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.”

Kimi Makwetu
Auditor-General
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General report on the audit outcomes of North West local government for 2012-13

NORTH WEST CLEAN AUDITS 2012-13

MUNICIPALITY
None

MUNICIPAL ENTITY
None
General report on the audit outcomes of North West local government for 2012-13

FOREWORD
I present my 2012-13 general report on the audit outcomes of the North West local government to the provincial legislature, the municipal councils and relevant stakeholders.

My message over the last three years has focused on empowering and ensuring stability of leadership at the municipalities in order to effect consequences for poor performance and to ensure that there is senior and executive leadership’s involvement in resolving negative audit outcomes. I understood these areas as being vital in driving clean administration in the local government sphere.

In my last year’s report I noted some progress in local government towards clean administration as a result of initiatives led by the premier and members of the executive council for local government and finance. It is encouraging to note that the province has sustained its ability to submit all the financial statements within the legislated deadline after dealing with the backlog in the financial statements in 2012. I also noted basic administrative stumbling blocks in the drive towards clean administration that needed to be addressed immediately and they included the following:

- Political leadership’s slow response in addressing the root causes of poor audit outcomes.
- Key positions that were vacant or key officials who lacked appropriate competencies to perform their duties.
- Lack of consequences for poor performance and transgression of policies and procedures, laws and regulations.

The majority of the audit outcomes still constitute modified opinions (78% [22% qualified with findings and 56% disclaimer of opinion]). There has been progress in outcomes over the last three years with movement in disclaimer of opinion, from 71% in 2011 to the current 56%. This means 15% of the municipalities have implemented their action plans successfully to deal with significant qualifications that resulted in a disclaimer of opinion.

The progress made by the Naledi Local Municipality (moved from disclaimer of opinion to financially unqualified with findings) however is encouraging and should serve as motivation to other municipalities of what is possible if the key risk areas are addressed and the leadership takes our message seriously. I noted similar progress at the Moses Kotane Local Municipality (moved from a qualified opinion to a financially unqualified with findings) and Madibeng Local Municipality (moved from a disclaimer of opinion to a qualified opinion).

Sustaining the positive development with regard to submission of annual financial statements by municipalities within the legislated deadline is critical, however, the quality of these financial statements is still below the required standards. The
responsibility of senior leadership to deal with poor records management, institutionalising sustainable internal controls and daily financial disciplines that support reliable accountability reports must be emphasised.

Over the years, there has been little progress in capacitating finance and other units with the right skills set and filling of key vacant positions. Therefore, the leadership must prioritised this area with a view to sustain the work that has been started by the consultants that assisted auditees with improving the internal control systems and financial reporting.

Supply chain management remains a challenge in the North West. Irregular expenditure can be prevented through the establishment of appropriate internal controls and daily financial disciplines that will ensure that supply chain management prescripts are adhered to and robust monitoring and supervision are exercised over supply chain management activities.

Where credible commitments were made by mayors, the implementation of these commitments was not always appropriately monitored. In my last general report I indicated that the mayors and councillors must take full ownership of the internal control environment and insist on daily disciplines that ensure credibility of all municipal activities. This will require excellent financial management, service delivery and compliance with laws and regulations.

Municipal public accounts committees have been established at all municipalities, which is a big step in ensuring that the correct level of oversight exists. The key role players, specifically the internal audit unit, audit committee, council and the municipal public accounts committees, are critical to the implementation of the recommendations I have made and should provide adequate oversight of critical risk areas facing local government. This will provide a rigid and solid platform to build on the strides made in the province over the last three years towards good governance and ultimately clean administration.

My team and I will continue to invest in stakeholder interactions despite the slow progress and shift to positive outcomes. We are going to intensify these interactions in a manner that will enable effective improvement of audit outcomes and ensure that the leadership does not only provide commitments, but also actions them so that they yield the desired results.

Together, we will continue to contribute to strengthening our country’s democracy. I wish to thank the audit teams from my office and the audit firms that assisted in the province for their diligent efforts towards fulfilling our constitutional mandate and their commitment to strengthening cooperation with the leadership of local government in the province.

Auditor-General

Pretoria
July 2014
General report on the audit outcomes of North West local government for 2012-13
SUMMARY OF AUDIT OUTCOMES AND KEY RECOMMENDATIONS FOR IMPROVEMENT
Our auditing 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
- 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 the 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 ■ financial health ■ information technology controls ■ human resource management.

During the auditing 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, performance report as well as compliance with legislation.

We continuously strengthen our relationships with mayors, the premier, the provincial treasury, the provincial department of corporative governance 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 that follows 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 the report:

- If municipalities have municipal entities under their control, the audit opinion on their financial statements is that of the consolidated financial statements.
- ‘With findings’ means findings on 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 at district level and per municipality. The report also includes three annexures that detail the audit outcomes and findings per auditee, the status of the drivers of internal controls at the auditees, and a five-year view of the audit outcomes. The glossary of terms included after the annexures defines the terminology used in this report.
Overview of audit outcomes and key recommendations for improvements (figure 1)

**Assurance provided by key role players should be improved**

- **First level of assurance**
  - Senior management
  - Municipal manager
  - Mayor
  - Internal audit
  - Audit committee
  - Coordinating departments

- **Second level of assurance**
  - Municipal council
  - Municipal public accounts committee
  - Legislation and portfolio committee

- **Third level of assurance**

<table>
<thead>
<tr>
<th>Role/Department</th>
<th>2012-13</th>
<th>2011-12</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior management</td>
<td>37%</td>
<td>41%</td>
<td>37%</td>
</tr>
<tr>
<td>Municipal manager</td>
<td>63%</td>
<td>59%</td>
<td>63%</td>
</tr>
<tr>
<td>Mayor</td>
<td>37%</td>
<td>37%</td>
<td>33%</td>
</tr>
<tr>
<td>Internal audit</td>
<td>52%</td>
<td>59%</td>
<td>67%</td>
</tr>
<tr>
<td>Audit committee</td>
<td>37%</td>
<td>37%</td>
<td>33%</td>
</tr>
<tr>
<td>Coordinating departments</td>
<td>11%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Municipal council</td>
<td>63%</td>
<td>67%</td>
<td>100%</td>
</tr>
<tr>
<td>Municipal public accounts committee</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislation and portfolio committee</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**THE KEY ROLE PLAYERS NEED TO ...**

- **... TO ENSURE IMPROVED RESULTS.**
- **... TAKE SOME VITAL ACTIONS ...**

**Drivers of internal control should be improved**

- **LEADERSHIP**
  - 2012-13: 2% Good, 28% Concerning, 70% Intervention required
  - 2011-12: 2% Good, 4% Concerning, 74% Intervention required

- **FINANCIAL AND PERFORMANCE MANAGEMENT**
  - 2012-13: 2% Good, 4% Concerning, 71% Intervention required
  - 2011-12: 2% Good, 4% Concerning, 75% Intervention required

- **GOVERNANCE**
  - 2012-13: 1% Good, 4% Concerning, 64% Intervention required
  - 2011-12: 4% Good, 4% Concerning, 71% Intervention required

**Root causes should be addressed**

- Key positions vacant or key officials lacking appropriate competencies (2011-12: 96%)
- Lack of consequences for poor performance and transgressions (2011-12: 96%)
- Slow response to address the root causes of poor audit outcomes (2011-12: 96%)

**Stagnation in audit outcomes**

<table>
<thead>
<tr>
<th>Year</th>
<th>Unqualified with no findings</th>
<th>Unqualified with findings</th>
<th>Qualified with findings</th>
<th>Adverse/Disclaimed with findings</th>
<th>Outstanding audits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>22%</td>
<td>22%</td>
<td>15%</td>
<td>22%</td>
<td>56%</td>
</tr>
<tr>
<td>2011-12</td>
<td>22%</td>
<td>14%</td>
<td>14%</td>
<td>64%</td>
<td>64%</td>
</tr>
<tr>
<td>2010-11</td>
<td>56%</td>
<td>64%</td>
<td>71%</td>
<td>64%</td>
<td>64%</td>
</tr>
</tbody>
</table>

**Six risk areas should receive attention**

- **Supply chain management**
  - 89% No findings, 4% Findings, 7% Material findings

- **Quality of performance reports**
  - 85% No findings, 15% Findings, 5% Material findings

- **Human resource management**
  - 81% No findings, 12% Findings, 19% Material findings

- **Quality of submitted financial statements**
  - 96% No findings, 4% Findings, 7% Material findings

- **Information technology controls**
  - 90% No findings, 10% Findings, 5% Material findings

- **Financial health**
  - 63% No findings, 23% Findings, 12% Material findings

**General report** on the audit outcomes of North West local government for 2012-13
Status of the three areas that we audit and report on

Audit outcomes have stagnated

There has not been an improvement in the audit outcomes of local government. The number of auditees reported on have decreased by one since the previous report as the Moses Kotane Development Agency closed down at the end of 2011-12. Significant aspects of the 2012-13 audit outcomes of the 27 auditees shown in figure 1 are listed below.

- Overall, the outcomes in the province remained unchanged with only six auditees (22%) receiving an unqualified opinion with findings.
- Compared to 2010-11, however, there has been a steady decline in the number of disclaimers: from 71% to 64% to 56%.
- There were no clean audits while six (22%) (14% in 2011-12) received qualified opinions and 15 (56%) (64% in 2011-12) remained with disclaimer of opinions.
- The Bojanala Platinum District Municipality, Tlokwe City Council, Lekwa Teemane Development Agency and Rustenburg Water Services Trust were the only auditees that could maintain an unqualified opinion with findings.
- Notable improvements include the Naledi Local Municipality, which improved from a disclaimer of opinion to an unqualified opinion with findings; Moses Kotane Local Municipality, which improved from a qualified opinion to an unqualified opinion with findings; and Madibeng Local Municipality, which improved from a disclaimer of opinion to a qualified opinion.
- The Ratlou Local Municipality and Dr Ruth Segomotsi Mompati District Municipality regressed from an unqualified opinion with findings to a qualified opinion.
- The worst performing district was Ngaka Modiri Molema where all auditees received a disclaimer of opinion except the Ratlou Local Municipality which received a qualified opinion.
- The best performing district was Bojanala Platinum with both the district municipality and Moses Kotane Local Municipality receiving an unqualified opinion with findings.

Disclaimed opinions are mainly driven by a lack of audit trail and supporting documentation that support the financial transactions undertaken by municipalities as reported in their annual financial statements. This reflects a status of gross lack of accountability and transparency in the use of government resources and, to the extent, performance information reported by municipalities is also not supported by adequate audit evidence. The details regarding these movements in outcomes or lack thereof are included in more detail in the section that deals with outcomes per auditee.

The quality of annual performance reports has not improved

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 reports, 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 2: Status of quality of annual performance reports
Figure 2 shows the number of auditees in the province with material findings in this regard over the past three years, including those auditees that did not prepare an annual performance report or submitted the report too late for auditing.

Four auditees (15%) did not prepare or submit performance information compared to the nine (32%) in the previous years. The City of Matlosana was the only auditee that could maintain its status of having no findings on the quality of the annual performance report. Three auditees improved to having no findings but this was offset by two auditees regressing to having findings on annual performance reports.

Overall over the last three years, there was very slow movement in addressing these findings mainly because of the lack of dedicated resources and systems to generate accurate and reliable performance information throughout the year. This area has not been receiving the attention that it should have, to address the findings raised.

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 remained unchanged since the previous year with 83% of auditees preparing reports, having findings. The most common findings on usefulness were the following:

- **Consistency** – reported performance information not consistent with planned objectives, indicators/measures and targets.
- **Measurability** – performance indicators and targets not verifiable, well defined, measurable and specific.
- **Presentation** – measures taken to improve performance not disclosed or not supported by adequate 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 remained unchanged since the previous year with 83% of auditees submitting performance reports having findings. Adequate supporting evidence to support reported information could not be provided or reported information differed materially from the submitted supporting evidence due to the lack of systems of internal controls which are conducive to producing accurate and complete information.

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

- A total of 89% of the auditees had material findings on non-compliance with the legislation that regulates strategic planning, performance management and reporting.

- Only one auditee attempted to amend the annual performance report submitted for auditing to correct material misstatements identified during the auditing process but still had findings on the reliability of the information. Due to the nature of the findings non-submission of supporting evidence, most auditees could not correct findings identified during the auditing process.

- All four auditees with reliable annual performance reports, as shown in figure 2, did not achieve 20% or more of the planned targets they reported on. For the rest of the auditees that had material findings on reliability, we could not establish whether the majority of planned targets they reported had been achieved.

Some auditees appointed consultants to assist with the preparation of performance information with no credible action plans to address previous findings on predetermined objectives that were reported. More detail in this regard is included in the section on the effective use of consultants.

Auditees should ensure that the following root causes are addressed:

- Vacancies or lack of competencies in key positions responsible for preparing and monitoring performance reporting.
- Lack of systems of internal control which are conducive to producing accurate and complete information and ensuring that evidence to support reported performance is adequately managed and filed.

The level of compliance with legislation has not improved

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 unit ■ 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, supply chain management) ■ human resource 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 3 shows the number of auditees with material findings in this regard over the past three years. All auditees had material findings over the last three years, which is indicative of non-compliance with legislation and the lack of consequences for transgressions.

Figure 4 shows the compliance areas with the most material findings and the lack of progress made by auditees in addressing these findings. The number of auditees with findings in each focus area remains high and, in addition, the number of findings within each of the focus areas increased.

The following were the most common findings across these compliance areas:

- There were material misstatements or limitations in the financial statements submitted for auditing.
- Unfair or uncompetitive procurement processes.
- No or inadequate performance management systems.
- Unauthorised, irregular as well as fruitless and wasteful expenditure was not prevented and was not investigated.
- Competencies of financial/supply chain management officials/chief financial officer/head of the supply chain management unit were not assessed or reports on compliance with prescribed competency levels were not submitted to treasuries.
Municipalities operated waste disposal sites and wastewater treatment plants without licenses and permits or without adhering to license and permit conditions.

Figure 5: Trends in unauthorised, irregular as well as fruitless and wasteful expenditure

Unauthorised expenditure is expenditure that was not spent in accordance with the approved budget. Unauthorised expenditure increased significantly compared to the previous years, which indicates the continued poor controls in place to ensure that expenditure is only incurred in line with the approved budget. Of the R1 715,1 million unauthorised expenditure incurred in 2012-13, most (99,8%) was as a result of overspending of the approved budget. Although 78,1% of the expenditure was identified and disclosed by the auditees themselves, the concern remained that the auditees were not able to ensure that only expenditure budgeted for was incurred.

Irregular expenditure is expenditure that was incurred in a manner not prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed, but is an indicator that legislation is not being adhered to, including legislation aimed at ensuring that procurement processes are competitive and fair. It is the role of the council to investigate all irregular expenditure to determine whether it constitutes misconduct, fraud or losses that should be recovered. There has been a massive increase in irregular expenditure in the past three years. Not adhering to legislative requirements poses a significant risk to local government, specifically with regard to the confidence the public has in their ability to spend money to achieve service delivery.

Of the R2 815,7 million irregular expenditure incurred in 2012-13, most (99,8%) was supply chain management related. A total of 89,2% of the expenditure resulted from acts of non-compliance in 2012-13; the remainder was expenditure resulting from transgressions in previous years. Most irregular expenditure (53,2%) was identified by the auditees themselves, this is an improvement compared to the previous years but more needs to be done to make sure auditees can identify these irregularities. It is of concern that most auditees were still qualified on their ability to identify all irregular expenditure and the numerous limitations of scope placed on the audit of procurement and contract management.

Fruitless and wasteful expenditure is expenditure that was made in vain and that would have been avoided had reasonable care been taken. Fruitless and wasteful expenditure has increased over the last year and should be addressed. The majority of the fruitless and wasteful expenditure incurred was due to penalties in interest paid to suppliers. Of the R72,3 million for fruitless and wasteful expenditure, 98,5% was identified by the auditees themselves, which shows an improvement in auditees’ systems and controls to identify and disclose 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. The main reason for the continued increase in all three areas remains the lack of steps taken in terms of the available legislation to act against those responsible for these irregularities. More information on the lack or ineffectiveness of these actions is included in the section on human resource management.

Six risk areas that should continue to receive attention

Our audits of the six risk areas show that our recommendations to address these risks to 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 is discussed as part of the above section on audit outcomes. A view on the effective use of consultants is given as part of the human resource management risk area included below.
Quality of submitted financial statements

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 misstatements to refer to such material errors or omissions. All auditees, with the exception of Lekwa Teemane Local Municipality and Lekwa Teemane Development Agency, submitted their financial statements for auditing on time, which is an improvement on the historic trend of non-submission of financial statements. Figure 1 shows that only one auditee (4%) submitted financial statements that did not contain material misstatements – no improvement from the previous year.

Figure 6: Quality of submitted financial statements

![Circle diagrams showing quality of submitted financial statements](image)

Some auditees appointed consultants to assist with financial reporting. More information in this regard is included in the section on the effective use of consultants.

Supply chain management

As part of our audits of supply chain management, we tested 555 contracts (with an approximate value of R2.5 billion) and 1,276 quotations (with an approximate value of R78.4 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 without bias to preferred suppliers and that goods and services were sourced at effective and economical prices. 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 supply chain management processes.
All findings from the audit were discussed with management through a management report, while we reported the material non-compliance findings in the audit report.

Figure 1 shows that there has been no improvement in the number of auditees that had audit findings in supply chain management in the previous year. The lack of consequences for transgressions plays a major role in the reason for the continued findings. The councils and oversight structures should make sure that all supply chain management transgressions are appropriately investigated and necessary actions taken.

Figure 7: Findings on supply chain management

| Limitation on planned scope of audit of awards | 37% (10) | 19% (5) |
| Awards to employees and councillors or other officials of the state | 37% (10) | 26% (7) |
| Awards to close family members of employees and councillors | 19% (5) | 7% (2) |
| Uncompetitive or unfair procurement processes | 81% (22) | 4% (1) |
| Inadequate contract management | 41% (11) | 4% (1) |
| Internal control deficiencies | 11% (3) | 81% (22) |

Figure 7 shows the extent of findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- There were 30 instances of awards with an overall value of R661,032 to suppliers in which employees and councillors of the auditee had an interest. In 83% of these instances, the suppliers did not declare the interest, while the employees or councillors concerned did not declare the interest in 7% of the cases. The employees with these interests were mostly not involved in the procurement process.

- There were 19 instances of awards with an overall value of R1,8 million to suppliers in which close family members of employees and councillors of the auditee had an interest. In 32% of the instances, the auditee did not report the interest in the financial statements, as required by the Municipal Finance Management Act. In 42% of the instances, the supplier did not submit a declaration of interest, while the employee or councillor did not declare the interest of their close family members in 53% of the cases.

- There were 111 instances of awards with an overall value of R96,3 million to suppliers in which other state officials had an interest. In 88% of the instances, the supplier did not declare the interest. In 5% of the instances, the service provider submitted a false declaration indicating that no interest existed.

- The following were the most common findings on uncompetitive and unfair procurement processes:
  - Three written quotations not invited without a deviation approved or with an approved deviation that was not reasonable or justified (59%).
  - Competitive bids were not invited when it was required to do so and the deviation was not approved or an approved deviation was not reasonable or justified (48%).
  - The auditee procured from suppliers without making sure that the supplier obtained a tax clearance certificate (44%).

- The following were the most common findings on contract management:
  - Performance of contractors was not monitored on a monthly basis (33%).
  - No or inadequate contract performance measurement and monitoring (33%).
Most of the significant internal control deficiencies identified were not reported in the audit reports as findings, but these directly resulted in most of the other material findings reported above. The following were the most common internal control deficiencies that we identified:

- Officials at the supply chain management units were not adequately trained (52%).
- No or inadequate record keeping and records management systems in place (41%).
- Allegations of supply chain irregularities were not investigated within a reasonable time (30%).

**Human resource management**

Human resource 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 human resource management that focused on the following areas: human resource planning and organisation, management of vacancies, appointment processes, performance management, acting positions, management of leave, overtime, and suspensions.

Our audits further 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.

Figure 1 shows that there has been no improvement in the number of auditees that had audit findings on human resource management since the previous year.
Figure 8 shows the number of auditees where the positions of municipal manager or chief executive officer, chief financial officer and head of the supply chain management unit were vacant at year-end and also indicates that these positions had been vacant for more than six months. Figure 9 shows the average number of months key officials had been in their positions.

The reasons for the continuing vacancies in local government are mainly due to the difficulty of attracting appropriately skilled staff to the province. Most people (who have the required qualifications and competencies) are not willing to relocate to the small and rural towns in which the municipalities in the province are located. The lack of job security is also a contributing factor. The high vacancy rate and instability in key positions negatively affects the performance of the other officials at their sections.

The general political instability at local government in the North West has a bearing on the ability of municipalities to deal with vacancies in key positions as highlighted in figure 8. As a result there is a lack of leadership in supervising and implementing commitments that aimed at dealing with these challenges. Officials occupying these positions in acting capacities have not been effective.

The following were the most common findings on the management of vacancies and acting positions:

- Senior management positions were vacant for more than 12 months and the vacant positions were not advertised within six months.
- Critical positions within the finance sections of auditees were vacant for more than 12 months and the vacant positions were not advertised within six months.
- Officials acted in senior management positions for more than three months.

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, supply chain management officials and other financial officials taking into account the size and scope of municipalities.

Figure 10 shows the percentage and number of auditees where key officials did not meet the minimum competency levels defined in the regulations at year-end or where the auditees did not assess the competencies of the key officials.

Only a few key officials that were assessed did not meet the minimum competencies, however, the concern is the numerous key officials whose competencies were not assessed as required. In addition, the annual reports do not reflect information on minimum competencies and auditees did not submit a report on compliance to treasuries, as required.

Despite key officials meeting minimum competencies, many did not have the appropriate skills and lacked the understanding or experience to prepare GRAP-compliant financial statements, which resulted in the appointment of consultants in most instances. Other officials at finance sections also lacked the competencies to support the chief financial officers in preparing financial statements.

The following were the most common other findings on the appointment of officials:

- Appointment of officials that did not meet the requirements of the position.
- Proper verification processes not taking place for new appointments.
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. However, at 15% of the auditees senior managers did not have performance contracts or the contracts had not been signed early enough. At most auditees there was also no performance management system in place for officials other than senior management.

Legislation prescribes how financial misconduct, improper conduct in the supply chain management 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 indicate that there continues to be a lack of consequences at some auditees:

- Unauthorised, irregular as well as fruitless and wasteful expenditure was not investigated to determine if a person was liable for the expenditure.
- Unauthorised, irregular as well as fruitless and wasteful expenditure was not condoned by the relevant authority or written-off as irrecoverable without being certified by council as irrecoverable after an investigation.
- Investigations into all allegations of financial misconduct made against officials were not conducted.
- The continued vacancies in key positions, lack of appropriate competencies and lack of consequences for poor performance and transgressions are the main reasons for the lack of improvement in audit outcomes.

**Effective 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.

Auditees indicated the following as reasons for the continued use of consultants:

<table>
<thead>
<tr>
<th>Reason</th>
<th>Financial reporting</th>
<th>Performance information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal officials lacked the required skills</td>
<td>40% (10)</td>
<td>-</td>
</tr>
<tr>
<td>Positions were vacant</td>
<td>8% (2)</td>
<td>-</td>
</tr>
<tr>
<td>Combination of lack of skills and vacancies</td>
<td>52% (13)</td>
<td>100% (3)</td>
</tr>
</tbody>
</table>

The cost of consultants assisting with financial reporting was R113,4 million (2011-12: R39,4 million). This includes amounts, as far as could be determined from available information at the municipalities, spent by the provincial treasury on consultants assigned to assist municipalities. The cost of consultants assisting with performance information was R2,9 million (2011-12: R0).

**Figure 11: Audit outcomes of auditees assisted by consultants**

- **Financial reporting**
  - 25% (6) of auditees had no findings.
  - 20% (5) had findings on financial information.
  - 56% (14) had material misstatements.

- **Performance information**
  - 100% (3) of auditees had findings on performance information.

Figure 11 shows the audit outcomes of the 25 auditees (93%) that had been assisted by consultants on financial reporting (which included preparation of financial statements as well as other services like compiling asset registers and maintaining accounting records). It also shows the occurrence of findings on performance information at the three auditees (11%) assisted by consultants.

Figures 12 and 13 show reasons why consultants did not have a positive impact on the audit outcomes of some auditees.

**Figure 12: Reasons for material misstatements – financial reporting**

- **Lack of records and documents**
  - 100% (18) of auditees had findings.

**Figure 13: Reasons for material findings – performance information**

- **Lack of records and documents**
  - 100% (3) of auditees had findings.
In all instances the most important reason why there were still material findings on consultant’s work was that the consultants were appointed late in the financial year to prepare financial statements. The auditees did not implement appropriate internal controls and record management systems throughout the year to generate the information necessary to compile financial statements. Consultants in place could merely collate information and compile financial statements based on information that had already been captured, classified and reconciled by the auditee. In most cases their role was limited to financial statement preparation based on the quality, relevance and reliability of information that had been processed by the auditee. We are concerned about the following, based on our review of the contracts and arrangements between auditees and consultants:

- No policies or strategies were in place to govern the use of consultants.
- Measures to monitor contract performance and delivery were not defined or implemented.
- Lack of evidence of the transfer of skills because the conditions or clauses relating to the transfer of skills had not been included in the consultants’ contracts.

In the absence of these safeguards there is little ability from the auditees’ perspective to use consultants in an incremental manner and build capacity within municipalities going forward. The fact that the provincial treasury appointed most of the consultants to assist in the preparation of financial statements contributed to the timely submission of financial statements and also contributed, in some cases, to the lack of monitoring and evaluation of the performance of the appointed consultants. There should be close monitoring of the work done by the consultants as well as a good working relationship between the consultant and auditee.

**Information technology controls**

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

Our audit included an assessment of the information technology controls that focus on information technology governance, security management, user account management and information technology service continuity.

Figure 1 shows that little improvement has been made since the previous year in the number of auditees that had audit findings on information technology controls. The majority of the municipalities still experienced significant challenges with the design of information technology controls. Eleven municipalities (55%) showed no change from the previous year’s audit (2011-12). We noted improvements at the Moses Kotane Municipality, particularly in security management and user account management.

**Figure 14: Status of information technology controls**

![Figure 14: Status of information technology controls](image)

Figure 14 indicates the status of the information technology controls in the areas we audited and the movement since the previous year. It shows the number of auditees where the information technology controls were either not in place (not designed) or not implemented, as well as those where information technology controls were functioning effectively.

Effective information technology governance ensures that the organisation’s information technology control environment functions well and enables service delivery. The information technology governance framework developed for government had not yet been implemented. All auditees are, however, required to adopt and implement the information technology 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. A task team was established by the minister of Cooperative Governance and Traditional Affairs to guide municipalities, amongst others, in the implementation of the governance framework. The majority of auditees did not have adequately designed and
implemented information technology controls for security management, user access management and information technology service continuity. The most common findings were the following:

- **Security management**
  
  Many auditees continued to experience challenges with the design of appropriate security management policies that would address network security as well as operating and application systems security. At some municipalities systems had not been configured to prevent unauthorised access, password control settings on the servers were inadequate and conflicts in the segregation of duties were identified in key financial systems.

- **User access management**
  
  A lack of designed procedures resulted in poor management of user account controls at financial and operating system levels. In terms of the implementation of controls, the most common findings related to inadequate procedures for managing user registration. Processes were also not in place for the amendment and removal of users’ access rights to financial systems and new user accounts were created and granted access to municipal networks and financial systems without appropriate authorisation. Service providers could add or delete users and change access privileges for existing users without being monitored.

- **Information technology service continuity**
  
  A disaster recovery plan and backup procedures had not been designed for financial systems supporting critical business functions and services.

  Also, in cases where municipalities entered into service level agreements with other municipalities regarding a shared service model, or services were outsourced to a service provider, the information technology disaster recovery arrangements were poorly defined in the service level agreements.

Management should prioritise the design and implementation of the security management, user access management and information technology service continuity controls. This will mitigate the risk of unauthorised access to, and unavailability of, information technology systems, as well as incompleteness of data in the event of major system disruptions or data loss.

**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 were any events or conditions that may cast significant doubt on auditees’ ability to continue as a going concern.

Figure 1 indicates the number of auditees that had more than two of the indicators shown in figure 15 (with findings) and auditees with material going concern uncertainties or adverse or disclaimerd audit opinions (with material findings). There has been an increase in the number of auditees that had concerns on financial health since the previous year.

**Figure 15: Areas of financial health concerns**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Percentage</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overspending of operating expenditure budget by more than 10%</td>
<td>42% (11)</td>
<td></td>
</tr>
<tr>
<td>Underspending of approved capital budget by more than 10%</td>
<td>58% (15)</td>
<td></td>
</tr>
<tr>
<td>Creditor-payment period of more than 90 days</td>
<td>58% (15)</td>
<td></td>
</tr>
<tr>
<td>Underspending of conditional grants by more than 10%</td>
<td>58% (15)</td>
<td></td>
</tr>
<tr>
<td>Debt-collection period (after impairment) of more than 90 days</td>
<td>54% (14)</td>
<td></td>
</tr>
<tr>
<td>More than 10% of debt irrecoverable</td>
<td>81% (21)</td>
<td></td>
</tr>
<tr>
<td>Deficit realised for the year</td>
<td>54% (14)</td>
<td></td>
</tr>
<tr>
<td>Net current liability position realised</td>
<td>62% (16)</td>
<td></td>
</tr>
<tr>
<td>Year-end bank balance in overdraft</td>
<td>19% (5)</td>
<td></td>
</tr>
</tbody>
</table>

The number of auditees with concerns within each area has also increased since the previous year. The following indicators are of concern:

- **Overspending of operating expenditure budgets by more than 10% (42%):** This indicates that auditees were unable to meet their operational requirements within approved budgets. Overspending of the budgets means that this expenditure will have to be funded from cash reserves of the municipality. This practice is not sustainable given the limited sources of funding and limited cash reserves.

- **Auditees with underspending of approved capital budget (58%) and conditional grants (58%) by more than 10%:** This indicates that auditees had to limit spending money appropriated for specific purposes like infrastructure development as the actual cash received for these purposes was used for operational expenditure. This underspending affected service delivery. Auditees should use appropriated funds for
their designated purpose through proper budgeting techniques and cash flow and expenditure management to maintain control over these funds.

- Creditor payment periods of more than 90 days (58%): This is indicative of the auditees’ inability to pay suppliers on time – the legislative requirement is to pay suppliers within 30 days of receipt of the goods and services. The average payment period for auditees in the province was 188 days. The critical suppliers that were not paid timeously like Eskom and bulk water service providers directly impacted the affected municipalities due to non-delivery of services.

- Debt-collection period (after impairment) of more than 90 days (54%) and more than 10% of debt irrecoverable (81%): This indicates the auditees’ inability to collect money from the consumers being billed for services rendered. On average, 55% of all debtors billed were irrecoverable. Even after taking into account the irrecoverable debt (impairment), the average period to collect debts was 149 days.

- Municipalities with realised deficits for the year (54%) and net current liability positions (62%): This indicates that the majority of auditees the operating expenditure exceeded the operating income and that the total current liabilities exceeded the total current assets. This indicates that the auditees were technically insolvent – unable to meet operational expenditure requirements or to settle short-term debts.

- Year-end bank balance in overdraft (19%): Five auditees’ balances on their primary bank accounts were in overdraft at year-end. However, this occurred although none of these auditees had overdraft facilities arranged with the banks. These auditees were unable to pay any suppliers until they received government grants in the form of equitable share allocations on a quarterly basis.

Most of these concerns have been caused by lack of appropriate financial management practices. Should these not be urgently addressed, service delivery at almost all municipalities will collapse due to lack of adequate cash resources to fund operational and capital requirements.

**Significant deficiencies in internal controls and root causes should be addressed to improve audit outcomes**

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.

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**General report on the audit outcomes of North West local government for 2012-13**
continuously review and monitor action plans. Only a few auditees were able to successfully implement these key controls and there has been little improvement since the previous year. Action plans were either not developed to address the previous year’s audit findings or the action plans in place were not adequate and the implementation thereof was not monitored.

No auditees obtained clean audit opinions as their financial and performance reports were of a poor quality and they had high levels of non-compliance with legislation. The most common root causes of the audit outcomes that need to be addressed, as shown in figure 1, and recommendations to address them are listed below:

- **Lack of consequences for poor performance and transgressions**
  
  This was identified as a root cause at 96% of auditees, it was also identified as a root cause last year, but there has been little improvement in this regard. Where management or officials at the auditees do not perform their work with the required level of diligence and competence, their performance should be managed. When an official negligently or deliberately fails to comply with the policies and procedures or laws and regulations applicable to the auditee, the necessary disciplinary steps should be taken against him/her.

  The reason for the lack of consequences for repeated transgressions by local government officials is that the councils did not provide the required level of assurance and responsibilities with regard to non-compliance with legislation. They also lacked an understanding of the financial environment and how to act on transgressions. The department of local government and the provincial treasury also failed to adequately educate municipalities, monitor compliance and assist municipalities in this regard.

- **Key positions vacant or key officials lacking appropriate competencies**
  
  This was identified as a root cause at 96% of auditees, it was also identified as a root cause last year, but there has been little improvement in this regard. As already discussed in the section on human resource management, key positions at auditees were vacant for extended periods or the officials in those positions and other critical support positions lack the competencies required for the position. Political instability continued to play a key role in the vacancies and instability in key positions at the municipalities.

- **Slow response in addressing the root causes of poor audit outcomes**
  
  This was identified as a root cause at all auditees, it was also identified as a root cause last year, but there has been little improvement in this regard. To improve audit outcomes, the political leadership at municipalities should take our messages seriously and address the key control weaknesses and root causes that resulted in the audit findings. Only if the underlying key controls are addressed by the auditees, will the audit outcomes improve. The driver of implementation of key controls should come from the leadership (mayors and council) at the auditees but management is responsible for the implementation. Therefore, the leadership should closely monitor progress made by management in implementing these corrective actions. Oversight should ensure that these controls and commitments are implemented.

  Numerous mayors did not take interactions with the Auditor-General of South Africa seriously and commitments made lacked substance and did not address the root causes. The councillors were not appropriately trained on their oversight responsibility and the role of municipal public accounts committees. Where mayors did commit themselves, these commitments which had to be implemented by the management at the municipalities were not always appropriately monitored. There appears to be a difference between the vision and will of mayors and the commitment by the management of municipalities and vice versa. It appears that they did not work towards the same goal, which is a disadvantage to the municipalities.

The level of assurance provided by key role players should be improved

The management and the leadership of the auditee 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.

Based on our assessment as shown in figure 1, these role players did not provide the necessary assurance. Below is an overview of the assurance provided by each of the assurance providers.

**Senior management**

Senior management, which includes the chief financial officer, chief information officer and head of the supply chain management unit, provides assurance by implementing basic financial and performance controls. Senior management did not provide the required level of assurance and there has been no movement compared to the previous year.

The main reasons for the lack of assurance provided by senior management remained the vacancies and instability in key positions and the lack of competencies of officials filling these positions. This situation will only improve once all vacancies are filled by competent and experienced persons. Senior
management should focus on reviewing financial and performance information produced by the systems implemented at the municipalities to ensure credible and reliable reporting.

Accounting officers

Accounting officers are responsible for auditees’ internal controls, including leadership, planning, risk management as well as oversight and monitoring. While accounting officers 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. Accounting officers did not provide the required level of assurance and there has been no movement since the previous year.

The main reason for the lack of assurance provided by accounting officers remained the vacancies and instability in key positions and the lack of competencies of officials filling these positions. This situation will only improve once all vacancies are filled by competent and experienced persons. Accounting officers should focus on following up on the implementation of action plans and commitments made to address key control deficiencies and previous year audit findings.

Mayors

Mayors have a monitoring and oversight role at both municipalities and municipal entities. They have specific oversight responsibilities in terms of the Municipal Finance Management Act and the Municipal Systems Act, 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. Mayors did not provide the required level of assurance and there has been no movement since the previous year.

Internal audit unit

The 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. The internal audit units did not provide the required level of assurance and there has been no movement since the previous year.

Three auditees (11%) did not have internal audit units, while at the remaining auditees, internal audit services were mostly shared services per district. However, at two auditees (8%) the internal audit units had a positive impact on the audit outcomes. At 63% of auditees, material non-compliance was identified with regard to the operation of the internal audit units. We noted that in 42% of instances internal audit units did not evaluate the reliability of financial information, in 46% of instances internal audit units did not evaluate compliance with legislation and in 63% of instances internal audit units did not evaluate the reliability of performance information.

Even in those instances where the internal audit units did focus on these key areas, management did not appropriately address the weaknesses identified by them. The internal audit units should have the required capacity to consider all of the key areas required for all auditees in their portfolio (for shared services). The internal audit units should make sure that their internal audit plans are aligned to the risks identified at their municipalities and should specifically focus on those key controls directly impacting on the credibility and accuracy of financial and performance reporting and compliance with laws and legislation regulations. The unit is only effective in terms of the position it holds within a municipality, the level it reports to and the impact its resolutions have on management.

Audit committee

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 as well as 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 information. Audit committees did not provide the required level of assurance and there has been no movement since the previous year.

Only one auditee (4%) did not have an audit committee. Seventy-four per cent of audit committees did not fully comply with legislation – they were either not correctly established or not executing their duties. We noted that in 58% of instances, audit committees did not evaluate the reliability of financial information, in 50% of instances audit committees did not evaluate compliance with legislation and in 65% of instances audit committees did not evaluate the reliability of performance information. It was only in three cases (12%) that the audit committee had a positive impact on the audit outcomes.

Audit committees should focus on evaluating those key areas like financial and performance reporting as well as compliance with laws and regulations. They should also monitor and review the implementation of action plans and commitments made and give regular feedback to the executive authorities.

Provincial treasury, premier’s office and provincial department of local government

The Constitution stipulates that the 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 Municipal Finance Management Act
further requires the provincial government to assist municipalities in building capacity to support efficient, effective and transparent financial management. Both the Municipal Finance Management Act and the Municipal Systems Act define responsibilities to monitor financial and performance management.

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 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 provincial treasury provided assistance to municipalities mainly in terms of the appointment of consultants to assist municipalities to prepare financial statements and asset registers. Details of this impact have been discussed in this report in the detailed section on the use of consultants.

Other than this, all three departments lacked the capacity to properly support the municipalities to the extent that they needed it. Commitments made by the premier and the members of the executive council of the two departments to address audit outcomes in the previous year were still in progress and in some cases complete. These commitments made need to evolve in order to meaningfully address the root causes of the poor audit outcomes.

These departments should continue to expand their capacity to support local government and without their support the auditees would not be able to show improvement. This support should include deployment of skills and capacity at the municipalities and intervening at those municipalities where intervention is required. Although administrators were appointed at a few municipalities during the year they could not yet have a positive impact on the audit outcomes due to late interventions, the lack of political will at those municipalities affected and administrative arrangements relating to the interventions being finalised. The role of these administrators was often not well received by the existing council that resisted, in some instances, the intervention made at provincial government level.

Municipal council and municipal public accounts committee

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.

The municipal public accounts committee was 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 role player through oversight, 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. Municipal councils and municipal public accounts committees have not yet provided the required level of assurance and there has been no movement since the previous year.

Most councils did not take the necessary steps against transgressions and management of poor performance. They lacked the experience and understanding to deal with these issues as required. All auditees established municipal public accounts committees, however, these committees had to receive training on numerous occasions to ensure that they knew what was required of them in terms of legislation. Most of the actions that the municipal public accounts committees would be taking, based on the annual reports of the current year’s audit outcomes, would only be seen during the next financial year.

Municipal councils and municipal public accounts committees should continue to strive towards providing the monitoring and oversight expected of them, with the assistance and guidance of the coordinating departments and the Auditor-General of South Africa, these councillors can ensure that poor performance and transgressions are dealt with appropriately and timeously.

Provincial legislature and portfolio committee on local government

In terms of the Constitution, the provincial legislature must maintain oversight of the executive authority responsible for local government. This executive authority includes the member of the executive committee for cooperative governance and other executives involved in local government, such as the member of the executive committee for finance. The mechanism used to conduct oversight is the portfolio committee on local government. The provincial legislature and portfolio committee on local government have not yet provided the required level of assurance and there has been no movement since the previous year.

Although numerous municipalities appeared before the provincial public accounts committee, they had limited or no impact on the audit outcomes and the issues dealt with and discussed were mostly from the previous year’s annual reports. These committees should ensure that municipalities are timeously appearing before them, the necessary intervention takes place and appropriate steps are taken.

District municipalities

We did not assess the assurance provided by district municipalities, but we are convinced that the support provided by these municipalities can assist in improving audit outcomes. Unfortunately, most district municipalities in the province also had poor audit outcomes and lacked the capacity to support local
municipalities in their districts. Bojanala Platinum District Municipality is the only
district municipality with a financially unqualified opinion.

District municipalities should continue to build their own capacity and provide support to local municipalities within their districts. This can include the re-establishment of district chief financial officer forums to discuss common audit issues or appointed shared service providers to, for example, assist to prepare district-wide asset registers.
The initiatives and commitments of all role players should have a positive impact on future audit outcomes

We have shared our key message on the actions needed to improve audit outcomes with accounting officers, mayors, councils and municipal public accounts committees through our reports and interactions with them.

Figure 17: Interactions with mayors

Figure 17 shows the number of meetings we had with mayors during 2012-13 and our assessment of the impact of these interactions. While we were able to meet regularly with most mayors, there has been no significant impact of these interactions on improving audit outcomes.

Throughout the year, we obtain and monitor the commitments of mayors, councils and municipal public accounts committees to implement initiatives that can improve audit outcomes. The progress of such commitments in response to the previous year’s audit outcomes and new commitments is included in the section on the results of the individual municipalities. Overall, these role players did not honour previous year’s commitments made. In many instances, commitments made were not owned by the role players and commitments made lacked substance to address the root causes of the poor audit outcomes. The commitments made were also not appropriately tracked and monitored to ensure that they were implemented by management due to a lack of support and buy in on these commitments in some cases by management.

During our roadshow on audit outcomes, we also shared this message with the provincial legislature, the premier, the provincial treasury and the provincial department of cooperative governance. We also confirmed the progress of the commitments made by these role players in response to the previous year’s audit outcomes. However, most of these commitments made were not implemented or were in progress of being implemented. As a result no direct impact can be seen on the 2012-13 audit outcomes. The following key commitments in previous years have not yet been fully implemented:

- Support the speaker with the programmes aimed at capacitating municipal speakers to be more effective in advancing municipal oversight.
- Monitor performance management of senior managers within municipalities.
- Investigate why skills are not transferred and capacity is not built when consultants are being used.
- Municipalities will take bold steps to prioritise the significant human resource deficiencies, particularly strategic management positions, by appointing qualified and skilled people.
- Provincial government will not hesitate to intervene where there is non-compliance with the Municipal Finance Management Act and Municipal Systems Act.
- The special investigating unit will conclude all investigations into fraud and corruption at municipal level.
- We will redouble our effort to support municipalities to improve on financial management so that they should meet audit requirements and objectives of clean audit 2014.
- All municipalities to assess capacity of chief financial officers to perform according to expectations of role.
- Ensure the involvement of provincial government in the appointment process of municipal managers and chief financial officers.
- The South African Local Government Agency to research training needs at municipal and provincial levels.
- Training all staff and new councillors, specifically on their oversight role, in so far as it pertains to finance and infrastructure.

The premier and the members of the executive council for finance and local government have made the following new commitments:
• Dedicate representatives from the Department of Finance to attend steering committee meetings at all municipalities and report back monthly to the department.

• Operation clean audit forum to be attended by the premier, member of the executive council for finance, member of the executive council for local government and traditional affairs as well as the Auditor-General of South Africa to meet at fixed intervals during the year.

• Conduct a workshop to explain processes around condonement of irregular and fruitless and wasteful expenditure for all municipalities by 31 May 2014.

• Address vacancies at high-capacity municipalities to capacitate municipalities with appropriate skills by 30 August 2014.

It is very important that the new commitments made by the key role players as well as the previous year commitments not yet fully implemented are tracked and regularly monitored to ensure that the key control deficiencies are addressed and ultimately result in improved audit outcomes.

The following is a summary of the most common recommendations made in this report:

• Training of all staff and new councillors, specifically on their oversight role relating to dealing with transgressions and managing poor performance.

• All senior managers should have signed performance agreements that meet the requirements of the Municipal Systems Act. Performance of all senior managers should be evaluated.

• All allegations of misconduct in financial, supply chain management and unauthorised, irregular as well as fruitless and wasteful expenditure should be investigated immediately. Once investigations are complete, the necessary disciplinary hearings should be held in all cases where misconduct was confirmed.

• All vacant municipal manager and chief financial officer positions should be filled by officials who meet the minimum competencies. All other critical positions at the auditees should be filled by skilled and competent staff.

• Regular feedback and monitoring of action plans should be part of the council’s agenda to make sure that corrective actions are taken where commitments are not on track.

If all role players work together in addressing the root cause of the poor audit outcomes and commitments made are credible and implementation thereof is properly monitored, improvements in future audit outcomes will be a reality.

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

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

Water and sanitation

According to the Constitution of the Republic of South Africa, every person has a 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. More than 5% of people countrywide were still without clean water during the period under review.

As local government is responsible for providing water and sanitation services, this function lies with municipalities that have been classified as water service authorities. There are 11 water service authorities in the province.

The lack of water service increases the risk of poor health and can cause premature deaths, while the lack of proper sanitation can pollute rivers and dams, thus negatively affecting the environment.

We identified red flags that could seriously impact on municipalities’ ability to provide a large portion of the province’s population with clean water and proper sanitation. These need urgent attention to ensure that the government’s objectives relating to water and sanitation are achieved:

• Municipalities did not effectively plan and did not adopt a water service development plan.

• Targets for providing access of basic water to households were not achieved or not reported on at all.

• Targets for providing access of basic sanitation to households were not achieved or not reported.
**Roads infrastructure**

In terms of the Constitution, the functions and powers over roads lie with those local municipalities classified as roads authorities. There were 19 roads authorities in the province.

The condition of roads impacts on all citizens and as such poor road conditions create challenges for many with unnecessary time delays, increased transportation costs impacting on the economic outlook for the province; and reduced access to education, health care and social services.

We identified red flags that could seriously impact on municipalities’ ability to provide the people with proper roads. The following need urgent attention to ensure that government’s objectives relating to roads are achieved:

- Municipalities did not have a policy on roads and did not plan effectively for the maintenance.
- Municipalities did not have a road asset management system.
- Municipalities did not set performance indicators and targets for the construction, maintenance and upgrading of roads.
- Targets for construction of new roads, maintenance of roads and upgrading of roads were not achieved.
AUDIT OUTCOMES OF INDIVIDUAL MUNICIPALITIES
Demographics and audit outcomes of municipalities

The section of the report firstly illustrates statistical information for the province as a whole as well as audit outcomes of municipalities per district. It then shows the demographics and audit outcomes of individual municipalities per district. Two municipal graphics are used.

The first graphic summarises the population and basic services of the specific municipality, based on information in the 2011 North West census municipal report prepared by Statistics South Africa. We have not audited this information but include it to provide context and an understanding of the environment in which each municipality operates.

The second graphic shows the audit outcomes of the mayoral portfolios. This graphic is considered to be the main one as it contains analysis of information that was audited by the AGSA. It provides an illustrated overview of the following:

- Movement in audit outcomes
- Drivers of key controls
- Level of assurance provided by different role players
- Progress made in addressing risk areas
- Root causes to be addressed
- The status of key commitments by the mayor

The narrative that follows after the second graphic puts into context the numbers provided in the graphic by summarising the status of the municipality and providing the way forward.
The statistics depicted above do not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.

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.
Municipal audit outcomes per district

Dr Ruth S Mompati
4
1
1
Bojanala Platinum
2
2
2
Ngaka Modiri
1
5
Dr Kenneth Kaunda
3
1
1

2012-13
MFMA
- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse or disclaimer with findings
- Audits outstanding
- Improved
- Stagnant or little progress
- Regressed
Bojanala Platinum District

General report on the audit outcomes of North West local government for 2012-13
General report on the audit outcomes of North West local government for 2012-13

The statistics depicted above do not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.

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Stagnation in audit outcome
Root causes to be addressed
Drivers of key controls not improving
Assurance levels should be improved
No progress made in addressing risk areas
Status of key commitments by the mayor

2012-13
Unqualified with findings

2011-12
Unqualified with findings

2010-11
Unqualified with findings

Supply chain management
Quality of performance reports
Human resource management
Quality of submitted financial statements
Information technology controls
Financial health

Unqualified with findings

Leakage of leadership
Effective leadership
Oversight responsibility
HR management
Policies and procedures
Action plans
IT governance

Leadership
Financial and performance management
Governance

Effective leadership
Proper record keeping
Processing and reconciling controls
Reporting
Compliance
IT system controls

Good Concerning Intervention required
Improved Stagnant or little progress Regressed

Senior management Provides some assurance
Municipal manager Provides some assurance
Mayor Provides some assurance
Internal audit Provides some assurance
Audit committee Provides some assurance
Municipal council Provides some assurance
MPAC Provides some assurance

No findings Findings Material findings

Lack of consequences for poor performance and transgressions
Key officials lack appropriate competencies
Slow response by oversight in addressing the root causes of poor audit outcomes

Formulate and implement policies and procedures for performance information to address usefulness and reliability issues identified
Implement compliance checklists to ensure compliance with laws and regulations applicable to the municipality
Prepare and review monthly financial statements to ensure accuracy of reported information
Investigation of unauthorised, irregular as well as fruitless and wasteful expenditure

Implemented In progress Not implemented New

Good Concerning Intervention required
Improved Stagnant or little progress Regressed

Stagnation in audit outcome: Root causes to be addressed
Drivers of key controls not improving
Assurance levels should be improved
No progress made in addressing risk areas
Status of key commitments by the mayor

General report on the audit outcomes of North West local government for 2012-13
No change in audit outcome

The municipality continued to receive an unqualified audit opinion after material corrections were effected to the financial statements. Improvements in compliance regarding supply chain management (SCM) were noted. However, the remaining compliance areas were still not addressed as repeat findings were reported. The performance information also remained largely unaddressed as significant deficiencies were identified in the usefulness and reliability of reported performance information in the performance report.

Although the district municipality received a financially unqualified opinion, it lacked the capacity to provide support to its local municipalities.

Six key risk areas

Progress has been made in addressing SCM as no material findings were reported in the audit report, however, some weaknesses were still identified. The only finding on human resource (HR) management was that proper verification processes were not always followed for new appointments.

The quality of performance reports and financial statements submitted for audit remained a concern as material findings were reported on the usefulness and reliability of information included in the performance report, while material adjustments had to be effected to the financial statements in order to receive an unqualified audit opinion.

The financial health of the municipality, although improving, remains a concern as the municipality incurred a material loss in the financial year, its unspent conditional grants were still not adequately covered by available cash and cash equivalents, and its current liabilities exceeded its current assets at year-end.

The information technology (IT) controls remained largely unaddressed as repeated findings were reported for the financial year under review.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same. The following controls must be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Monitor and review compliance with legislation.
- Formulate an action plan to address findings identified during the current year’s audit.
- Ensure that management prepares monthly financial statements which are reviewed to ensure accuracy of reported information.
- Ensure the implementation of compliance checklists throughout the municipality to ensure compliance with all laws and regulations affecting the municipality.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor four times during the financial year and these interactions had some impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the internal controls of the auditee as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which had not yet been implemented. The assurance provided through the oversight of the municipal council and the municipal public accounts committee (MPAC) should be improved.
The statistics depicted above does not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.

KGETLENGRIVIER LOCAL MUNICIPALITY

Population

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</tr>
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<td>36%</td>
<td>42%</td>
</tr>
<tr>
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<td>53%</td>
</tr>
<tr>
<td>65+</td>
<td>48%</td>
<td>50%</td>
<td>47%</td>
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Age

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<th>2011</th>
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<td>63%</td>
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<tr>
<td>65+</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
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Gender

<table>
<thead>
<tr>
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<th>2001</th>
<th>2011</th>
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<tbody>
<tr>
<td>Male</td>
<td>52%</td>
<td>50%</td>
<td>53%</td>
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<tr>
<td>Female</td>
<td>48%</td>
<td>50%</td>
<td>47%</td>
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</table>

Education

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<td>2001</td>
<td>4%</td>
<td>25%</td>
<td>4%</td>
</tr>
<tr>
<td>2011</td>
<td>4%</td>
<td>23%</td>
<td>6%</td>
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</tbody>
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Labour

<table>
<thead>
<tr>
<th>Year</th>
<th>Employed</th>
<th>Unemployed</th>
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<tr>
<td>1996</td>
<td>23%</td>
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<td>2001</td>
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<td>70%</td>
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<tr>
<td>2011</td>
<td>20%</td>
<td>80%</td>
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Households

<table>
<thead>
<tr>
<th>Year</th>
<th>Average household size</th>
<th>Average dwelling type per no. of households</th>
<th>Average household income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>3.4</td>
<td>76%</td>
<td>73%</td>
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<tr>
<td>2001</td>
<td>3.1</td>
<td>76%</td>
<td>73%</td>
</tr>
<tr>
<td>2011</td>
<td>3.1</td>
<td>76%</td>
<td>73%</td>
</tr>
</tbody>
</table>

Basic services

- **61%** of the households have access to electricity
- **94%** of the households have access to piped water
- **89%** of the households have access to toilet facilities

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Stagnation in audit outcome

Root causes to be addressed

Drivers of key controls not improving

Assurance levels should be improved

Status of key commitments by the mayor

No progress made in addressing risk areas

General report on the audit outcomes of North West local government for 2012-13
No change in audit outcome

The leadership did not take sufficient corrective actions to address the lack of appropriate supporting evidence to substantiate the account balances and transactions disclosed in the financial statements and did not address findings on predetermined objectives (PDOs) and compliance, which resulted in the lack of movement in the audit outcome.

Six key risk areas

Key role players made little or no progress in addressing the audit findings from the previous years, key risk areas or the deficiencies in the drivers of the key controls. There was no clear action plan to rectify financial, service delivery and compliance challenges. Significant progress should be made in addressing the lack of a clear audit trail to support financial and service delivery transactions. The accounting system used by the municipality was not conducive to enabling clear and accurate record keeping.

The quality of performance reports did not enable audit verification of claimed service delivery. The internal control deficiencies identified in the SCM area raise a concern on how and where the municipality spent its resources that were allocated for purposes of delivering services to the community.

The position of chief financial officer (CFO) was filled during the year but the key positions of municipal manager and head of the SCM unit were still vacant at year-end. Deficiencies in information technology (IT) controls and the financial accounting system should be addressed and corrected to enable sustainable improvement in audit results.

Consultants were again engaged to assist with financial reporting at a cost of R3.4 million (2012: R1.4 million) because of the lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. They merely translated the unreliable and irrelevant information into a set of financial statements for submission to the Auditor-General of South Africa (AGSA) for auditing. Our concerns relate to the assistance from consultants, lack of evidence for transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Provide effective leadership based on a culture of honesty, ethical business practices and good governance.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.

The council should address the root causes of poor audit outcomes and inadequate controls as follows:

- Enable management to execute their duties by addressing the deficiencies in their oversight processes, ensuring that the officials are trained and ensuring that there are HR processes that address poor performance by senior officials.
- Improve financial management to ensure that daily and monthly records are properly maintained and that regular and accurate reports are produced that will fully substantiate the financial results reported at financial year-end.
- Improve oversight activities by the audit committee and internal audit unit to address the key risk areas and root causes so that the necessary improvement to address the deficiencies in internal controls can be made throughout the financial year.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor once during the financial year and this interaction had a minimal impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditee as well as the slow progress in making commitments to address the poor outcomes and in implementing commitments previously made.

The mayor should be available to meet with the AGSA and commit to fully implement the previous year’s commitment which was not implemented. The assurance provided through the oversight of the municipal council and MPAC should be improved.
General report on the audit outcomes of North West local government for 2012-13
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.

The statistics depicted above does not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.
Improvement in audit outcome

Root causes to be addressed

Drivers of key controls not improving

Assurance levels should be improved

Status of key commitments by the mayor

General report on the audit outcomes of North West local government for 2012-13

- Lack of consequences for poor performance and transgressions
- Key officials lack appropriate competencies
- Slow response by oversight in addressing the root causes of poor audit outcomes

Supply chain management
Quality of performance reports
Human resource management
Quality of submitted financial statements
Information technology controls
Financial health

- Improved
- Stagnant or little progress
- Regressed

- Senior management
- Municipal manager
- Mayor
- Internal audit
- Audit committee
- Municipal council
- MPAC

- Provides some assurance

- Leadership
- Financial and performance management
- Governance

- Effective leadership
- Oversight responsibility
- HR management
- Policies and procedures
- Action plans
- IT governance

- Proper record keeping
- Processing and reconciling controls
- Reporting
- Compliance
- IT system controls

No progress made in addressing risk areas

- Improved
- Stagnant or little progress
- Regressed

- No findings
- Findings
- Material findings

- Implement adequate review of financial and performance reporting through monthly management accounts and quarterly performance reports. Implement a proper record management system to account for revenue, expenditure, assets and liabilities
- Appoint skilled staff at finance, supply chain management and performance management units
- Develop, implement and monitor action plan to address all audit findings to ensure improvement in audit outcomes
- Develop and implement a comprehensive compliance checklist to ensure adherence to all laws and regulations

- MPAC Provides some assurance
- Provides some assurance
- Provides some assurance
- Provides some assurance
- Provides some assurance
- Provides some assurance
Improvement in audit outcome

The improvement in the audit outcome was due to the records management system in place and the ability to submit supporting documents that were not previously available. The CFO’s active involvement during the auditing process contributed to the improvement of financial statement outcomes. Though overall outcomes improved due to the reporting and disclosure of information around financial statements, the reporting of performance information together with having suitably qualified staff to drive and monitor this critical function is a priority for the municipality that requires urgent intervention.

Six key risk areas

Material findings were reported on SCM, these included lack of supporting documentation for awards made and non-compliance with SCM regulations thus no progress was made from the previous year. Proper supporting documentation should be maintained and adherence to SCM regulations should be monitored with proper action taken against irregularities identified.

Reported performance could not be substantiated by supporting evidence and we identified discrepancies between reported and actual achievements. Officials should be trained to do proper reporting and standard operating procedures should be in place to guide the reporting process. Furthermore, management should start implementing recommendations of the internal audit unit based on their review of the performance report to improve the quality of the report.

There was some improvement in the quality of submitted financial statements, however, there were still material corrections that had to be made to address misstatements identified during the audit. Financial statements should be properly reviewed to ensure adherence to GRAP standards. In addition, daily and monthly controls over the general ledger and reconciliations should be done throughout the year and not only at year-end for the preparation of the annual financial statements. There was some improvement in the spending on capital projects and the debt-collection period. The municipality still needs to improve its cash management to ensure availability of cash resources to settle its creditors timely and fund its grant expenditure.

Consultants were again engaged to assist with financial reporting at a cost of R10.5 million (2012: R5.4 million) because of vacancies and the lack of skills in key positions. The work done by the consultants had some impact as the municipality improved from a disclaimer to a qualified opinion. Our concerns relating to the assistance from consultants include the lack of evidence of the transfer of skills and inadequate measures to monitor delivery of agreed upon deliverables.

Key controls and root causes

Overall, there was an improvement in the key controls. Leadership and financial and performance management improved while governance remained the same.

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

- Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.
- Monitor and review compliance with legislation.

The mayor and municipal manager should address the root causes of poor audit outcomes and inadequate controls as follows:

- A proper performance management system should be in place and action should be taken against poor performing officials.
- Key officials should be required to obtain the necessary competencies and only those that have these, should be retained or appointed.
- Draft, implement and monitor a comprehensive action plan to address recurring findings on financial statements, PDOs and compliance with laws and regulations.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor three times during the financial year and these interactions had some impact on the financial audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls, especially those relating to usefulness and reliability of performance information and compliance with laws and regulations.

After year-end the municipality was placed under administration and a new acting mayor was appointed. At the time of writing this report, an investigation was also underway into the allegations resulting in the recent service delivery protests in Madibeng.
The mayor committed to fully implement the previous year’s commitments, which were not implemented, and made new commitments to address the root causes of the audit outcomes. The assurance provided through the oversight of the municipal council and MPAC should also be strengthened.
The statistics depicted above does not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.

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General report on the audit outcomes of North West local government for 2012-13

Stagnation in audit outcome

Drivers of key controls not improving

Assurance levels should be improved

Status of key commitments by the mayor

No progress made in addressing risk areas

Root causes to be addressed
The following municipal entity is included in the portfolio

■ Moretele Development Agency – Disclaimer

No change in audit outcome

Management failed to address the previous year’s audit findings, resulting in the lack of movement in the audit outcome. This was partly due to the fact that the municipality had a backlog audit for three years which was finalised three months before the end of the financial year, thus there was insufficient time to address most of the audit findings. There was also a lack of management oversight to ensure that adequate reviews over financial and performance reporting were implemented.

Six key risk areas

Although some improvement was noted with regard to records management over SCM documentation, the municipality still needs to properly review and monitor compliance with SCM regulations to prevent the occurrence of irregular expenditure.

The municipality did not have policies and procedures that deal with collection, verification and reporting of performance. There was also no director responsible for reviews and monitoring over performance reporting and the staff involved in performance reporting were not trained on the requirements of the Framework for managing programme performance information (FMPPI). These shortcomings should be addressed to improve the quality of performance reports. It should however be noted that the municipality was, for the first time, able to prepare and submit an annual performance report for auditing, which was an improvement from the previous years.

The capital expenditure budget was underspent and this was due to a lack of monitoring over capital projects and cash flow constraints. The debt-collection period increased compared to the previous year and this placed further constraints on cash flows and as a result the municipality failed to settle its creditors timely.

The key position of head of the SCM unit was vacant at year-end. The competency of the municipal manager was also not assessed as required.

Consultants were again engaged to assist with financial reporting at a cost of R3,9 million (2012: R1,3 million) because of the lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for transfer of skills and inadequate monitoring of agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Provide effective leadership based on a culture of honesty, ethical business practices and good governance.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.

The mayor and the municipal manager should address the root causes of poor audit outcomes and inadequate controls as follows:

- Implement a proper performance management system to ensure that performance of directors and their subordinates is monitored.
- Draft and monitor a comprehensive action plan to address recurring findings on financial statements, PDOs and compliance with laws and regulations.
- Improve records management and enhance controls in the financial systems to ensure the availability and accuracy of an audit trail for transactions reported.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor three times during the financial year and these interactions had a minimal impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditee as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented and made new commitments to address the root causes of the audit outcomes. The assurance provided through the oversight of the municipal council and the MPAC should be improved.
### General Report on the Audit Outcomes of North West Local Government for 2012-13

#### Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Population Status</th>
<th>Male</th>
<th>Female</th>
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<tbody>
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<tr>
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#### Education

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<td>12%</td>
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<td>60%</td>
</tr>
<tr>
<td>2011</td>
<td>19%</td>
<td>18%</td>
<td>63%</td>
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#### Basic Services

- **Electricity Access**
  - 2011: 61%
  - 2001: 47%
  - 1996: 46%

- **Piped Water Access**
  - 2011: 61%
  - 2001: 37%
  - 1996: 9%

- **Toilet Facilities**
  - 2011: 97%
  - 2001: 62%
  - 1996: 38%

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Improvement in audit outcome

2012-13
Unqualified with findings

2011-12
Qualified with findings

2010-11
Disclaimed with findings

Drivers of key controls not improving

Leadership
- Effective leadership
- Oversight responsibility
- HR management
- Policies and procedures
- Action plans
- IT governance

Financial and performance management
- Proper record keeping
- Processing and reconciling controls
- Reporting

Governance
- Compliance
- IT system controls

Improvement in audit outcome
Root causes to be addressed
Drivers of key controls not improving
No progress made in addressing risk areas

Assurance levels should be improved

Senior management
Provides some assurance

Municipal manager
Provides some assurance

Mayor
Provides some assurance

Internal audit
Provides some assurance

Audit committee
Provides some assurance

Municipal council
Provides some assurance

MPAC
Provides some assurance

Root causes to be addressed

Lack of consequences for poor performance and transgressions

Key officials lack appropriate competencies

Slow response by political leadership in addressing the root causes of poor audit outcomes

Status of key commitments by the mayor

To implement a compliance checklist, which should be completed monthly, to ensure that all the prescribed legislation is adhered to

Design and implement an effective performance information system which allows for appropriate recording, processing and reporting of performance against predetermined objectives

Implement an effective internal audit division

Fill vacancies with competent staff

Implemented
In progress
Not implemented
New

The current audit outcomes are the result of the six key risk areas.

The drivers of the key controls and the root causes as well as the level of assurance that was provided by the key role players and the progress made on their commitments.

No progress made in addressing risk areas

Supply chain management
- Good
- Improved
- Concerning
- Intervention required

Quality of performance reports
- Good
- Improved
- Concerning
- Intervention required

Human resource management
- Good
- Improved
- Concerning
- Intervention required

Quality of submitted financial statements
- Good
- Improved
- Concerning
- Intervention required

Information technology controls
- Good
- Improved
- Concerning
- Intervention required

Financial health
- Good
- Improved
- Concerning
- Intervention required

No findings
Findings
Material findings
Improved
Concerning
Intervention required
Stagnant or little progress
Regressed

General report on the audit outcomes of North West local government for 2012-13
Improvement in audit outcome

The municipality addressed all previous year’s audit findings and corrected all material misstatements identified during the audit, resulting in the improvement in the audit outcome. The municipality also appointed a municipal manager who has a sound financial background and who took full ownership in driving a process aimed at improved audit outcomes.

The municipality incurred R108,1 million in irregular expenditure, which is 4% of the total amount incurred in the province. Irregular expenditure incurred in the previous year was not appropriately investigated.

Six key risk areas

Limited progress was made in addressing the key risk areas. The quality of the annual performance report and the financial statements submitted for auditing still remains a concern. In this regard, the municipality should focus on the reliability of the performance information to address the material findings pertaining to the performance report. Focus should also be placed on maintaining evidence files which support information reported. The financial statements submitted for auditing were incomplete and material adjustments had to be effected based on material misstatements identified during the auditing process. The financial statements should be appropriately reviewed before submission for auditing.

The quality of SCM also remains a concern as insufficient supporting documentation was presented to verify whether the SCM policy had been followed during the procurement process. A proper record management system should be implemented to ensure that sufficient and appropriate audit evidence exists to support the SCM processes.

The municipality did not include information on meeting minimum competencies in its annual report and the required reports were not submitted to the treasury. The municipality should also continue to address the IT weaknesses identified.

Financial health concerns relating to the underspending of the capital budget and conditional grants were noted. The municipality should also address the concern relating to timeous payment of creditors and collection of debts.

Consultants were again engaged to assist with financial reporting at a cost of R1,9 million (2012: R3,3 million) because of vacancies and the lack of skills in key positions. Our concerns relating to the assistance from consultants include the lack of evidence for transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.
- Monitor and review compliance with legislation.

The mayor and the accounting officer should address the root causes of poor audit outcomes and inadequate controls as follows:

- A proper record keeping system should be implemented, especially relating to procurement processes.
- Checklists should be implemented to enforce compliance with laws and regulations and regularly checked by a senior staff member.
- Staff members not adhering to the above should be disciplined by means of disciplinary processes.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor two times during the financial year and these interactions had some impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditee as well as the partial implementation of commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented and made new commitments to address the root causes of the audit outcomes. The assurance provided through the oversight of the municipal council and the MPAC should be improved.
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.
### General report on the audit outcomes of North West local government for 2012-13

#### Stagnation in audit outcome

- **2012-13**: Qualified with findings
- **2011-12**: Qualified with findings
- **2010-11**: Disclaimed with findings

#### Drivers of key controls not improving

<table>
<thead>
<tr>
<th>Leadership</th>
<th>Financial and performance management</th>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective leadership</td>
<td>Proper record keeping</td>
<td>Risk management</td>
</tr>
<tr>
<td>Oversight responsibility</td>
<td>Processing and reconciling controls</td>
<td>Internal audit</td>
</tr>
<tr>
<td>HR management</td>
<td>Reporting</td>
<td>Audit committee</td>
</tr>
<tr>
<td>Policies and procedures</td>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>Action plans</td>
<td>IT system controls</td>
<td></td>
</tr>
<tr>
<td>IT governance</td>
<td>Good</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Concerning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Intervention required</td>
<td></td>
</tr>
</tbody>
</table>

#### Assurance levels should be improved

<table>
<thead>
<tr>
<th>Senior management</th>
<th>Provides some assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal manager</td>
<td>Provides limited/no assurance</td>
</tr>
<tr>
<td>Mayor</td>
<td>Provides some assurance</td>
</tr>
<tr>
<td>Internal audit</td>
<td>Provides limited/no assurance</td>
</tr>
<tr>
<td>Audit committee</td>
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</tr>
<tr>
<td>Municipal council</td>
<td>Provides some assurance</td>
</tr>
<tr>
<td>MPAC</td>
<td>Provides limited/no assurance</td>
</tr>
</tbody>
</table>

#### No progress made in addressing risk areas

<table>
<thead>
<tr>
<th>Supply chain management</th>
<th>Quality of performance reports</th>
<th>Human resource management</th>
<th>Financial health</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved</td>
<td>Improved</td>
<td>Good</td>
<td>Slow response</td>
</tr>
</tbody>
</table>

#### Root causes to be addressed

- Lack of consequences for poor performance and transgressions
- Key officials lack appropriate competencies
- Slow response by management in addressing the root causes of poor audit outcomes

#### Status of key commitments by the mayor

- Ensure that the municipal manager appoint skilled people in vacant positions. Also making sure that the current organisational structure supports the vision and mandate of the municipality.
- Ensure that the senior managers enforce policies and procedures and that corrective action is taken against poor performers and staff that do not comply with the behaviour to support the municipality in its quest for clean audit reports.
- Executive mayor and councillors will take ownership of quarterly financial statements, performance information, compliance with laws and regulations and key controls.
- Monitor action plans to address the previous year’s audit qualifications and to take corrective action when deviations occur and act against staff that do not support the corrective action plan.

**The current audit outcomes are the result of the attention given to the six key risk areas, the drivers of the key controls and the root causes as well as the level of assurance that was provided by the key role players and the progress made on their commitments.**
The following municipal entity is included in the portfolio

- Rustenburg Water Services Trust – Unqualified with findings

No change in audit outcome

Management did not take decisive action to implement and monitor the action plan as approved by the council based on the 2011-12 audit outcomes, which resulted in the lack of movement in the audit outcome. The municipal entity maintained its financially unqualified opinion, but compliance findings were not addressed at both the municipality and entity.

The municipality incurred R614,1 million in unauthorised and R815,1 million in irregular expenditure, which is 36% and 29% of the total amounts incurred in the province respectively. Unauthorised expenditure and irregular expenditure incurred in the previous year was not appropriately investigated.

Six key risk areas

The municipality did not have an effective system in place to track audit evidence to substantiate transactions. Line items affected, which resulted in several new audit findings, were bad debts written off, other income, recording of value-added tax (VAT) and the disclosure of budgeted amounts. Several reoccurring findings like the abuse of overtime and the completeness of irregular expenditure, also contributed to the unchanged audit opinion. Furthermore, a critical area of concern was still the material amount of non-compliance findings reported on SCM processes.

Previous year findings on the reporting against PDOs and HR were also not addressed. Furthermore, the municipal manager, CFO and head of the SCM unit did not meet the required minimum competencies.

Financial health concerns specifically relating to the significant number of irrecoverable debts resulted in the regression in this area.

Consultants were again engaged to assist with financial reporting at a cost of R17,4 million (2012: R4,5 million) because of vacancies and the lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Exercise oversight responsibility of financial and performance reporting, compliance and related internal controls.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Monitor and review compliance with legislation.

Governance structures like the audit committee, MPAC and the municipal council should address the root causes of poor audit outcomes and inadequate controls as follows:

- The accounting officer should be held accountable for his non-performance and inability to take action in implementing and monitoring the action plan to address audit findings.
- Officials and employees should be equipped with the necessary skills to enable them to perform their day-to-day duties, which will also elevate the cost spent on consultants.
- A credible action plan should be developed to address audit findings. Implement effective oversight to ensure that the action plan addresses key issues. The implementation of the action plan should be monitored on a regular basis.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor four times during the financial year and these interactions had some impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditees as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented. The assurance provided through the oversight of the municipal council and MPAC should be improved.
General report on the audit outcomes of North West local government for 2012-13
### General Report

The statistics depicted above do not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.

### Education

<table>
<thead>
<tr>
<th>Year</th>
<th>Higher Education</th>
<th>Grade 12</th>
<th>No Schooling</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>38%</td>
<td>11%</td>
<td>5%</td>
</tr>
<tr>
<td>2001</td>
<td>35%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>2011</td>
<td>21%</td>
<td>17%</td>
<td>5%</td>
</tr>
</tbody>
</table>

### Labour

<table>
<thead>
<tr>
<th>Year</th>
<th>Employed</th>
<th>Unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>53%</td>
<td>47%</td>
</tr>
<tr>
<td>2001</td>
<td>51%</td>
<td>49%</td>
</tr>
<tr>
<td>2011</td>
<td>64%</td>
<td>36%</td>
</tr>
</tbody>
</table>

### Basic Services

- **Electricity**: 58% of households have access to electricity.
  - 2011: 42% (Electricity), 58% (No Electricity)
  - 2001: 50% (Electricity), 50% (No Electricity)
  - 1996: 43% (Electricity), 57% (No Electricity)

- **Piped Water**: 96% of households have access to piped water.
  - 2011: 48% (In House), 48% (Communal), 4% (No Access)
  - 2001: 51% (In House), 37% (Communal), 12% (No Access)
  - 1996: 41% (In House), 38% (Communal), 22% (No Access)

- **Toilet Facilities**: 89% of households have access to toilet facilities.
  - 2011: 37% (Flush/Chemical), 52% (Pit/Bucket), 11% (No Access)
  - 2001: 26% (Flush/Chemical), 57% (Pit/Bucket), 17% (No Access)
  - 1996: 20% (Flush/Chemical), 67% (Pit/Bucket), 13% (No Access)

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.
Regression in audit outcome

Root causes to be addressed

Drivers of key controls not improving

Assurance levels should be improved

No progress made in addressing risk areas

Status of key commitments by the mayor

General report on the audit outcomes of North West local government for 2012-13
Regression in audit outcome

The reliance on individuals rather than on systems and controls resulted in the regression in the audit outcomes, therefore, when there was a change in key management during the year the audit opinion regressed. The new CFO could not provide supporting documents for some of the balances in the financial statements, resulting in a qualified opinion. The findings on PDOs and compliance were also not addressed.

The district municipality could not provide adequate support to its local municipalities due to its capacity constraints.

Six key risk areas

No progress was made in addressing the key risk areas, most notably in the areas of SCM, quality of performance reports, HR management and the quality of submitted financial statements which all again had material findings. IT controls had some findings and remained stagnant. Financial health regressed from the previous year.

Important targets in the annual performance report could not be agreed to source information due to the lack of standard operating procedures for the accurate recording of actual achievements, monitoring of the completeness of source documentation in support of actual achievements and frequent review of validity of reported achievements against source documentation.

The status of SCM remained unsatisfactory, as the municipality still incurred irregular expenditure during the year and did not take effective and appropriate disciplinary steps against officials who made or permitted irregular expenditure. The SCM unit lacked the necessary skills and competence to adequately monitor compliance with SCM policies.

Material HR findings related to the fact that the competencies of key officials were not assessed as required.

Consultants were again engaged to assist with financial reporting at a cost of R7.4 million (2012: R3.6 million) because of the lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for the transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was deterioration in the key controls. Leadership and financial and performance management regressed while governance remained the same.

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

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.
- Monitor and review compliance with legislation.

The mayor and municipal manager should address the root causes of poor audit outcomes and inadequate controls as follows:

- Fill vacancies and improve competencies at key sections, including finance, SCM and those responsible for performance reporting.
- Prepare reliable progress reports on the action plan to address audit findings. The internal audit unit should review these reports and the audit committee should monitor the implementation of recommendations made by the internal audit unit.
- Ensure that effective and appropriate disciplinary steps are taken against officials who made or permitted irregular, fruitless as well as wasteful and unauthorised expenditure.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor three times during the financial year and these interactions had a minimal impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditees as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented and made new commitments to address the root causes of the audit outcomes. The assurance provided through the oversight of the municipal council and MPAC should be improved.
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.
General report on the audit outcomes of North West local government for 2012-13

**Stagnation in audit outcome**

- 2012-13 Disclaimed with findings
- 2011-12 Disclaimed with findings
- 2010-11 Qualified with findings

**Root causes to be addressed**

- Lack of consequences for poor performance and transgressions
- Key officials lack appropriate competencies
- Slow response by political leadership in addressing the root causes of poor audit outcomes

**Drivers of key controls not improving**

- Leadership
- Financial and performance management
- Governance
- Effective leadership
- Oversight responsibility
- HR management
- Policies and procedures
- Action plans
- IT governance
- Proper record keeping
- Processing and reconciling controls
- Internal audit
- Compliance
- IT system controls
- Risk management
- Audit committee

**Status of key commitments by the mayor**

- Compile an action plan and ensure its implementation and monthly monitoring
- Appoint skilled staff at finance and supply chain management units
- Investigate all irregular, fruitless and wasteful expenditure and institute disciplinary action where necessary
- Ensure better record management for performance reporting

**No progress made in addressing risk areas**

- Supply chain management
- Quality of performance reports
- Human resource management
- Information technology controls
- Financial health
- Quality of submitted financial statements

**Assurance levels should be improved**

- Senior management
- Municipal manager
- Mayor
- Internal audit
- Audit committee
- Municipal council
- MPAC

- Provides limited/no assurance

**The level of assurance that was provided by the key role players and the progress made on their commitments**

- Good
- Concerning
- Intervention required

- Improved
- Stagnant or little progress
- Regressed
No change in audit outcome

The municipality did not address the previous year’s qualification areas and did not provide sufficient appropriate audit evidence to support financial and performance reporting, resulting in the lack of movement in the audit outcome. The previous year’s commitments were not implemented.

The municipality incurred R71,7 million in irregular expenditure, which is 3% of the total amount incurred in the province. Irregular expenditure incurred in the previous year was not appropriately investigated.

Six key risk areas

The municipality regressed in addressing the key risk areas, due to instability and vacancies in key positions and a lack of consequences for poor performance and transgressions. Management did not review the financial statements and annual performance report prior to submission for auditing, as material misstatements were identified during the audit.

Important targets in the annual performance report could not be agreed to source information due to the lack of standard operating procedures for the accurate recording of actual achievements, monitoring of the completeness of source documentation in support of actual achievements and frequent review of validity of reported achievements against source documentation.

The status of SCM remained unsatisfactory, as the municipality still incurred irregular expenditure during the year and did not take appropriate disciplinary actions against officials who made or permitted irregular expenditure. The SCM unit lacked the necessary skills and competence to monitor compliance with SCM policies.

The key position of municipal manager was vacant at year-end. The competencies of CFO and head of the SCM unit were not assessed as required.

Consultants were engaged to assist with financial reporting at a cost of R7 million because of vacancies and the lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for the transfer of skills and inadequate measures to monitor delivery of agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.
- Monitor and review compliance with legislation.

The mayor and municipal manager should address the root causes of poor audit outcomes and inadequate controls as follows:

- Fill vacancies and improve competencies at key sections, including finance, SCM and those responsible for performance reporting.
- Prepare reliable progress reports on the action plan to address audit findings. The internal audit unit should review these reports and the audit committee should monitor the implementation of recommendations made by the internal audit unit.
- Ensure that effective and appropriate disciplinary steps are taken against officials who made or permitted irregular, fruitless, wasteful and unauthorised expenditure.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor three times during the financial year and these interactions had a minimal impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditee as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented. The assurance provided through the oversight of the municipal council and the MPAC should be improved.
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.
General report on the audit outcomes of North West local government for 2012-13

Stagnation in audit outcome
Root causes to be addressed
Drivers of key controls not improving
Assurance levels should be improved

2012-13 Disclaimed with findings
2011-12 Disclaimed with findings
2010-11 Disclaimed with findings

No progress made in addressing risk areas

Supply chain management
Quality of performance reports
Human resource management
Quality of submitted financial statements
Information technology controls
Financial health

Root causes to be addressed

Lack of consequences for poor performance and transgressions
Instability or vacancies in key positions
Slow response by political leadership in addressing the root causes of poor audit outcomes

Status of key commitments by the mayor

Fill the vacant CFO position as well as other key positions
Compile an action plan and ensure that the action plan forms part of the performance agreements of officials
Monitor that steps are taken against officials/employees of Kagisano-Molopo for poor performance and transgressions
Prevent unauthorised, irregular as well as fruitless and wasteful expenditure

The current audit outcomes are the result of the attention given to the six key risk areas.

The drivers of the key controls and the root causes as well as the level of assurance that was provided by the key role players and the progress made on their commitments.

Senior management Provides limited/no assurance
Municipal manager Provides limited/no assurance
Mayor Provides limited/no assurance
Internal audit Provides limited/no assurance
Audit committee Provides limited/no assurance
Municipal council Provides limited/no assurance
MPAC Provides limited/no assurance

Good Concerning Intervention required

Implemented In progress Not implemented New

Lack of consequences for poor performance and transgressions
Instability or vacancies in key positions
Slow response by political leadership in addressing the root causes of poor audit outcomes
No change in audit outcome

The municipality did not address the previous year’s qualification areas and did not provide sufficient appropriate audit evidence to support financial and performance reporting, resulting in the lack of movement in the audit outcome.

The municipality incurred R62,8 million irregular expenditure, which is 2% of the total amount incurred in the province. Irregular expenditure incurred in the previous year was not appropriately investigated.

Six key risk areas

No progress was made in addressing the key risk areas, due to instability and vacancies in key positions and a lack of consequences for poor performance and transgressions. Management did not review the financial statements and annual performance report prior to submission for auditing as material misstatements were identified during the audit.

An annual performance report was submitted this year for the first time. Important targets in the annual performance report could not be agreed to source information due to the lack of standard operating procedures for the accurate recording of actual achievements, monitoring of the completeness of source documentation in support of actual achievements and frequent review of validity of reported achievements against source documentation.

The status of SCM remained unsatisfactory, as the municipality still incurred irregular expenditure during the year and did not take effective and appropriate disciplinary steps against officials who made or permitted irregular expenditure. The SCM unit lacked the necessary skills and competence to monitor compliance with SCM policies.

The key position of CFO was vacant at year-end. The competencies of the municipal manager and head of the SCM unit were not assessed as required.

Consultants were again engaged to assist with financial reporting at a cost of R4,8 million (2012: R1,7 million) because of vacancies and lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for the transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.
- Monitor and review compliance with legislation.

The mayor and municipal manager should address the root causes of poor audit outcomes and inadequate controls as follows:

- Fill vacancies and improve competencies in key sections, including finance, SCM and those responsible for performance reporting.
- Prepare reliable progress reports on the action plan to address audit findings. The internal audit unit should review these reports and the audit committee should monitor the implementation of recommendations made by the internal audit unit.
- Ensure that effective and appropriate disciplinary steps are taken against officials who made or permitted irregular, fruitless and wasteful as well as unauthorised expenditure.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor four times during the financial year and these interactions had a minimal impact on the audit outcomes. The reason for our assessment is the lack of the mayor’s impact on the controls of the auditees as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented. The assurance provided through the oversight of the municipal council and MPAC should be improved.
The statistics depicted above do not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.

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## General report on the audit outcomes of North West local government for 2012-13

### Stagnation in audit outcome

- **2012-13**: Disclaimed with findings
- **2011-12**: Disclaimed with findings
- **2010-11**: Disclaimed with findings

### Drivers of key controls not improving

<table>
<thead>
<tr>
<th>Category</th>
<th>Leadership</th>
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<th>Governance</th>
</tr>
</thead>
<tbody>
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<td>Provides limited/no assurance</td>
<td>Provides limited/no assurance</td>
</tr>
</tbody>
</table>

### Assurance levels should be improved

- **Senior management**: Provides limited/no assurance
- **Municipal manager**: Provides some assurance
- **Mayor**: Provides some assurance
- **Internal audit**: Provides limited/no assurance
- **Audit committee**: Provides limited/no assurance
- **Municipal council**: Provides limited/no assurance
- **MPAC**: Provides limited/no assurance

### Status of key commitments by the mayor

- **Compile an action plan and ensure its implementation monthly monitoring**
- **Appoint skilled staff at finance and supply chain management units**
- **Investigate all irregular, fruitless and wasteful expenditure and institute disciplinary action where necessary**
- **Ensure better record management for performance reporting**

### No progress made in addressing risk areas

- Supply chain management
- Quality of performance reports
- Human resource management
- Quality of submitted financial statements
- Information technology controls
- Financial health

### Root causes to be addressed

- Lack of consequences for poor performance and transgressions
- Instability or vacancies in key positions
- Slow response by political leadership in addressing the root causes of poor audit outcomes

### The current audit outcomes are the result of the attention given to the six key risk areas.
The following municipal entity is included in the portfolio

- Lekwa-Teemane Development Agency – Unqualified with findings

No change in audit outcome

The municipality did not address all previous year’s qualification areas and did not provide sufficient appropriate audit evidence to support financial and performance reporting, resulting in the lack of movement in the audit outcome. The opinion of the municipal entity remained financially unqualified with findings.

Six key risk areas

No progress was made in addressing the key risk areas, due to instability and vacancies in key positions and a lack of consequences for poor performance and transgressions. Management did not review the financial statements and annual performance report prior to submission for auditing as material misstatements were identified during the audit.

Important targets in the annual performance report could not be agreed to source information due to the lack of standard operating procedures for the accurate recording of actual achievements, monitoring of the completeness of source documentation in support of actual achievements and frequent review of validity of reported achievements against source documentation.

The status of SCM remained unsatisfactory, as the municipality still incurred irregular expenditure during the year and did not take effective and appropriate disciplinary steps against officials who made or permitted irregular expenditure. The SCM unit lacked the necessary skills and competence to perform adequate monitoring of compliance with SCM policies.

The key positions of municipal manager and head of the SCM unit were vacant at year-end. The competency of the CFO was not assessed as required.

Consultants were again engaged to assist with financial reporting at a cost of R3.2 million (2012: R784 602) because of the lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Monitor the implementation of the action plan to address previous year’s audit findings and internal control deficiencies.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.
- Monitor and review compliance with legislation.

The mayor and municipal manager should address the root causes of poor audit outcomes and inadequate controls as follows:

- Fill vacancies and improve competencies at key sections, including finance, SCM and those responsible for performance reporting.
- Prepare reliable progress reports on the action plan to address audit findings. The internal audit unit should review these reports and the audit committee should monitor the implementation of recommendations made by the internal audit unit.
- Ensure that effective and appropriate disciplinary steps are taken against officials who made or permitted irregular, fruitless and wasteful as well as unauthorised expenditure.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor four times during the financial year and these interactions had some impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditees as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented. The assurance provided through the oversight of the municipal council and MPAC should be improved.
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.

The statistics depicted above does not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.
Stagnation in audit outcome

Root causes to be addressed

Drivers of key controls not improving

Assurance levels should be improved

No progress made in addressing risk areas

Status of key commitments by the mayor
No change in audit outcome

The lack of movement in the audit outcome was caused by the fact that the municipality could not implement corrective measures as the previous year’s audits (including backlogs) were only completed in March 2013 as a result of non-submission of three years’ annual financial statements. The previous year qualification areas, PDO and non-compliance findings were not addressed.

Six key risk areas

No progress has been made in addressing the key risk areas, most notably in the areas of SCM, quality of performance reports, HR management and the quality of submitted financial statements which all had material findings.

The status of SCM remained unsatisfactory, as the municipality still incurred irregular expenditure during the year and did not take effective and appropriate disciplinary steps against officials who made or permitted irregular expenditure. The head of the SCM unit did not meet the required minimum competency.

The quality of performance reports remained poor with findings on both the usefulness and reliability of the performance reports. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of audit opinion. There was no improvement in the current year.

The municipality overspent the operating budget by 64.4%. Overall, there was no improvement in the financial health of the municipality.

Consultants were again engaged to assist with financial reporting at a cost of R2.4 million (2012: R500 000) because of vacancies and the lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Exercise oversight responsibility of financial and performance reporting, compliance and related internal controls.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.

Management of the municipality and those responsible for governance should address the root causes of poor audit outcomes and inadequate controls as follows:

- Officials should be held accountable for poor performance and for repeat audit findings resulting in the disclaimer of opinion.
- Officials responsible for financial and performance reporting should be trained and actions instituted for poor performance and transgressions.
- A compliance officer must be appointed to track the municipality’s compliance with laws and regulations and ensure compliance, especially with SCM requirements.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor five times during the financial year and these interactions had a minimal impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditee as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitment which was not implemented. The assurance provided through the oversight of the municipal council and MPAC should be improved.
General report on the audit outcomes of North West local government for 2012-13
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.
Improvement in audit outcome

Drivers of key controls not improving

Assurance levels should be improved

No progress made in addressing risk areas

Root causes to be addressed

Status of key commitments by the mayor

General report on the audit outcomes of North West local government for 2012-13
Improvement in audit outcome

The improvement in the audit outcome was caused by the fact that the municipality addressed prior year qualification areas to move from a disclaimer of opinion to an unqualified audit opinion. Performance information and compliance with laws and regulations still require attention. The municipality appointed a municipal manager and a CFO at the start of the financial year, who in turn ensured that proper policies and procedures were put in place to address internal control weaknesses at the municipality.

The municipality incurred R12.7 million in fruitless and wasteful expenditure, which is 18% of the total amount incurred in the province. Fruitless and wasteful expenditure incurred in the previous year was not appropriately investigated.

Six key risk areas

No progress was made in addressing the key risk areas, although there was a slight improvement in the quality of the financial statements submitted for auditing, extensive material corrections were still required to obtain a financially unqualified opinion.

The municipality continued to produce performance reports of poor quality. The municipality should focus on improving the inconsistency between the planning and reporting documents, measurability for both indicators and targets, as well as providing sufficient appropriate audit evidence regarding the reliability of the performance information.

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 competencies of key officials were not assessed as required.

Consultants were again engaged to assist with financial reporting and preparation of performance information at a cost of R6.5 million (2012: R1.5 million) because of vacancies in key positions. Our concerns relating to the assistance from consultants include the lack of evidence for the transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.
- Monitor and review compliance with legislation.

The council, mayor and accounting officer should address the root causes of poor audit outcomes and inadequate controls as follows:

- Appoint permanent section 57 managers and sufficiently skilled staff in key positions within the finance, performance reporting and SCM units.
- MPAC should be adequately capacitated to execute its function of investigating all unauthorised, irregular as well as fruitless and wasteful expenditure.
- Ensure that the municipality has an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor four times during the financial year and these interactions had a significant impact on the audit outcomes. Through our interactions we have influenced the appointment and filling of key positions, the municipal manager and CFO positions. The reason for our assessment was the mayor’s impact on the controls of the auditee as well as the progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitment which was not implemented and made new commitments to address the root causes of the audit outcomes. The assurance provided through the oversight of the municipal council and MPAC should be improved.
General report on the audit outcomes of North West local government for 2012-13

### Population

<table>
<thead>
<tr>
<th>Year</th>
<th>1996</th>
<th>2001</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households</td>
<td>552 276</td>
<td>696 670</td>
<td>865 933</td>
</tr>
</tbody>
</table>

### Education

<table>
<thead>
<tr>
<th>Year</th>
<th>1996</th>
<th>2001</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher education</td>
<td>19%</td>
<td>17%</td>
<td>27%</td>
</tr>
<tr>
<td>Grade 12</td>
<td>15%</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>No schooling</td>
<td>6%</td>
<td>7%</td>
<td>10%</td>
</tr>
</tbody>
</table>

The statistics depicted above do not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.

### Labour

<table>
<thead>
<tr>
<th>Year</th>
<th>1996</th>
<th>2001</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
<td>73%</td>
<td>61%</td>
<td>70%</td>
</tr>
<tr>
<td>Unemployed</td>
<td>27%</td>
<td>39%</td>
<td>30%</td>
</tr>
</tbody>
</table>

### Basic services

- **Electricity**
  - 2011: 37% (63% have access)
  - 2001: 43% (57%)
  - 1996: 39% (61%)

- **Piped water**
  - 2011: 2% (91% have access)
  - 2001: 2% (79%)
  - 1996: 5% (83%)

- **Toilet facilities**
  - 2011: 4% (88% have access)
  - 2001: 9% (73%)
  - 1996: 7% (58%)

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Stagnation in audit outcome
Root causes to be addressed
Drivers of key controls not improving
Assurance levels should be improved
No progress made in addressing risk areas
Status of key commitments by the mayor

Supply chain management
Quality of performance reports
Human resource management
Quality of submitted financial statements
Information technology controls
Financial health

Lack of consequences for poor performance and transgressions
Instability or vacancies in key positions
Slow response by political leadership in addressing the root causes of poor audit outcomes

Senior management
Municipal manager
Mayor
Internal audit
Audit committee
Municipal council
MPAC

Provides some assurance
Provides limited/no assurance
Provides some assurance
Provides some assurance
Provides some assurance
Provides some assurance
Provides some assurance

New
Implemented
In progress
Not implemented

Executive mayor and councillors will take ownership of quarterly financial statements, performance information, compliance with laws and regulations and key controls
Make a final decision regarding the future of the Dr KKDM Development Agency
Ensure that the municipal manager appoints skilled people in vacant positions. Also making sure that the current organisational structure supports the vision and mandate of the municipality
Ensure that directors and the municipal manager enforce policies and procedures and that corrective actions are taken against poor performers and staff that do not comply with the behaviour to support the municipality in its quest for clean audit reports

Good
Concerning
Intervention required

Implemented
In progress
Not implemented
New
The following municipal entity is included in the portfolio

- Dr KKDM Economic Agency (Pty) Ltd – Qualified

No change in audit outcome

Although there was a financially unqualified opinion on the separate financial statements of the municipality, the qualification of the entity caused by missing documentation resulted in the qualified opinion for the consolidated financial statements.

The district municipality was not able to provide any support to its local municipalities.

Six key risk areas

The stagnation in the audit outcome of the municipality was as a result of a lack of progress in addressing key risk areas, most notably in the areas of SCM, HR management, quality of submitted financial statements and IT controls. Lack of improvement in the aforementioned areas prevented the municipality from achieving clean administration.

The status of SCM remained unsatisfactory, mostly as a result of the municipality not complying with the requirement to obtain three quotations and evaluating tenders in terms of the Preferential Procurement Policy Framework Act (PPPFA).

There were no findings on the usefulness and reliability of the reported performance information as the municipality was able to address previous year findings and implement recommendations made.

The key position of CFO was vacant at year-end. The competencies of municipal manager and head of the SCM unit were not assessed as required.

Consultants were again engaged to assist with financial reporting at a cost of R145 863 (2012: R136 549) because of the lack of skills in key positions. Our concerns relating to the assistance from consultants include the lack of evidence for the transfer of skills and inadequate measures to monitor delivery of agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Exercise oversight responsibility of financial and performance reporting, compliance and related internal controls.
- Monitor and review compliance with legislation.
- Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

The mayor and accounting officer should address the root causes of poor audit outcomes and inadequate controls as follows:

- Fill vacancies and improve competencies at key sections, including finance and those responsible for performance reporting.
- Appointment of a compliance officer to monitor compliance with all laws and regulations and to implement corrective measures.
- Compile monthly financial statements which should be subjected to a quality assurance review process to ensure that credible and accurate financial statements are used as basis to make decisions.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor five times during the financial year and these interactions had a minimal impact on the audit outcomes. The reason for our assessment is the lack of the mayor’s impact on the controls of the auditees as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year's commitments which were not implemented. The assurance provided through the oversight of the municipal council and MPAC should be improved.
General report on the audit outcomes of North West local government for 2012-13
General report on the audit outcomes of North West local government for 2012-13

Stagnation in audit outcome
Root causes to be addressed
Drivers of key controls not improving
Assurance levels should be improved

No progress made in addressing risk areas
Supply chain management
Quality of performance reports
Human resource management
Quality of submitted financial statements
Information technology controls
Financial health

Leadership
Financial and performance management
Governance

Effective leadership
Oversight responsibility
HR management
Policies and procedures
Action plans
IT governance

Proper record keeping
Processing and reconciling controls
Reporting
Compliance
IT system controls

Good
Concerning
Intervention required

Improved
Stagnant or little progress
Regressed

The current audit outcomes are the result of the attention given to the six key risk areas.

The level of assurance that was provided by the key role players and the progress made on their commitments.

Status of key commitments by the mayor
Management will ensure that the MPAC resolutions are implemented
Management will investigate and take necessary steps to recover/write-off irregular expenditure
Appoint competent staff in key vacant positions

Root causes to be addressed
Lack of consequences for poor performance and transgressions
Key officials lack appropriate competencies
Slow response by management in addressing the root causes of poor audit outcomes
No change in audit outcome

The municipality did not address all previous year’s qualification areas and did not provide sufficient appropriate audit evidence to support financial reporting, resulting in the lack of movement in the audit outcome.

Subsequent to the completion of the audit and the issuing of the audit report in November 2013, a decision taken by the North West provincial executive council to place the municipality under administration has been effected. The administrator, however, only started his duties during the beginning of 2014 and has performed an assessment on the financial management and reported to the council as well as the MEC for local government.

The municipality incurred R476.7 million in unauthorised expenditure, R398.5 million in irregular expenditure and R15.6 million in fruitless and wasteful expenditure, which is 28%, 14% and 22% of the total amount incurred in the province respectively. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred in the previous year was not appropriately investigated.

Six key risk areas

A culture of disregard for procurement practices and the inability to implement a proper record management system were still the most contributing factors to the poor audit outcomes.

Management’s failure to comply with laws and regulations, their reluctance to enforce penalty measures against officials causing non-compliance as well as their inability to implement controls to ensure reliable and accurate financial reporting, reflected negatively on their commitment towards improved audit outcomes.

The municipality maintained its status of not having findings on the PDOs. However, the lack of progress in the other key risk areas can be attributed to the inability of management to implement council resolutions aimed at improving audit results and the failure to ensure that IT controls are implemented for risks raised during the risk assessment process.

The financial health concerns relate to overspending of the operating budget, underspending of capital budgets and conditional grants, inability to pay suppliers and creditors within 90 days and 93% of consumer debts being irrecoverable.

Consultants were engaged to assist with financial reporting at a cost of R7.5 million because of the lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee.

Our concerns relating to the assistance from consultants include the lack of evidence for transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Provide effective leadership based on a culture of honesty, ethical business practices and good governance.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Monitor the implementation of the action plan to address previous year audit findings and internal control deficiencies.

The municipal manager should address the root causes of poor audit outcomes and inadequate controls as follows:

- Develop a credible action plan to address audit findings and monitor the implementation of the action plans on a regular basis.
- Take action against officials who do not abide by the action plans and prescribed policies and procedures.
- Fill vacancies with competent officials.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor seven times during the financial year and these interactions had a minimal impact on the audit outcomes. The reason for our assessment is the lack of the mayor’s impact on the controls of the auditees as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented. The assurance provided through the oversight of the municipal council and MPAC should be improved.
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.
Stagnation in audit outcome

Root causes to be addressed

Drivers of key controls not improving

Assurance levels should be improved

No progress made in addressing risk areas

Status of key commitments by the mayor

Supply chain management
Quality of performance reports
Human resource management
Quality of submitted financial statements
Information technology controls
Financial health

Lack of consequences for poor performance and transgressions
Instability or vacancies in key positions
Slow response by political leadership in addressing the root causes of poor audit outcomes

Senior management
Municipal manager
Mayor
Internal audit
Audit committee
Municipal council
MPAC

Provides limited/no assurance
Provides some assurance
Provides limited/no assurance
Provides limited/no assurance
Provides limited/no assurance
Provides limited/no assurance
Provides limited/no assurance

Implemented
In progress
Not implemented
New

Leadership
Financial and performance management
Governance
Effective leadership
Proper record keeping
Risk management
Oversight responsibility
Processing and reconciling controls
Internal audit
HR management
Reporting
Audit committee
Policies and procedures
Compliance
Policy committee
Action plans
IT system controls
IT governance

Good
Concerning
Intervention required

Improved
Stagnant or little progress
Regressed

The current audit outcomes are the result of the attention given to the six key risk areas.

The level of assurance that was provided by the key role players and the progress made on their commitments.

The drivers of the key controls and the root causes as well as...
No change in audit outcome

The lack of movement in the audit outcome was caused by the municipality not providing sufficient appropriate audit evidence for property, plant and equipment; trade and other receivables; revenue; expenditure; capital commitments; VAT; fruitless and wasteful expenditure; irregular expenditure and accumulated surplus reflected in the financial statements. The municipality did not adopt the annual budget before the start of the financial year at a legally constituted council meeting, resulting in unauthorised expenditure.

The municipality incurred R287.8 million in unauthorised and R20.9 million in fruitless and wasteful expenditure, which is 17% and 29% of the total amount incurred in the province respectively. Unauthorised and fruitless and wasteful expenditure incurred in the prior year was not appropriately investigated.

Six key risk areas

The political crisis at the municipality had a negative impact on the improvement in the governance, as a result the municipality was put under administration.

The municipality did not make progress in addressing key risk areas, most notably in the areas of HR, IT controls, key financial management controls, compliance with laws and regulations and the quality of financial and performance reporting.

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 key position of CFO was vacant at year-end. The municipal manager and head of the SCM unit did not meet the required minimum competencies.

Consultants were again engaged to assist with financial reporting at a cost of R5.4 million (2012: R883 016) because of vacancies and lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Provide effective leadership based on a culture of honesty, ethical business practices and good governance.
- Exercise oversight responsibility of financial and performance reporting, compliance and related internal controls.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.

The mayor and municipal council should address the root causes of poor audit outcomes and inadequate controls as follows:

- Appoint sufficiently skilled personnel in key positions of CFO and other senior management and ensure that there are consequences for poor performance and transgressions.
- Ensure that MPAC is adequately capacitated to execute its function of investigating all unauthorised, irregular as well as fruitless and wasteful expenditure.
- The council should implement recommendations made by the internal audit unit and audit committee.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor five times during the financial year and these interactions had no impact on the audit outcomes. The reason for our assessment is the lack of the mayor’s impact on the controls of the auditee as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented and made new commitments to address the root causes of the audit outcomes. The assurance provided through the oversight of the municipal council and MPAC should be improved.
General report on the audit outcomes of North West local government for 2012-13

The statistics depicted above do not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.

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.
Stagnation in audit outcome
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Drivers of key controls not improving
Assurance levels should be improved
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Supply chain management
Quality of performance reports
Human resource management
Quality of submitted financial statements
Information technology controls
Financial health

Lack of consequences for poor performance and transgressions
Key officials lack appropriate competencies
Slow response by political leadership in addressing the root causes of poor audit outcomes

Senior management
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Municipal council
MPAC

Provides limited/no assurance
Provides limited/no assurance
Provides limited/no assurance
Provides some assurance
Provides some assurance
Provides limited/no assurance
Provides limited/no assurance

Implemented
In progress
Not implemented
New

Implemented
In progress
Not implemented
New

Improved
Stagnant or little progress
Regressed

The current audit outcomes are the result of the attention given to the six key risk areas.

The drivers of the key controls and the root causes as well as the level of assurance that was provided by the key role players and the progress made on their commitments.

Lack of consequences for poor performance and transgressions
Key officials lack appropriate competencies
Slow response by political leadership in addressing the root causes of poor audit outcomes

Implement a risk management function in conjunction with internal audit and ensure review and monitoring by the audit committee

Enhance controls and implement adequate reviews of financial and performance reporting monthly to ensure accuracy

Develop and implement compliance checklists to ensure compliance with laws and regulations

Appoint permanent CFO and senior manager/director at the performance management unit

General report on the audit outcomes of North West local government for 2012-13
No change in audit outcome

The lack of movement in the audit outcome was caused by a lack of oversight by the accounting officer in the monitoring and implementation of internal controls, resulting in a weak control environment to ensure credible and reliable information on which the financial statements were based.

Six key risk areas

Management did not implement a process to monitor compliance with SCM legislation, resulting in numerous non-compliance matters reported as well as additional irregular expenditure. This was mainly due to not addressing the previous year’s recommendations.

The municipality did not have a proper system of records management that provided for the maintenance of information that supported the reported performance information. This was mainly due to the position of the manager responsible being vacant and officials responsible for preparing the performance reports not fully understanding the performance information requirements.

Key positions within the financial section were vacant and the municipality had not developed or adopted appropriate systems to monitor, measure and evaluate performance of staff.

Financial health concerns include the overspending of the operational budget, and underspending of the capital budget, which impacted negatively on infrastructure development and delivery of services by the municipality. The municipality’s debt-collection processes were ineffective, which impacted negatively on cash flows, and as a result the municipality was unable to pay its creditors within the legislated timelines.

Consultants were again engaged to assist with financial reporting at a cost of R7,7 million (2012: R2,2 million) because of the lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for the transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Exercise oversight responsibility of financial and performance reporting, compliance and related internal controls.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.

The mayor and management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Develop a credible action plan to address audit findings and monitor the implementation of the action plan on a regular basis.
- Monitor the transfer of skills by consultants and this will be achieved provided vacant key positions are filled as a matter of urgency.
- Implement a performance management system to monitor performance of key management in accordance with set objectives.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor five times during the financial year and these interactions had a minimal impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditee as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented and made new commitments to address the root causes of the audit outcomes. The assurance provided through the oversight of the municipal council and MPAC should be improved.
### Population

<table>
<thead>
<tr>
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</tr>
<tr>
<td>2011</td>
<td>69%</td>
<td>69%</td>
<td>26%</td>
</tr>
</tbody>
</table>

### Age

- Population status:
  - 1996: 5%, 2001: 5%, 2011: 6%
  - 2011: 15%

### Gender

- Male: 49%, 2001: 49%, 2011: 49%
- Female: 51%, 2001: 51%, 2011: 51%

### Basic services

- Households:
  - 2001: 38%, 2011: 62%
  - 2001: 31%, 2011: 69%
  - 1996: 34%, 2001: 66%

### Education

- Grade 12: 2011: 30%
- No schooling: 2011: 7%

### Labour


### TLOKWE CITY COUNCIL

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.
Stagnation in audit outcome
Root causes to be addressed
Drivers of key controls not improving
Assurance levels should be improved
No progress made in addressing risk areas
Root causes to be addressed
Status of key commitments by the mayor

General report on the audit outcomes of North West local government for 2012-13
No change in audit outcome

The lack of movement in the audit outcome was caused by the municipality’s inability to clear findings on PDOs and non-compliance with laws and regulations.

The municipality incurred R69.4 million in irregular expenditure, which is 2% of the total amount incurred in the province. Irregular expenditure incurred in the previous year was not appropriately investigated.

Six key risk areas

The municipality stagnated in addressing the key risk areas, due to instability and vacancies in key positions and a lack of consequences for poor performance and transgressions.

The quality of the annual performance report did not improve and the municipality should focus on improving the inconsistency between planning and reporting documents, the measurability for both indicators and targets, as well as providing sufficient appropriate audit evidence regarding the reliability of the performance information. Management did not review the annual performance report prior to submission for auditing, and some material misstatements identified during the audit needed to be corrected.

The status of SCM remained unsatisfactory, as the municipality still incurred irregular expenditure during the year due to non-compliance with SCM policies. This was mainly due to not obtaining three quotations and procuring goods and services without a competitive bidding process. Furthermore, the municipality did not take effective and appropriate disciplinary steps against officials who made or permitted irregular expenditure. The SCM officials did not have the necessary skills and competence to adequately monitor compliance with SCM policies.

The key positions of municipal manager and head of the SCM unit were vacant at year-end.

Consultants were again engaged to assist with financial reporting at a cost of R4.6 million (2012: R2.2 million) because of the lack of skills in key positions. Our concerns relating to the assistance from consultants include the lack of evidence for the transfer of skills and inadequate measures to monitor delivery of agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Establish and communicate policies and procedures to enable understanding and execution of internal control objectives, processes and responsibilities.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Monitor and review compliance with legislation.

The mayor and accounting officer should address the root causes of poor audit outcomes and inadequate controls as follows:

- Appoint permanent section 57 managers and sufficient appropriately skilled staff in key positions within the finance, performance reporting and SCM units.
- Investigate non-compliance with laws and legislation, including SCM transgressions, to determine if any person is liable. There should be consequences for poor performance and transgressions.
- Update the risk strategy to include the issues identified in the audit report.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor four times during the financial year and these interactions had a minimal impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditees as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented and made new commitments to address the root causes of the audit outcomes. The assurance provided through the oversight of the municipal council and MPAC should be improved.
Ngaka Modiri Molema District
General report on the audit outcomes of North West local government for 2012-13

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.
Stagnation in audit outcome

Drivers of key controls not improving

Assurance levels should be improved

No progress made in addressing risk areas

Root causes to be addressed

Status of key commitments by the mayor

Supply chain management
Quality of performance reports
Human resource management
Quality of submitted financial statements
Information technology controls
Financial health

Effective leadership
Oversight responsibility
HR management
Policies and procedures
Action plans
IT governance

Good
Concerning
Intervention required

Good
Concerning
Intervention required

Leadership
Financial and performance management
Governance

Proper record keeping
Processing and reconciling controls
Reporting
Compliance
IT system controls

Senior management
Provides limited/no assurance
Municipal manager
Provides some assurance
Mayor
Provides limited/no assurance
Internal audit
Provides limited/no assurance
Audit committee
Provides limited/no assurance
Municipal council
Provides some assurance
MPAC
Provides some assurance

Lack of consequences for poor performance and transgressions
Key officials lack appropriate competencies
Slow response by management in addressing the root causes of poor audit outcomes

Management commits to ensure that an action plan is implemented to ensure proper record keeping and effective controls are implemented over financial and performance reporting
No change in audit outcome

The lack of movement in the audit outcome was caused by insufficient corrective actions taken by the leadership to address the lack of appropriate supporting evidence to substantiate the account balances and transactions disclosed in the financial statements.

The municipality incurred R953 million in irregular expenditure, which is 34% of the total amount incurred in the province. Irregular expenditure incurred in the previous year was not appropriately investigated.

The district municipality did not support its local municipalities due to the lack of capacity to address its own audit findings.

Six key risk areas

The key role players made little progress in addressing the audit findings from previous years, key risk areas or the deficiencies in the drivers of the key controls. Significant progress should be made in addressing the lack of a clear audit trail to support financial and service delivery transactions. Record keeping improved from the previous year, but the accounting records still did not provide the municipality with clear and accurate financial data. The quality of performance reports has improved since the previous period but should be improved further to accurately report on service delivery matters.

The internal control deficiencies identified in the SCM area raise a concern on the municipality’s expenditure management. Consultants were again engaged to assist with financial reporting and preparation of performance information at a cost of R3.5 million (2012: R1.2 million) because of vacancies and the lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for the transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.

Management and the council should address the root causes of poor audit outcomes and inadequate controls as follows:

- Enable the mayor, municipal manager and senior management to perform their required duties by addressing the deficiencies in their oversight processes, by ensuring that the officials are trained or have the required skills and by ensuring that HR processes are in place that address poor performance by senior officials.
- Improve financial management to ensure that the financial disciplines of daily and monthly records are properly maintained and that the regular, accurate reports are produced that will fully substantiate the financial results reported at financial year-end.
- Improve the oversight activities by the audit committee and internal audit unit to address the key risk areas and root causes so that the necessary improvement to address the deficiencies in internal controls can be made throughout the financial year.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor two times during the financial year and these interactions had minimal impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditee as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitment which was not implemented. The assurance provided through the oversight of the municipal council and MPAC should be improved.
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.

DITSOBOTLA LOCAL MUNICIPALITY

**Population**

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**Age**

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**Gender**

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<td>71%</td>
</tr>
<tr>
<td>Female</td>
<td>38%</td>
<td>43%</td>
<td>29%</td>
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**Basic services**

- **Households**
  - Average household size: 1996 4.8, 2001 4.0, 2011 3.7
  - Average dwelling type per no. of households: 1996 79%, 2001 79%, 2011 75%
  - Average household income: 2001 27 491, 2011 65 613

- **of the households have access to electricity**
  - 2011 38%, 2001 42%, 1996 42%
  - Graph shows percentage of households with access to electricity

- **of the households have access to piped water**
  - 2011 11% 23%, 2001 18% 24%, 1996 16% 22%
  - Graph shows percentage of households with access to piped water

- **of the households have access to toilet facilities**
  - 2011 9% 41%, 2001 9% 42%, 1996 8% 57%
  - Graph shows percentage of households with access to toilet facilities

**Education**

- 1996: 27% Higher Education, 12% No Schooling
- 2001: 24% Higher Education, 5% No Schooling
- 2011: 20% Higher Education, 7% No Schooling

**Labour**

- 1996: 62% Employed, 38% Unemployed
- 2001: 57% Employed, 43% Unemployed
- 2011: 71% Employed, 29% Unemployed

The statistics depicted above does not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.
Stagnation in audit outcome
Root causes to be addressed
Drivers of key controls not improving
Assurance levels should be improved
No change in audit outcome

The lack of movement in the audit outcome was caused by insufficient corrective actions taken by the leadership to address the lack of appropriate supporting evidence to substantiate the account balances and transactions disclosed in the financial statements.

Six key risk areas

During the audit, the municipality was placed under administration by the department of local government. The key role players did not make progress in addressing the audit findings from the previous years, key risk areas or the deficiencies in the drivers of the key controls. There was no clear action plan to rectify financial, service delivery and compliance challenges.

Significant progress should be made in addressing the lack of a clear audit trail to support financial and service delivery transactions. Changes to the accounting system used by the municipality did not provide the municipality with the necessary auditable accounting records and, although consultants assisted in compiling financial statements, the accounting records were insufficient to support the financial statements.

The quality of performance reports did not enable audit verification of claimed service delivery. The internal control deficiencies identified in the SCM area raise a concern on how and where the municipality spent its resources that had been allocated to them for purposes of delivery of service to the community.

The lack of progress made in addressing SCM findings was as a result of the key position of head of the SCM unit being vacant at year-end.

Consultants were again engaged to assist with financial reporting at a cost of R4.9 million (2012: R1.2 million) because of the lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for the transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Exercise oversight responsibility of financial and performance reporting, compliance and related internal controls.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.

Management and the council should address the root causes of poor audit outcomes and inadequate controls as follows:

- Enable the mayor, municipal manager and senior management to perform their required duties by addressing the deficiencies in their oversight processes, by ensuring that the officials are trained or have the required skills, and by ensuring that HR processes are instituted that address poor performance by senior officials.
- Improve financial management to ensure that the financial disciplines of daily and monthly records are properly maintained and that the regular, accurate reports are produced that will fully substantiate the financial results reported at financial year-end.
- Improve oversight activities by the audit committee and internal audit unit to address the key risk areas and root causes so that the necessary improvement to address the deficiencies in internal controls can be made throughout the financial year.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor five times during the financial year and these interactions had a minimal impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditee as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitment which was not implemented. The assurance provided through the oversight of the municipal council and the MPAC should be improved.
### General report on the audit outcomes of North West local government for 2012-13

#### MAFIKENG LOCAL MUNICIPALITY

### Population

- **Population status**
  - 1996: 240,247
  - 2001: 259,478
  - 2011: 231,527

- **Age**
  - 0-14: 1996: 4%, 2001: 4%, 2011: 5%

- **Gender**

(Bar charts for age and gender distributions)

### Basic services

- **Households**
  - Of the households have access to electricity
    - 2011: 62%
    - 2001: 60%
    - 1996: 64%
  - Of the households have access to piped water
    - 2011: 53%
    - 2001: 45%
    - 1996: 51%
  - Of the households have access to toilet facilities
    - 2011: 33%
    - 2001: 30%
    - 1996: 25%

(Bar charts for service access)

### Education

- **Grade 12**
  - 1996: 20%
  - 2001: 17%
  - 2011: 26%
  - Male: 2001: 10%, 2011: 12%
  - Female: 2001: 8%, 2011: 8%

- **No schooling**
  - 1996: 7%
  - 2001: 17%
  - 2011: 12%

(Bar charts for education levels)

### Labour

- **Employed**
  - 1996: 56%
  - 2001: 51%
  - 2011: 64%

- **Unemployed**
  - 1996: 44%
  - 2001: 49%
  - 2011: 36%

(Bar charts for employment status)

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The statistics depicted above does not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.
Stagnation in audit outcome

Root causes to be addressed
- Lack of consequences for poor performance and transgressions
- Key officials lack appropriate competencies
- Slow response by management in addressing the root causes of poor audit outcomes

Drivers of key controls not improving
- Leadership
  - Effective leadership
  - Oversight responsibility
  - HR management
- Financial and performance management
  - Proper record keeping
  - Processing and recording controls
  - Reporting
- Governance
  - Compliance
  - IT system controls

Assurance levels should be improved
- Senior management
  - Provides limited/no assurance
- Municipal manager
  - Provides limited/no assurance
- Mayor
  - Provides limited/no assurance
- Internal audit
  - Not established
- Audit committee
  - Not established
- Municipal council
  - Provides limited/no assurance
- MPAC
  - Provides limited/no assurance

Status of key commitments by the mayor
- Establish an audit committee and internal audit unit for the local municipality in order to comply with the relevant laws and regulations as well as to ensure oversight
- Formulate formal policies and procedures for performance information and supply chain management, which must be approved and implemented
- Develop, implement and monitor action plan to address all audit findings to ensure improvement in audit outcomes
- Formulate and implement a checklist for the compliance with laws and regulations, especially with regard to supply chain management
No change in audit outcome

The lack of movement in the audit outcome was caused by the municipality’s inability to fully implement its action plan. The municipality managed to resolve only some of the prior year qualification areas. Findings on PDOs and non-compliance remained unchanged.

Six key risk areas

The municipality made no progress regarding the quality of the submitted financial statements as material misstatements had to be corrected. The quality of the performance reports did not improve as material findings were identified with regard to the usefulness and the reliability of information reported therein.

HR management remained unchanged and the municipality should focus on developing and implementing policies and procedures to evaluate performance of staff.

The status of SCM also 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 municipality did not address IT control weakness and financial health concerns identified in the previous year.

Consultants were again engaged to assist with financial reporting at a cost of R5,3 million (2012: R1,8 million) because of vacancies and lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Exercise oversight responsibility of financial and performance reporting, compliance and related internal controls.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.
- Monitor and review compliance with legislation.

Management and the mayor should address the root causes of poor audit outcomes and inadequate controls as follows:

- Appoint competent staff in critical positions and create a stable leadership environment.
- Strengthen controls over daily and monthly processing and reconciling of transactions and prepare regular, accurate and complete financial and performance reports that are supported by reliable information.
- Compile and implement a checklist that addresses compliance-related issues. Regularly review and monitor implementation of such a checklist

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor six times during the financial year and these interactions had some impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditee as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented, and made new commitments to address the root causes of the audit outcomes. The assurance provided through the oversight of the municipal council and MPAC should be improved.
The statistics depicted above do not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.
Stagnation in audit outcome
Root causes to be addressed
Drivers of key controls not improving
No progress made in addressing risk areas
Status of key commitments by the mayor
Assurance levels should be improved

Supply chain management
Quality of performance reports
Human resource management
Quality of submitted financial statements
Information technology controls
Financial health

Leadership
Financial and performance management
Governance
Effective leadership
Proper record keeping
Risk management
Oversight responsibility
Processing and reconciling controls
HR management
Internal audit
Policies and procedures
Compliance
Audit committee
Action plans
IT system controls
IT governance

Good
Concerning
Intervention required

Implemented
Stagnant or little progress
Regressed

Senior management
Provides limited/no assurance
Municipal manager
Provides limited/no assurance
Mayor
Provides limited/no assurance
Internal audit
Not established
Audit committee
Provides limited/no assurance
Municipal council
Provides limited/no assurance
MPAC
Provides limited/no assurance

Lack of consequences for poor performance and transgressions
Key officials lack appropriate competencies
Slow response by political leadership in addressing the root causes of poor audit outcomes

Ensure that directors and the municipal manager enforce policies and procedures and that corrective actions are taken
Prepare and review quarterly performance reports before submission to the council
Ensure that the municipal manager appoints skilled people in vacant positions. Also ensure that the current organisational structure supports the vision and mandate

Prepare and monitor action plans

Implemented
In progress
Not implemented
New
No change in audit outcome

The lack of movement in the audit outcome was caused by a lack of corrective action regarding previous year audit findings on revenue, expenditure, assets, liabilities, performance information and compliance with laws and regulations. Instability and vacancies in key management positions and a shortage of appropriate skills at the finance section resulted in the municipality failing to implement proper record keeping for revenue, expenditure, assets and liabilities. The municipality failed to provide sufficient and appropriate audit evidence for most items in the financial statements. A high vacancy rate and a shortage of skills existed within its finance section.

Six key risk areas

The municipality made little to no progress in addressing the key risk areas. The municipality continued to function without supporting oversight structures. Unaddressed deficiencies in HR management within the finance sections, lack of proper record keeping and the poor quality of the financial statements submitted for audit purposes all contributed to the stagnation in the audit outcomes. Management failed to improve on the quality of performance reports as material findings on the usefulness and reliability of its performance report were identified. Furthermore, the status of SCM remained unsatisfactory, mainly due to non-compliance with the various regulations, with no progress having been made in addressing irregular expenditure since the previous years.

The key position of CFO was vacant at year-end. The competencies of municipal manager and head of the SCM unit were not assessed as required.

Consultants were again engaged to assist with financial reporting at a cost of R1,7 million (2012: R1,3 million) because of vacancies and the lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for the transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.
- Monitor and review compliance with legislation.

The mayor and accounting officer should address the root causes of poor audit outcomes and inadequate controls as follows:

- Ensure that key management positions are filled with appropriately skilled individuals that are supported by oversight structures to hold leadership accountable.
- Fill vacancies and improve competencies at key sections, including finance and those responsible for performance reporting.
- Ensure that an action plan is drafted and implemented to address internal control deficiencies and audit findings.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor once during the financial year and this interaction had no impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditee as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented. The assurance provided through the oversight of the municipal council and the MPAC should be improved.

General report on the audit outcomes of North West local government for 2012-13
Population

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Age

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Gender

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<td>2011</td>
<td></td>
<td>52%</td>
<td>48%</td>
</tr>
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</table>

Basic services

<table>
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<tr>
<th>Year</th>
<th>Service</th>
<th>In house</th>
<th>Communal</th>
<th>No access</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>Electricity</td>
<td>80%</td>
<td>16%</td>
<td>4%</td>
</tr>
<tr>
<td>2001</td>
<td>Electricity</td>
<td>80%</td>
<td>16%</td>
<td>4%</td>
</tr>
<tr>
<td>2011</td>
<td>Electricity</td>
<td>82%</td>
<td>8%</td>
<td>5%</td>
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Education

<table>
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<tr>
<th>Year</th>
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<th>2001</th>
<th>2011</th>
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<tr>
<td></td>
<td>Higher education</td>
<td>40%</td>
<td>41%</td>
<td>29%</td>
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<tr>
<td></td>
<td>Grade 12</td>
<td>5%</td>
<td>2%</td>
<td>7%</td>
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<tr>
<td></td>
<td>No schooling</td>
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<td>2%</td>
<td>3%</td>
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</table>

Labour

<table>
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<tr>
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<th>2001</th>
<th>2011</th>
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<tr>
<td></td>
<td>Employed</td>
<td>30%</td>
<td>39%</td>
<td>56%</td>
</tr>
<tr>
<td></td>
<td>Unemployed</td>
<td>70%</td>
<td>61%</td>
<td>44%</td>
</tr>
</tbody>
</table>

The statistics depicted above do not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.

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.

The graphics therefore does not add to 100%.
Regression in audit outcome

Root causes to be addressed

Drivers of key controls not improving

Assurance levels should be improved

The current audit outcomes are the result of the attention given to the six key risk areas.

No progress made in addressing risk areas

Root causes to be addressed

The mayor committed to filling the vacant CFO post with a suitable candidate who has the required skills. To ensure that staff appointed do have the required skills and competencies, to enrol all staff on courses in areas where there is a skilled deficiency.

Status of key commitments by the mayor

The municipal management will develop and implement an action plan that addresses the 2012-2013 audit findings.

Supply chain management

Quality of performance reports

Human resource management

Information technology controls

Financial health

The level of assurance that was provided by the key role players and the progress made on their commitments.

Good

Concerning

Intervention required

MPAC

Provides some assurance

Senior management

Provides some assurance

Municipal manager

Provides some assurance

Mayor

Provides some assurance

Internal audit

Provides some assurance

Audit committee

Provides some assurance

Municipal council

Provides some assurance

No progress made in addressing risk areas

No findings Findings Material findings

Improved Stagnant or little progress Regressed

2012-13 Qualified with findings

2011-12 Unqualified with findings

2010-11 Unqualified with findings

Lack of consequences for poor performance and transgressions

Key officials lack appropriate competencies

Slow response by political leadership in addressing the root causes of poor audit outcomes

Improvement in audit outcomes

Implemented In progress Not implemented New

General report on the audit outcomes of North West local government for 2012-13
Regression in audit outcome

The regression in the audit outcome was caused by qualification on the unauthorised and irregular expenditure being incorrectly dealt with. Material corrections were required to the financial statements to address other misstatements identified. The municipality also regressed to have findings on PDOs.

Six key risk areas

The municipality has made no progress in addressing SCM issues as the number of material findings identified during the audit has increased compared to those identified in the previous year. It is recommended that the municipality should develop and implement an SCM compliance checklist to ensure that compliance with all SCM laws and regulations is monitored.

The quality of the submitted performance reports was very poor, resulting in findings on the reliability of the information contained in the annual performance report as well as findings on the usefulness of planned objectives. It is recommended that management should be trained on requirements of the National Treasury's Framework for managing programme performance information to enable application of the principles and frequent review of validity of reported achievements against source documentation to ensure that the performance reports are reliable when compared to the source information and/or evidence.

The financial statements submitted for auditing were not, in all material respects, prepared in accordance with the requirements of section 122(1) of the MFMA, resulting to uncorrected material misstatements which resulted in the financial statements receiving a qualified audit opinion. It is therefore recommended that management should prepare and review quarterly financial statements to ensure that they are supported by reliable information which is accurate, complete and valid.

The CFO and head of the SCM unit did not meet the required minimum competencies.

Consultants were again engaged to assist with financial reporting and preparation of performance information at a cost of R1,7 million (2012: R1 million) because of vacancies and lack of skills in key positions. The work done by the consultants did not result in the auditee obtaining a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for the transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Establish and communicate policies and procedures to enable and support understanding and carrying out of internal control objectives, processes and responsibilities.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Monitor and review compliance with legislation.

The mayor and senior management should address the root causes of poor audit outcomes and inadequate controls as follows:

- Establish credible action plan to address audit findings and monitor the implementation of the action plan on a regular basis.
- Develop and implement SCM checklist and monitor compliance with the checklist on a regular basis.
- Prepare and review quarterly financial statements and performance information reports to ensure that they are supported by reliable information.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor four times during the financial year and these interactions had a minimal impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditee as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitment which was not implemented and made new commitments to address the root causes of the audit outcomes. The assurance provided through the oversight of the municipal council and MPAC should be improved.
General report on the audit outcomes of North West local government for 2012-13
The statistics depicted above does not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.
Stagnation in audit outcome
Root causes to be addressed
Drivers of key controls not improving
Assurance levels should be improved
No progress made in addressing risk areas
Status of key commitments by the mayor

2012-13
Disclaimed with findings

2011-12
Disclaimed with findings

2010-11
Disclaimed with findings

Leadership
Financial and performance management
Governance

Effective leadership
Oversight responsibility
HR management
Policies and procedures
Action plans
IT governance

Proper record keeping
Processing and reconciling controls
Reporting
Compliance
IT system controls

Risk management
Internal audit
Audit committee

Good
Concerning
Intervention required

Improved
Stagnant or little progress
Regressed

Supply chain management
Quality of performance reports
Human resource management

Quality of submitted financial statements
Information technology controls
Financial health

Ideas for improvement

Senior management
Provides limited/no assurance
Municipal manager
Provides limited/no assurance
Mayor
Provides limited/no assurance
Internal audit
Provides limited/no assurance
Audit committee
Provides limited/no assurance
Municipal council
Provides limited/no assurance
MPAC
Provides limited/no assurance

No findings
Findings
Material findings

Improved
Stagnant or little progress
Regressed

Lack of consequences for poor performance and transgressions
Instability or vacancies in key positions
Slow response by management in addressing the root causes of poor audit outcomes

The level of assurance that was provided by the key role players and the progress made on their commitments.

Mayor committed to filling vacant key positions

Take disciplinary steps against officials that do not execute their responsibilities as set out in their performance agreements and job descriptions

Compile an action plan and ensure that the action plan forms part of the performance agreements of official.
Ensure that officials report monthly on the measures listed in the action plan

Implemented
In progress
Not implemented
New
No change in audit outcome

The lack of movement in the audit outcome was caused by the municipality’s lack of commitment and slow response by management in addressing previous year audit findings in relation to material misstatements identified, non-compliance with laws and regulations and the inability to improve the usefulness and reliability of performance information.

Six key risk areas

No progress was made in addressing the key risk areas. Unaddressed deficiencies in HR management within the finance sections, lack of proper record keeping and the poor quality of the financial statements submitted for auditing contributed to the stagnation in the audit outcome.

Management failed to improve on the quality of performance reports as material findings on the usefulness and reliability of its performance report were identified. Furthermore, the status of SCM remained unsatisfactory, mainly due to non-compliance with the various regulations. There are a number of factors that indicated that the financial sustainability was under threat as there was a net outflow of cash and the municipality’s current liabilities exceeded its current assets.

The competencies of key officials were not assessed as required.

Consultants were again engaged to assist with financial reporting at a cost of R3,7 million (2012: R1,8 million) because of the lack of skills in key positions. The work done by the consultants did not result in the auditee receiving a financially unqualified opinion due to the lack of records and documents maintained by the auditee. Our concerns relating to the assistance from consultants include the lack of evidence for transfer of skills and inadequate measures to monitor agreed upon deliverables.

Key controls and root causes

Overall, there was stagnation in the key controls. Leadership, financial and performance management and governance remained the same.

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

- Exercise oversight responsibility of financial and performance reporting, compliance and related internal controls.
- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available.
- Prepare regular, accurate and complete financial and performance reports that are supported by reliable information.

Management and the council should address the root causes of poor audit outcomes and inadequate controls as follows:

- Ensure that key management positions are filled with appropriately skilled individuals that are supported by oversight structures to hold the leadership accountable.
- Improve record keeping and filing system to ensure tracking of documents.
- Take disciplinary steps against officials who do not carry out their responsibilities as set out in their performance agreements and job descriptions.

Impact of key role players on audit outcomes

Our assessment of the assurance provided by key role players indicated that the levels of assurance for all key role players should be improved.

We met with the mayor two times during the financial year and these interactions had no impact on the audit outcomes. The reason for our assessment was the lack of the mayor’s impact on the controls of the auditee as well as the slow progress in implementing commitments previously given.

The mayor committed to fully implement the previous year’s commitments which were not implemented and made new commitments to address the root causes of the audit outcomes. The assurance provided through the oversight of the municipal council and MPAC should be improved.
### Annexure 1: Auditees’ audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, unauthorised, irregular as well as fruitless and wasteful expenditure

<table>
<thead>
<tr>
<th>Number</th>
<th>Auditee</th>
<th>2012-13 audit outcomes</th>
<th>2011-12 audit outcomes</th>
<th>Financial statement qualification areas</th>
<th>Findings on predetermined objectives</th>
<th>Findings on non-compliance</th>
<th>Findings on specific focus areas</th>
<th>Unauthorised, irregular as well as fruitless and wasteful expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Auditop</td>
<td>Pre-determined objectives</td>
<td>Compliance with legislation</td>
<td>Pre-determined objectives</td>
<td>Compliance with legislation</td>
<td>Current issues</td>
<td>Liabilities</td>
<td>Capital and reserves</td>
</tr>
<tr>
<td>1</td>
<td>Bojanala</td>
<td>R R R R R R R R R R R R</td>
<td>R R R R R R R R R R</td>
<td>R R R N A N R A</td>
<td>R R R R</td>
<td>7.4m</td>
<td>-</td>
<td>0.02m</td>
</tr>
<tr>
<td>2</td>
<td>Dr Kenneth Kaunda</td>
<td>A R R R R R R R R R R R R</td>
<td>R R R R R R R R R R</td>
<td>R R R N N N R R R N</td>
<td>R R R N</td>
<td>-</td>
<td>5.4m</td>
<td>0.08m</td>
</tr>
<tr>
<td>3</td>
<td>Dr Ruth S Mompati</td>
<td>R R R R N N N R N R R</td>
<td>R R R N N N R R R N</td>
<td>R R R N N N N N R R N N</td>
<td>R R R N</td>
<td>40.6m</td>
<td>48.8m</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>Ngaka Modiri Molema</td>
<td>R R R R R R R R R R R R</td>
<td>R R R R R R R R R R</td>
<td>R R R N A N R A</td>
<td>R R R R</td>
<td>53.8m</td>
<td>953.0m</td>
<td>-</td>
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#### Local Municipalities

<table>
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<tr>
<th>Number</th>
<th>Auditee</th>
<th>2012-13 audit outcomes</th>
<th>2011-12 audit outcomes</th>
<th>Financial statement qualification areas</th>
<th>Findings on predetermined objectives</th>
<th>Findings on non-compliance</th>
<th>Findings on specific focus areas</th>
<th>Unauthorised, irregular as well as fruitless and wasteful expenditure</th>
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<tbody>
<tr>
<td></td>
<td>Auditop</td>
<td>Pre-determined objectives</td>
<td>Compliance with legislation</td>
<td>Pre-determined objectives</td>
<td>Compliance with legislation</td>
<td>Current issues</td>
<td>Liabilities</td>
<td>Capital and reserves</td>
</tr>
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<td>Mafikeng</td>
<td>R R R R R R R R R R R R</td>
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<td>398.6m</td>
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<td>0.76m</td>
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<tr>
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<td>287.8m</td>
<td>3.2m</td>
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<td>R R R N A N R A</td>
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<td>Moses Kotane</td>
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<td>R R R N A N R A</td>
<td>R R R R</td>
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<td>22.3m</td>
<td>12.7m</td>
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<tr>
<td>18</td>
<td>Ramotshere Molopo</td>
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<td>R R R N A N R A</td>
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<td>R R R R</td>
<td>12.9m</td>
<td>48.3m</td>
<td>0.02m</td>
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### General report on the audit outcomes of North West local government for 2012-13

<table>
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<tr>
<th>Number</th>
<th>Auditee</th>
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<th>2011-12 audit outcomes</th>
<th>Financial statement qualification areas</th>
<th>Findings on predetermined objectives</th>
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<th>Findings on specific focus areas</th>
<th>Unauthorised, irregular as well as fruitless and wasteful expenditure</th>
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<td>20</td>
<td>Rustenburg</td>
<td>R R R R R R R R R R R</td>
<td>R R R R R R R R R R R</td>
<td>R R A A N A N N R R A R N R R R R N</td>
<td>614.1m 815.1m</td>
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<tr>
<td>21</td>
<td>Tlokwe</td>
<td>R R R R R R R R R R R</td>
<td>R R R R R R R R R R R</td>
<td>A N N R R R R R R R R R R R N N R</td>
<td>1.2m 69.4m</td>
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<td>R R R R R R R R R R R</td>
<td>A A A A A A A A A A A A A A A A A</td>
<td>3.3m 49.3m</td>
<td>1.0m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Ventersdorp</td>
<td>R R R R R R R R R R R</td>
<td>R R R R R R R R R R R</td>
<td>R R R R R R R R R R R R R R R R R</td>
<td>24.4m 49.5m</td>
<td>4.1m</td>
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#### Municipal Entities

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<thead>
<tr>
<th>Number</th>
<th>Auditee</th>
<th>2012-13 audit outcomes</th>
<th>2011-12 audit outcomes</th>
<th>Financial statement qualification areas</th>
<th>Findings on predetermined objectives</th>
<th>Findings on non-compliance</th>
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<th>Unauthorised, irregular as well as fruitless and wasteful expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>Dr KKDM Economic Agency</td>
<td>A R R R R R R R R R R R</td>
<td>R A A A A A A A A A A A</td>
<td>R R R A N N R R R R R R R R R R R</td>
<td>- 1.1m</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Lekwa Teemane Development Agency</td>
<td>R R R R R R R R R R R</td>
<td>R R R R R R R R R R R</td>
<td>R R R R R R R R R R R R R R R R R</td>
<td>- - -</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Moretele Development Agency</td>
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<td>R R R R R R R R R R R</td>
<td>R R R R R R R R R R R R R R R R R</td>
<td>- - -</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Rustenburg Water Services Trust</td>
<td>A R R R R R R R R R R R</td>
<td>R R R R R R R R R R R</td>
<td>R R R R R R R R R R R R R R R R R</td>
<td>- - -</td>
<td>-</td>
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### Annexure 2: Auditees’ five year audit outcomes

<table>
<thead>
<tr>
<th>Number</th>
<th>Auditee</th>
<th>District Municipalities</th>
<th>Local Municipalities</th>
<th>Municipal Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bojanala</td>
<td>Unqualified with findings</td>
<td>Unqualified with findings</td>
<td>Qualified</td>
</tr>
<tr>
<td>2</td>
<td>Dr Kenneth Kaunda</td>
<td>Qualified</td>
<td>Qualified</td>
<td>Qualified</td>
</tr>
<tr>
<td>3</td>
<td>Dr Ruth S Mompali</td>
<td>Qualified</td>
<td>Unqualified with findings</td>
<td>Qualified</td>
</tr>
<tr>
<td>4</td>
<td>Ngaka Modiri Molema</td>
<td>Disclaimer</td>
<td>Disclaimer</td>
<td>Qualified</td>
</tr>
<tr>
<td>5</td>
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**Legend (Audit outcomes):**
- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Disclaimer with findings
- Adverse with findings
- New auditee

**Legend (Findings):**
- With findings
- No findings

General report on the audit outcomes of North West local government for 2012-13
Annexure 3: Assessment of auditees’ internal controls at the time of the audit

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Legend (Key control) | Good | Concerning | Intervention required | Legend (Movements) | Improved | ⇔ | Unchanged | Regressed | Legend (Aspects) | F = Financial | P = Performance | C = Compliance

General report on the audit outcomes of North West local government for 2012-13
General report on the audit outcomes of North West local government for 2012-13
GLOSSARY OF TERMS
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.
**Conditional grants**

Money transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements.

**Consolidated financial statements**

Financial statements that reflect the combined financial position and results of a municipality and those of the municipal entities under its control.

**Creditors**

Persons, companies or organisations that the auditee owes money to for goods and services procured from them.

**Current assets (in financial statements)**

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.

**Disclaimer of opinion (on financial statements)**

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.

**Financial and performance management (as one of the drivers of internal control)**

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.

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.

**Financially unqualified audit opinion (on financial statements)**

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.

**Fruitless and wasteful expenditure**

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.

**Going concern**

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.

*General report* on the audit outcomes of North West local government for 2012-13
Governance (as one of the drivers of internal control)

Human resource (HR) management

Information technology (IT)

IT controls

IT governance

IT security management

IT service continuity

IT user access management

Internal control / key controls

Irregular expenditure

Key drivers of internal control

General report on the audit outcomes of North West local government for 2012-13
Leadership (as one of the drivers of internal control)

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.

General report on the audit outcomes of North West local government for 2012-13
## Acronyms and abbreviations

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<td>annual financial statements</td>
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<tr>
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<td>auditor-general (the person)</td>
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<td>AFS</td>
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<td>AG</td>
<td>auditor-general (the person)</td>
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<td>Auditor-General of South Africa (the institution)</td>
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*General report on the audit outcomes of North West local government for 2012-13*