
IT	information technology
LGTAS	local government turnaround strategy
LM	local municipality
MAT	municipal assessment tool
ME	municipal entity
MEC	member of the executive council
metro	metropolitan municipality
MFMA	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
MIG	municipal infrastructure grant
MIS	management information system
MISA	Municipal Infrastructure Support Agent
MPAC	municipal public accounts committee
MPAT	management performance assessment tool
MSA	Municipal Systems Act, 2000 (Act No. 32 of 2000)
MSIG	municipal systems improvement grant
MTEF	medium-term expenditure framework
MTREF	medium-term revenue and expenditure framework
NCOP	National Council of Provinces
OCA	Operation clean audit

PAC	public accounts committee
PDO	predetermined objective
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)
PMS	performance management system
Rxx b	billions of rand
Rxx k	thousands of rand
Rxx m	millions of rand
SALGA	South African Local Government Association
SCM	supply chain management
SCOA	standard chart of accounts
SDBIP	service delivery and budget implementation plan
SLA	service level agreement



AUDITOR - GENERAL
SOUTH AFRICA

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