Mpumalanga

AUDITOR-GENERAL
SOUTH AFRICA

General report

on the audit outcomes of local government

MFMA 2012-13

Mpumalanga MFMA 2012-13

Our reputation promise/mission

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

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

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

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

Kimi Makwetu
Auditor-General

AUDITOR-GENERAL
SOUTH AFRICA

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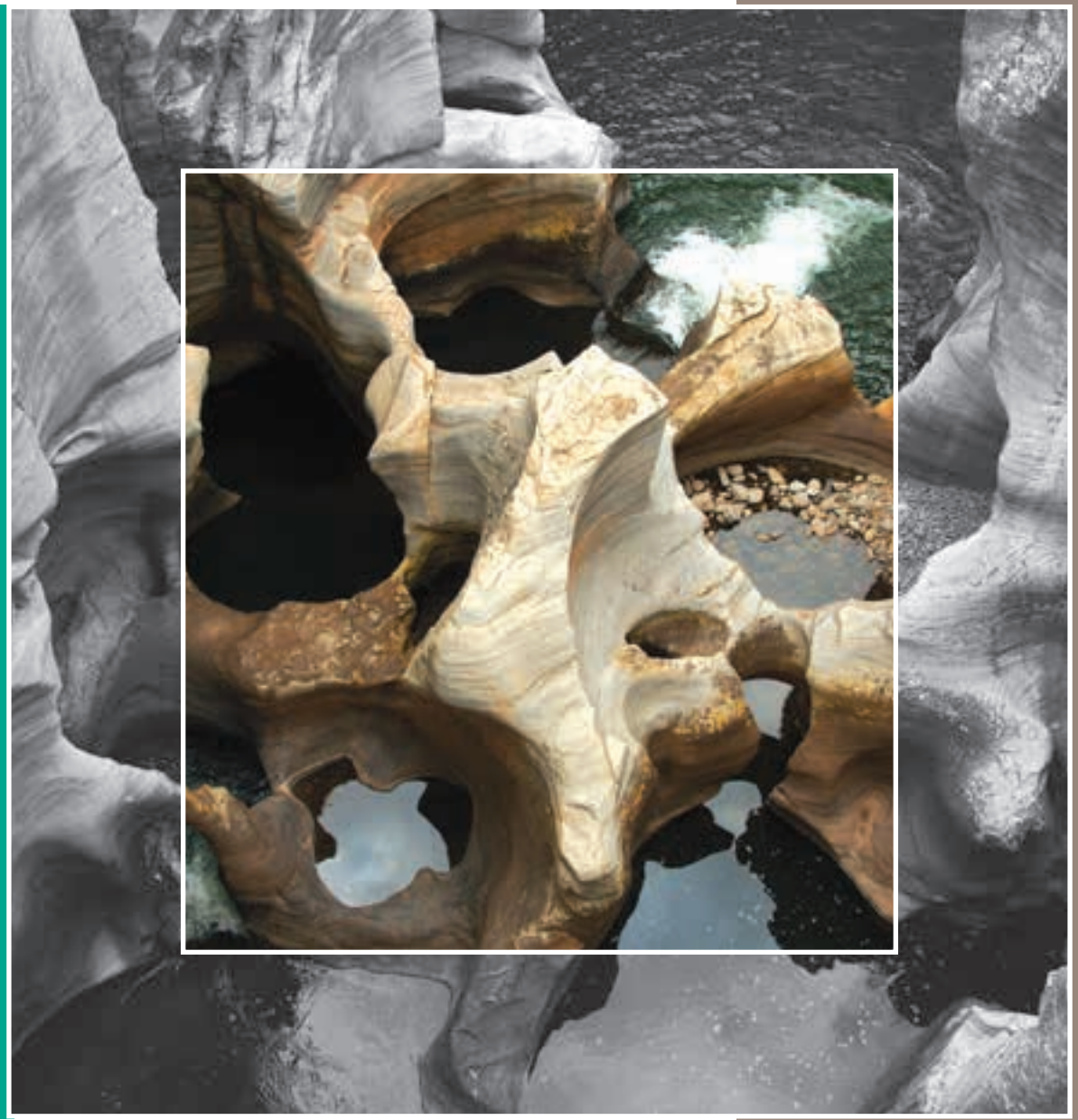
MPUMALANGA **CLEAN AUDITS 2012-13**

MUNICIPALITY

Ehlanzeni District Municipality

Steve Tshwete Local Municipality



FOREWORD

FOREWORD

I hereby present to the legislature of Mpumalanga my 2012-13 general report on local government audit outcomes. Two municipalities have maintained their clean audit outcome for more than three years, by consistently executing the basic accounting disciplines with the support of a stable leadership. Another two municipalities have also improved their outcomes from disclaimed to qualified, but three municipalities regressed in the year under review, putting the province in a net regression position.

Worryingly, the audit outcomes have continued to regress over the past three years despite the leadership's commitments to address the root causes of the poor audit outcomes. Furthermore, the quality of the financial statements and annual performance reports continued to be poor and we again reported many instances of non-compliance with legislation. In total, 81% of the municipalities continued to use the audit process as a tool to detect and correct errors in the submitted financial and performance reports.

Inadequate monitoring of compliance with legislation on supply chain management resulted in 85% of the municipalities having material findings on non-compliance, while the amount of unauthorised, irregular as well as fruitless and wasteful expenditure increased by 35%.

We remain concerned about the planning and monitoring of budgets. Poor planning, poor project monitoring and municipalities' inability to collect money due to them resulted in money from capital budgets and conditional grants being used to cover operational costs and, in certain instances, the delayed payment of creditors.

The confidentiality, integrity and availability of state information continued to be at risk, as no progress was made to address previously reported information technology findings. The design and implementation of controls around security management, user access management and information technology service continuity should be prioritised to lessen the risks of unauthorised access to systems, incomplete data, or the unavailability of information technology systems in the event of major system disruptions or data loss.

The poor audit outcomes continued to be the result of a failing system of internal control. The recurring vacancies and instability in key positions, coupled with officials who lacked the appropriate competencies and skills; a lack of consequences for poor performance; and a slow response by the leadership to our messages, as reported in our previous general report, were again the main root causes of the weakening internal control environment. This weak internal control environment led to over-reliance on consultants, who were engaged close to year-end and expected to assist in addressing the poor financial management of the entire year.

Kimi Makwetu
Auditor-General

I urge the leadership of the province to attend urgently to vacancies as well as the competence, skills and stability of officials in key positions, as this will build a foundation for a strong control environment. In turn, such competent and skilled officials should intensify the monitoring of the implementation of basic financial and performance disciplines, while also holding staff accountable for poor performance.

The capacity of councillors should continue to be strengthened through training initiatives to improve their knowledge of legislation on their oversight role. The provincial department of cooperative governance, together with the South African Local Government Association and other role players, should assess the implementation of these training initiatives. Councils should hold the administrative leadership accountable for implementing the recommendations of role players, including municipal public accounts committees, audit committees as well as internal and external auditors. This will improve effective oversight and increase the assurance provided by role players. In turn, this will lead to a better internal control environment and lessen the over-reliance on consultants, ultimately resulting in improved audit outcomes.

Despite the commitment made in the previous year, effective collaboration by the coordinating departments as well as the South African Local Government Association did not materialise. I remain convinced that such collaboration would bring about the much desired change in the audit outcomes of the province. I am encouraged by the honourable premier and the legislature's willingness to hold the coordinating departments accountable for the status of the audit outcomes.

I want 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 the manner in which they continue to strengthen cooperation with the leadership of the province.

Auditor-General
Pretoria
July 2014

SUMMARY OF AUDIT OUTCOMES AND KEY RECOMMENDATIONS FOR IMPROVEMENT

Our audit and reporting process

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

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

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

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

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

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

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

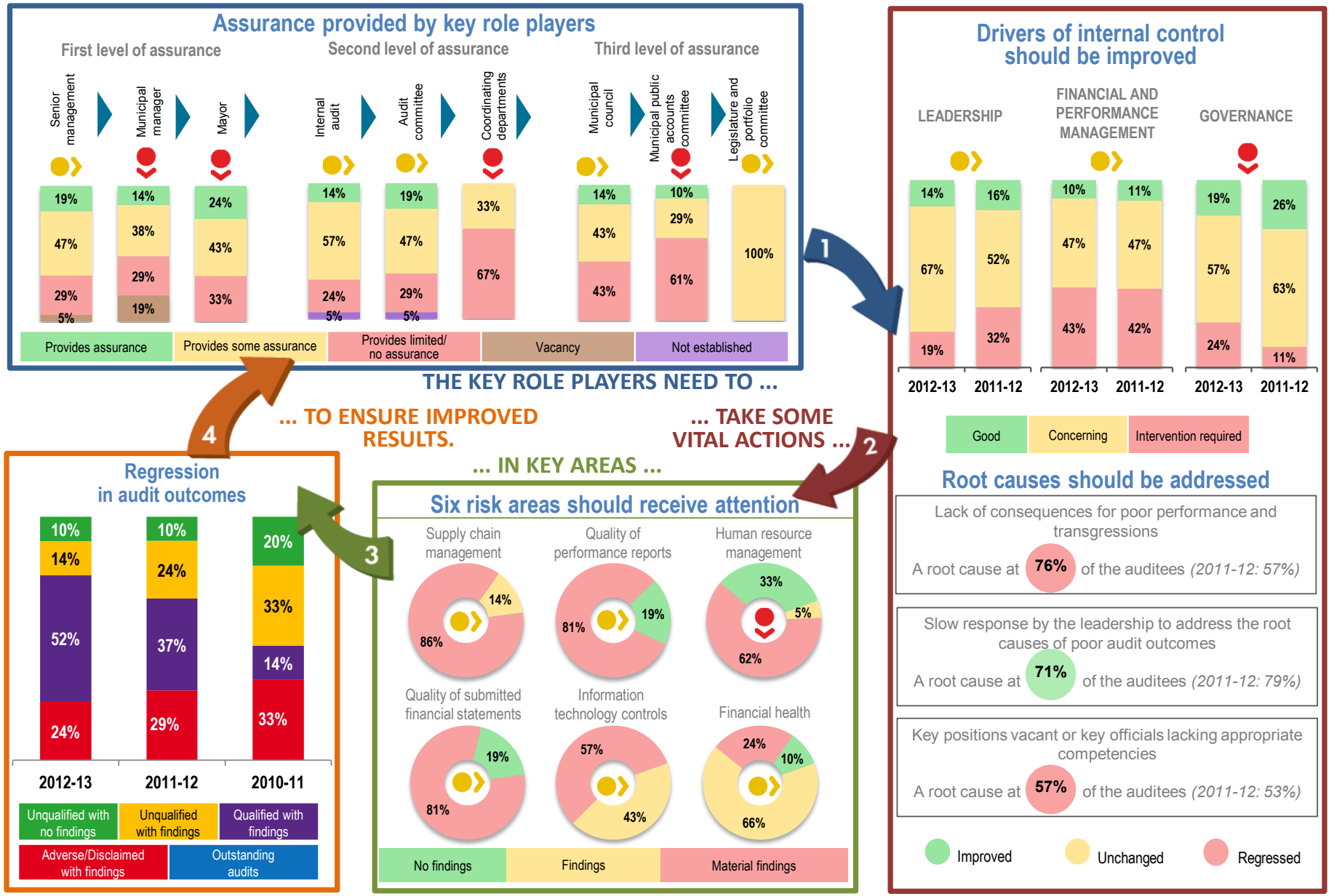
We also continuously strengthen our relationships with mayors, the premier, the provincial treasury, the provincial department of corporative governance and the provincial legislature, as we are convinced that their involvement and oversight should play – and will continue to play – a crucial role in the performance of local government in the province. We share our messages on key controls, risk areas and root causes with them, and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

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

- 'With findings' means findings on either the quality of the annual performance reports or non-compliance with legislation, or findings on both these aspects. Clean audits are achieved when the financial statements are unqualified and there are no findings on the quality of the annual performance reports or non-compliance with legislation.
- Movement of more than 5% is regarded as an improvement or a regression. Movement is depicted as follows:

The rest of the section summarises the audit outcomes and our key recommendations for improvement. This summary is followed by the results of our audits per municipality. The report also includes 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.

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



Status of the three areas that we audit and report on

Audit outcomes have regressed

There has been an overall regression in the audit outcomes of local government.

Significant aspects of the 2012-13 audit outcomes of the 21 auditees shown in figure 1 above are listed below:

- Two auditees (10%) maintained their clean audits over the past three years. This is a clear example of what can be achieved with stable leadership and a strong internal control environment.
- Two of the six auditees (33%) that had received disclaimed audit opinions in the previous year improved to qualified opinions.
- Two auditees (10%) regressed from a financially unqualified opinion with findings to a qualified opinion.
- Nkangala and Gert Sibande District Municipalities received a financially unqualified opinion with findings. Districts should strive to obtain clean audits, which will serve as an example to their local municipalities. However, 89% of the local municipalities in the province obtained either qualified or disclaimed audit opinions.
- There has been a slow decrease in auditees with disclaimed opinions over the past three years, which had an impact on the overall outcomes due to the sharp increase in auditees with qualified audit opinions over the same period. This increase was mainly the result of instability and vacancies in key positions in the province.

It is critical for auditees to focus on creating leadership stability by filling vacancies. The leadership should monitor the implementation of the basic accounting disciplines to ensure that errors are detected and corrected. In turn, this will ensure improved audit outcomes.

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 report, we reported findings from the audits that were material enough to be brought to the attention of the users of the annual performance report, including the community.

Figure 2: Status of quality of annual performance reports

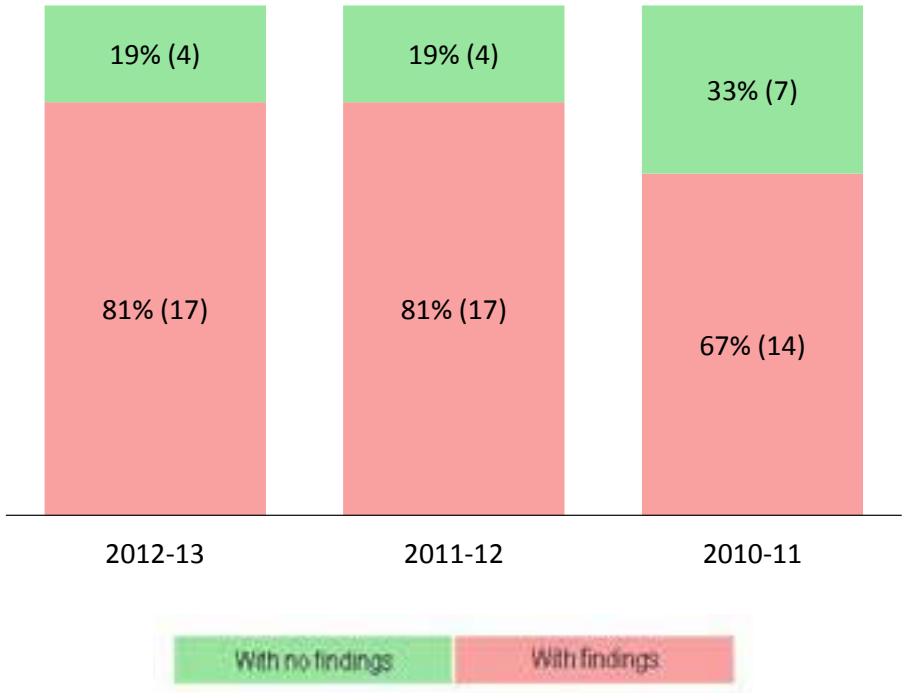


Figure 2 shows the number of auditees in the province with material findings in this regard over the past three years. All the annual performance reports were submitted on time for auditing. There was no improvement in the quality of the annual performance reports compared to the previous year.

The auditees in the province did not fully understand the importance of the performance reports and the *Framework for managing programme performance information* issued by the National Treasury. They continued to focus more on improving the quality of the financial statements, which remained a challenge, but neglected the quality of the performance reports. The performance monitoring units in most of the municipalities were understaffed, with consultants being appointed to assist with the financial statements but not with the annual performance reports.

We measured the usefulness of the reported information against the criteria of presentation, consistency, relevance and measurability. The number of auditees with material findings in this regard has not improved since the previous year. The most common findings on usefulness were the following:

- Indicators or measures were not verifiable.
- Reported performance information was not consistent with planned objectives, indicators or measures and targets.
- Measures taken to improve performance were not supported by adequate corroborating 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 remained the same as in the previous year. The most common findings on reliability were the following:

- Reported performance information was not accurate when compared to supporting documentation.
- Reported performance information was not complete.
- Reported performance information was not valid when compared to supporting documentation.

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

- Overall, 76% of the auditees had material findings on non-compliance with the legislation that regulates strategic planning, performance management and reporting. Standard operating procedures to collect and report performance information were also not in place.
- A total of 19% of the auditees were able to avoid material findings on the presentation and reliability of the annual performance reports by making amendments to the annual performance report submitted for auditing to correct material misstatements identified during the audit process. Municipalities should strengthen their monitoring controls to improve the quality of the reports submitted for auditing.
- All six auditees with satisfactory annual performance reports achieved 80% or less of their planned targets for the year under review, mainly because they did not consider relevant systems and evidential requirements during the annual strategic planning process. (Municipalities who received adverse or disclaimed opinions on reliability in their management report were excluded from this assessment.)

The poor quality of the annual performance reports submitted by municipalities made it difficult to assess the performance of municipalities and to hold management accountable.

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 ■ revenue management ■ strategic planning and performance management ■ annual financial statements and annual report ■ transfer of funds and conditional grants ■ procurement and contract management (in other words, SCM) ■ HR management and compensation.

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

Figure 3: Status of compliance with legislation

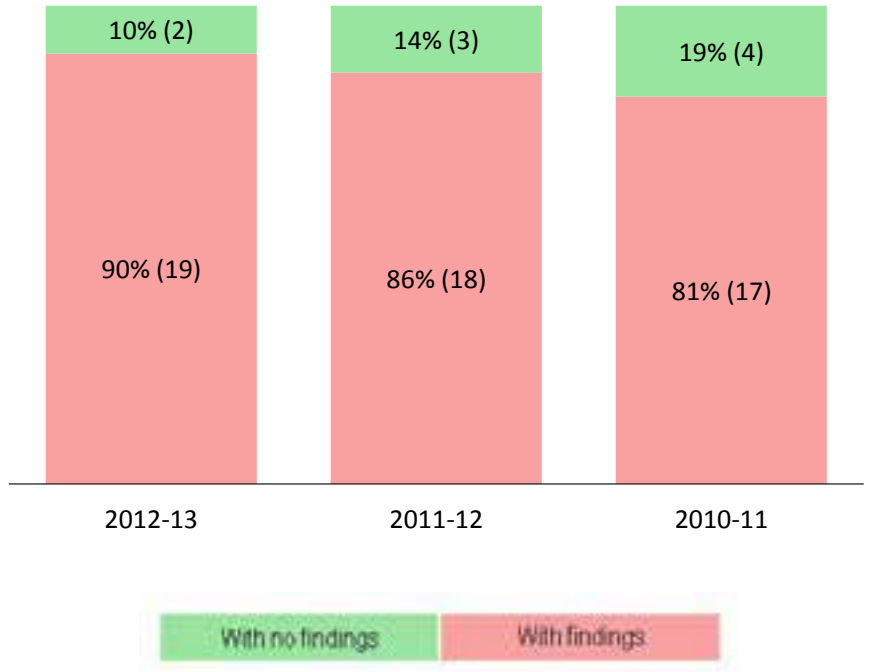


Figure 3 shows the number of auditees with material findings in this regard over the past three years. The state of compliance with legislation shows a

deteriorating trend over the past three years that requires drastic intervention. This clearly indicates that auditees are not paying adequate attention to this area, as no processes are in place to monitor compliance with legislation. The auditees with no material findings on non-compliance with legislation were Ehlanzeni District Municipality and Steve Tshwete Local Municipality.

Figure 4: Trends in findings on non-compliance with legislation

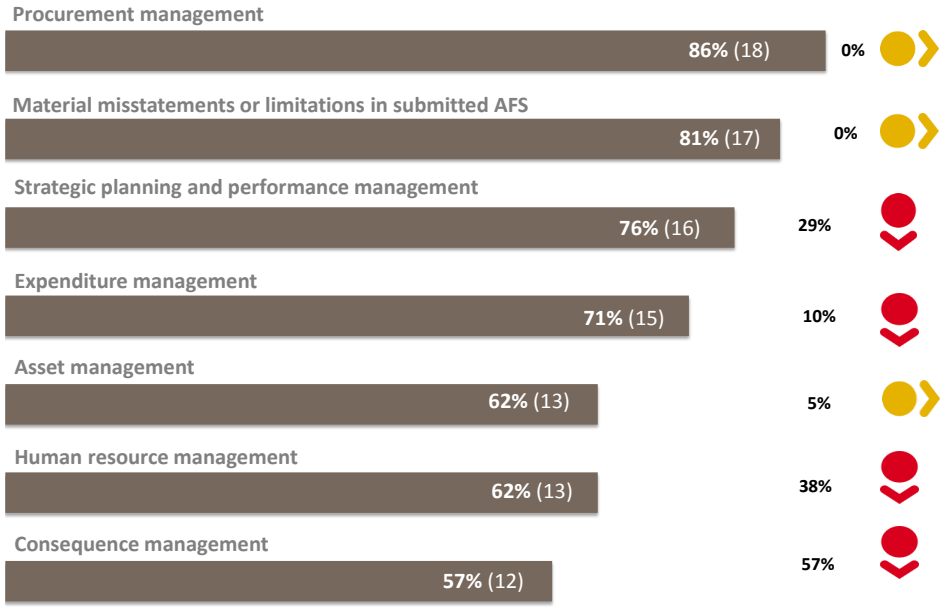


Figure 4 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings. There has been no improvement in any of the compliance areas since the previous period. Auditees should implement mechanisms to improve the monitoring of compliance with legislation.

Procurement management and material misstatements in the submitted financial statements remained the biggest challenges. There has been no movement in these two focus areas since the previous period. Compliance with HR management and consequence management got significantly worse. This means that auditees did not appoint the right people and did not hold them accountable for their work during the year, which contributed to the poor audit outcomes. In addition, auditees did not implement processes to ensure that transgressions were followed up and transgressors dealt with. The most common findings across these compliance areas were the following:

- Awards were made to providers who were in the service of other state institutions.
- There were material misstatements or limitations in the submitted annual financial statements.
- No steps were taken to improve performance when targets were not met.
- Creditors were not paid within 30 days from receipt of an invoice.
- There was no effective system of internal control relating to asset management.
- Officials acted in key positions for more than six months.
- Irregular expenditure was not investigated.

Non-compliance with legislation contributes to a weak control environment and, consequently, to poor audit outcomes and poor accountability reports that do not meet the requirements of the reporting framework. It also significantly increases unauthorised, irregular as well as fruitless and wasteful expenditure. These factors highlight the inability of, or the lack of responsiveness by, the leadership to ensure that there is transparency and accountability in terms of how public resources are utilised, which goes against the principles of our Constitution.

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

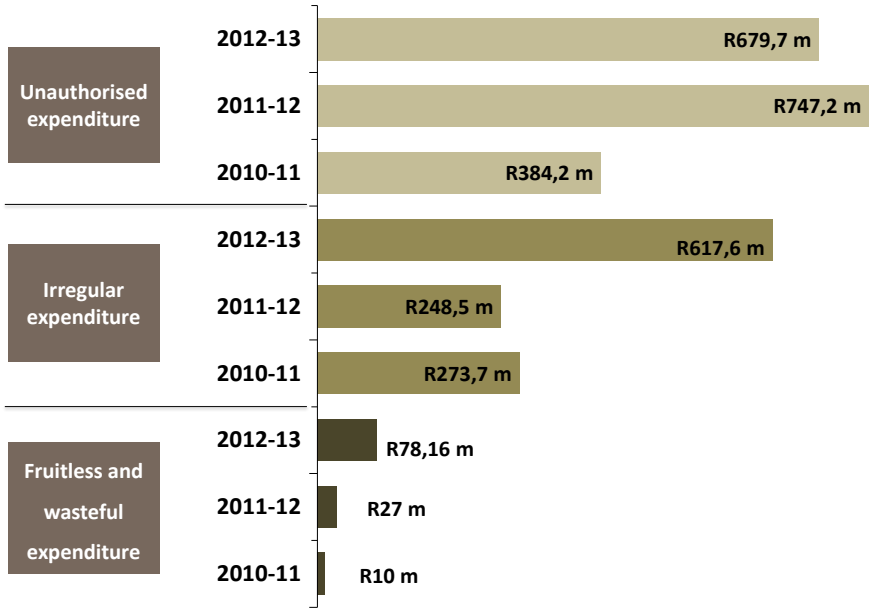


Figure 5 reflects the three-year trend in unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees.

Unauthorised expenditure is expenditure that was not spent in accordance with the approved budget. There has been a slight decrease in unauthorised expenditure compared to the previous year, but it still remained significantly higher than in 2010-11. This shows that auditees have not yet mastered the budgeting process and that poor financial management remains a challenge.

Most of the unauthorised expenditure was as a result of overspending of votes or main divisions within votes. In total, 64% of the expenditure was identified by the auditees. It is encouraging that the ability of auditees to identify the expenditure has significantly improved since the previous year, when less than 50% of the expenditure was identified by the auditees. Auditees now have to focus on implementing preventative control measures to avoid the occurrence of this type of expenditure.

Irregular expenditure is expenditure that was not incurred in the manner 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. Councils should investigate all irregular expenditure to determine whether it constitutes misconduct, fraud, or losses that should be recovered. It is of great concern that this type of expenditure has more than doubled since the previous year.

Contraventions relating to SCM largely contributed to the irregular expenditure, with only 9% of the expenditure being identified by the auditees. The control environment at municipalities therefore did not include detective controls to identify non-compliance with SCM-related legislation.

Fruitless and wasteful expenditure is expenditure that was made in vain and that would have been avoided had reasonable care been taken. This expenditure has significantly increased over the past three years.

Of the fruitless and wasteful expenditure of R78,16 million, 30% was identified by the auditees, showing that they are still struggling to identify this type of expenditure. If auditees do not improve their processes to detect fruitless and wasteful expenditure, they will not be able to appropriately disclose it in their financial statements or recover it from the responsible officials.

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

The six risk areas 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 section on audit outcomes above. A view on the effective use of consultants is given as part of the HR management risk area included below.

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 misstatement* to refer to such material errors or omissions.

While all auditees submitted their financial statements for auditing on time, figure 1 shows that only four auditees (19%) submitted financial statements that did not contain material misstatements. This is even fewer auditees than in the previous year, when there were seven.

Figure 6: Quality of submitted financial statements

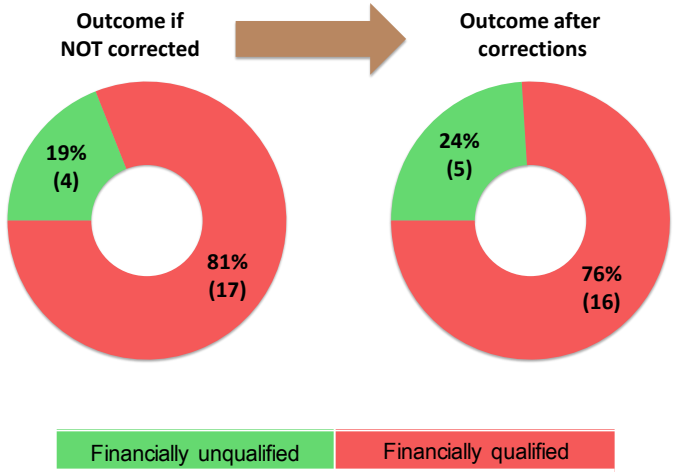


Figure 6 shows that one auditee (5%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit.

The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on the legislated deadlines and increases the audit fees.

Even though we reported the material misstatements to management for correction, 16 auditees (2011-12: 14) could not make the necessary corrections to the financial statements, which resulted in qualified and disclaimed audit opinions. In most instances, the corrections could not be made due to an absence of supporting documentation. The following were the three most common financial statement qualification areas:

- Property, plant and equipment: 13 auditees (2011-12: 14)
- Receivables: nine auditees (2011-12: seven)
- Contingent liabilities and commitments: eight auditees (2011-12: five)

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 further on in this report.

Supply chain management

As part of our audits of SCM, we tested 994 contracts (with an approximate value of R1,5 billion) and 658 quotations (with an approximate value of R59,6 million), also referred to as *awards* in this report.

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

We further assessed the financial interests of employees and councillors and their close family members in suppliers to the auditee as well as the interests of other state officials, as legislation prohibits awards to such suppliers. We also evaluated whether auditees had implemented adequate internal controls to prevent, detect or correct irregularities in the SCM processes.

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

Figure 1 shows that there has been no movement in the number of auditees with audit findings on SCM since the previous year. Compliance with SCM legislation remains a big challenge, as none of the auditees were able to improve these outcomes and only three auditees managed to avoid material findings on SCM in their audit report.

Figure 7: Findings on supply chain management

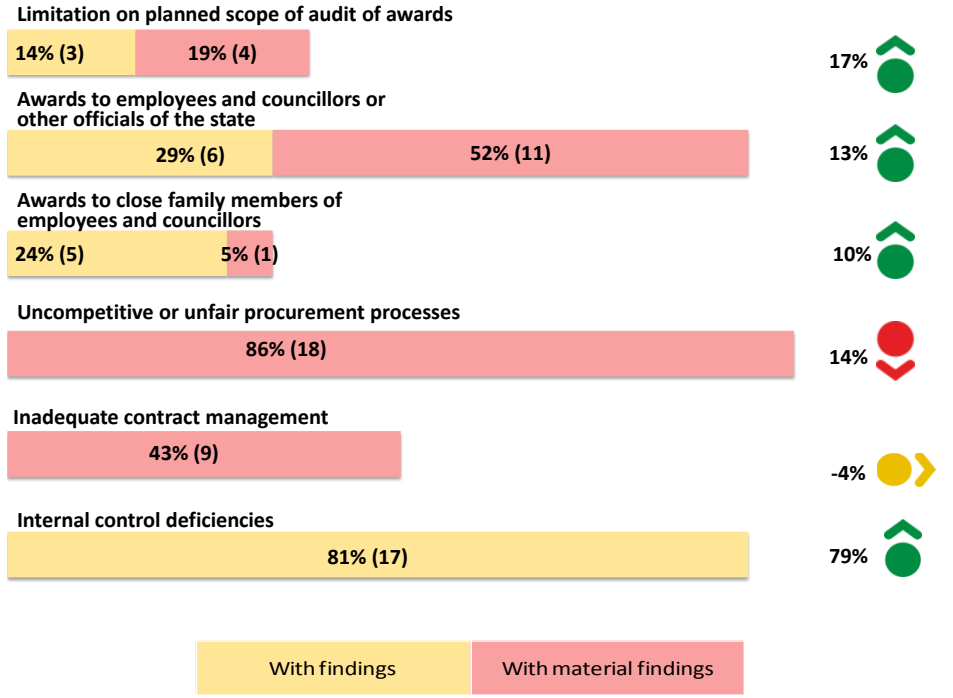


Figure 7 indicates the extent of SCM findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- Although there was a slight improvement in the number of auditees where there was a limitation on the planned scope of the audit of awards, this continued to be a concern. We could not audit awards with a value of R77 million at seven auditees, as they could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. The main reason for the limitations was poor record management by municipalities. A lack of supporting evidence could indicate fraud or possible irregularities. Even though we did not identify fraud or related risks during the audit process, management should further investigate the reason for the non-submission of such documents. Three of the seven auditees with these limitations obtained disclaimed audit outcomes and the remaining auditees received qualified audit outcomes. This indicates that poor record keeping is widespread at these

auditees. Urgent action should be taken to address this root cause, as it has a negative impact on the audit outcome of these auditees.

- There were 33 instances of awards with an overall value of R5,8 million to suppliers in which employees and councillors of the auditees had an interest. In six instances, the supplier did not declare the interest, while the employee or councillor did not declare the interest in one of the cases. The persons involved included councillors and other employees not in senior management positions.
- There were 22 instances of awards with an overall value of R8,25 million to suppliers in which close family members of employees and councillors of the auditees had an interest. In 10% of these instances to the value of R6,3 million, the auditee did not report the interest in the financial statements, as required by the Municipal Finance Management Act (MFMA). In 14% of these instances, the supplier did not declare the interest.
- There were 179 instances of awards with an overall value of R57 million to suppliers in which other state officials had an interest. In 66% of these instances, the supplier did not declare the interest.
- The most common findings on uncompetitive and unfair procurement processes were:
    - procurement from suppliers that did not have tax clearance certificates from the South African Revenue Service at 38% of the auditees
    - three written quotations not invited at 33% of the auditees
    - awards to providers that did not submit declarations of interest or employment in the state at 48% of the auditees
    - competitive bids not invited at 29% of the auditees
    - the preference point system not applied at 29% of the auditees.
- The most common findings on contract management were:
    - performance contractors not monitored each month at 29% of the auditees
    - inadequate contract performance and monitoring measures, or no monitoring, at 29% of the auditees
    - projects not registered with the Construction Industry Development Board at 19% of the auditees.

Human resource management

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

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

Our audits furthermore 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 an increase in the number of auditees with audit findings on HR management since the previous year. Seven auditees (33%) did not have findings on this focus area. The 13 auditees for which weaknesses in HR management were reported in the audit report are a significant increase from the previous year.

Figure 8: Vacancies in key positions

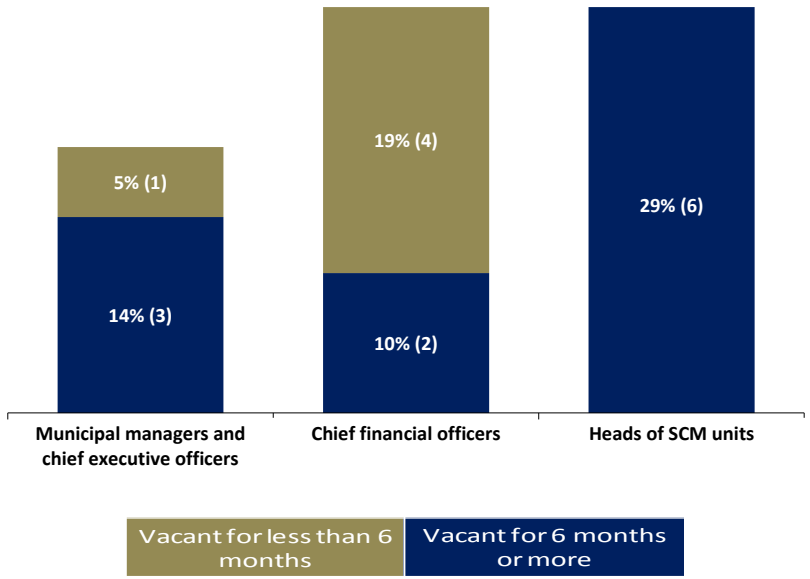


Figure 9: Stability in key positions (average number of months in position)

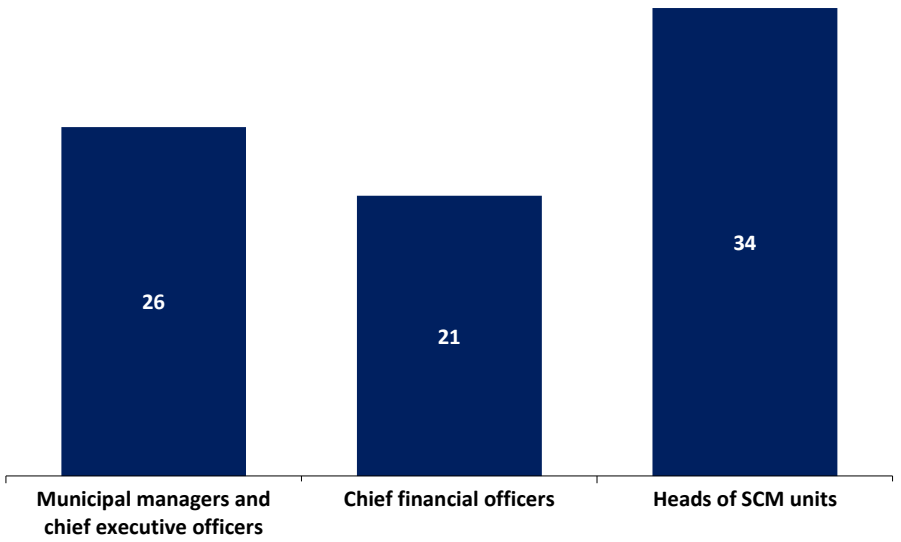


Figure 8 shows the number of auditees where the positions of municipal manager, chief financial officer and head of the SCM unit were vacant at year-end and also indicates the period that the positions had been vacant. Figure 9 shows the average number of months key officials had been in their positions.

At least six auditees had vacancies in their municipal manager, chief financial officer or head of SCM unit positions. These auditees were consequently not able to implement and monitor basic internal control disciplines in the areas of financial reporting, performance information and compliance with legislation. In turn, this had a negative impact on their ability to achieve clean administration and, ultimately, clean audit outcomes.

This is evidenced by the fact that most of the auditees with vacant municipal manager or chief financial officer positions had modified audit opinions, with the exception of Mbombela Local Municipality and Nkangala District Municipality.

Although municipal managers and chief financial officers have been in the employment of their municipalities for an average of two years, 65% of municipal managers and 80% of chief financial officers have been employed in those positions for less than two years. However, the province is moving in the right direction of stabilising leadership in key positions.

To have a meaningful and sustained improvement in the control environment, auditees should continue to ensure stability in these key positions. They can do this by taking less time to fill key positions, and by filling vacancies with people who have the appropriate skills and competencies.

Heads of SCM units have been in their positions for a fairly long time. This has not had a positive impact, however, as 86% of the auditees continued to have findings on SCM. Poor monitoring of compliance with SCM requirements remained a challenge, as heads of SCM units have not implemented internal controls to ensure compliance. Heads of SCM units should strengthen implementation and monitoring controls by developing checklists to ensure compliance with SCM legislation.

The most common finding on the management of vacancies was that officials acted in municipal manager, chief financial officer or head of SCM unit positions for more than six 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, SCM officials and other financial officials, taking into account the size and scope of municipalities.

Figure 10: Key officials that did not have the minimum competencies

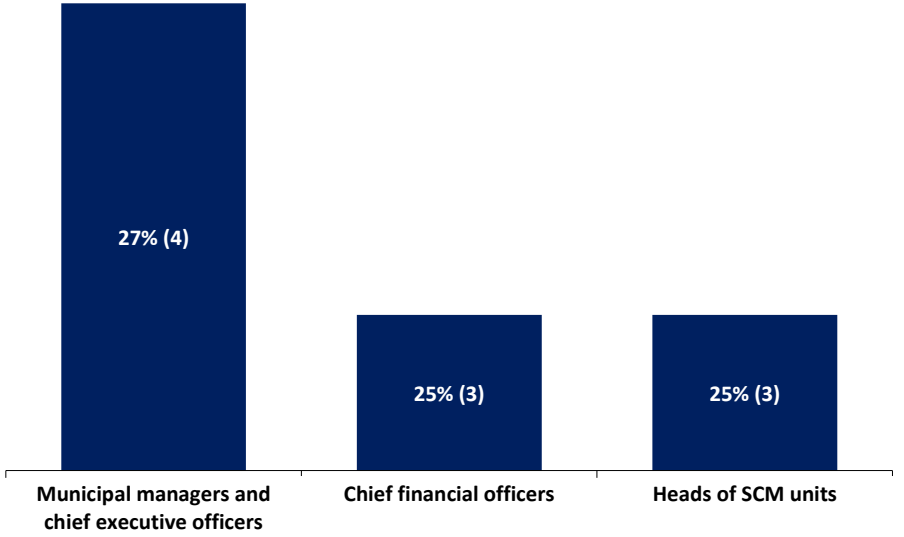


Figure 10 shows the percentage and number of auditees where key officials did not meet the competency levels defined in the regulations at year-end.

Municipal managers at four auditees and chief financial officers and heads of SCM units at three auditees did not have the minimum competency levels. Some

auditees have not assessed the competencies of these officials. All the municipalities whose municipal managers, chief financial officers and heads of SCM units did not meet the minimum competencies, applied for exemption from the National Treasury.

At four of the auditees, the accounting officers and senior managers had not signed performance contracts. This indicates that a culture of performance monitoring of key officials was still lacking at these auditees. All of these auditees had either disclaimed or qualified opinions.

Other findings on performance management were that policies and procedures were not in place to monitor, measure and evaluate staff performance. 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 will be dealt with decisively.

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

- Irregular expenditure was not investigated to determine if any person was liable for the expenditure at 10 auditees.
- Fruitless and wasteful expenditure was not investigated to determine if any person was liable for the expenditure at seven auditees.
- Unauthorised expenditure was not investigated to determine if any person was liable for the expenditure at six auditees.

This expenditure was not investigated, as the oversight bodies of the municipalities did not have sufficient knowledge of legislation.

As can be seen in figure 5, there has been an overall increase in these types of expenditure, mainly because there were no consequences for the officials responsible for the expenditure. Until such time as proper investigations are conducted and action is taken against transgressors, these types of expenditure will continue to increase.

Effective use of consultants

As in previous financial years, auditees continued to engage consultants to assist them with financial reporting.

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

Municipal officials lacked the required skills	76%
Positions were vacant	18%

The cost of consultants assisting with financial reporting was R56,3 million (2011-12: R40,4 million).

Figure 11: Audit outcomes of auditees assisted by consultants – financial reporting

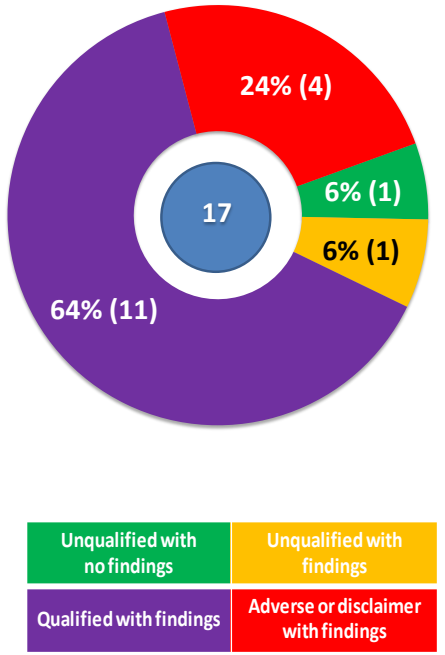
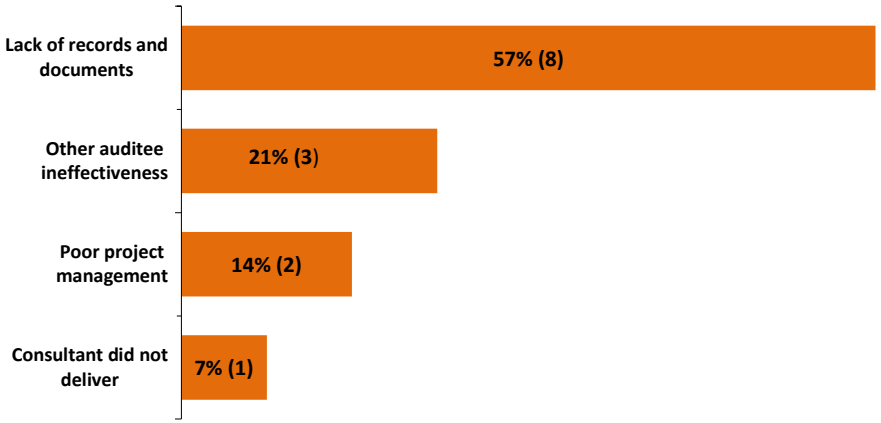


Figure 11 shows the audit outcomes of the 17 auditees (81%) that were assisted by consultants. The reasons why consultants did not have a positive impact on the audit outcomes of some auditees are shown below.

Figure 12: Reasons for material misstatements – financial reporting



Consultants focused mainly on producing financial statements that complied with the relevant accounting standards. However, a lack of proper records and documents and the poor quality of the underlying data used in the preparation of the financial statements negatively influenced the audit outcomes. Consultants were brought in to close the skills gap by preparing financial statements, but their scope was often extended to cover basic financial disciplines such as preparing bank reconciliations. This had a huge impact on the cost of consultants, as they also performed work that should have been performed throughout the year by municipal officials.

We are furthermore concerned about the following based on our review of the contracts and arrangements between auditees and consultants:

- Conditions or clauses relating to the transfer of skills were not included in contracts.
- Measures were not implemented to monitor the transfer of skills during projects.
- Consultants were appointed without conducting needs assessments.
- Consultants were not properly monitored.

To guarantee the effective use of consultants, auditees should ensure that a proper needs assessment is performed before appointing consultants. They should also fill existing vacancies to facilitate the transfer of skills by consultants. In instances where daily and monthly basic accounting disciplines are not performed throughout the year, auditees should consider engaging consultants to assist with improving the implementation and monitoring of these basic controls to ensure sustained improvements in the audit outcomes.

Information technology controls

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

Our audits included an assessment of the IT controls, and focused on IT governance, security management, user access management, and IT service continuity.

Figure 1 shows that little improvement has been made since the previous year in the number of auditees with audit findings on IT controls. Adequate progress has not been made in addressing previous findings, as risks remained in all of the focus areas (except IT governance), even though some corrective measures were implemented.

Figure 13: Status of information technology controls

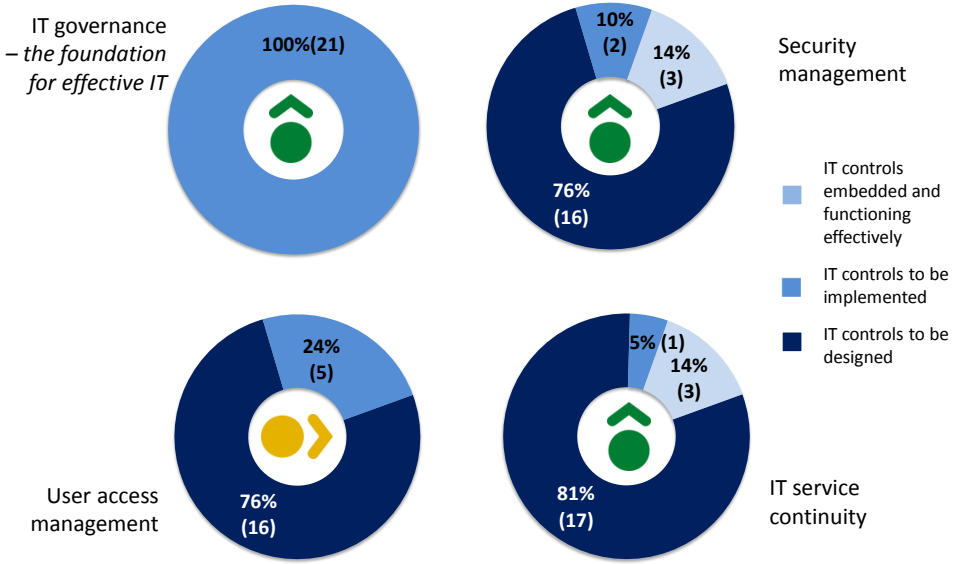


Figure 13 indicates the status of the controls in the areas we audited and the movement since the previous year. It shows the number of auditees where the IT controls were not in place (not designed), implemented or functioning effectively.

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

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

- **Security management**

  There was a lack of approved or adequate IT security and patch management policies, standards and procedures. The responsibilities of the information security officer had also not been formally delegated.

- **User access management**

  Adequate policies and procedures were not in place for the management of user access to the municipalities' systems. Formal user access request documentation was not completed for registering users, changing access rights, effecting password resets and terminating access rights.

- **Information technology service continuity**

  Business continuity plans and disaster recovery plans either did not exist or were inadequately designed. Backup standards and procedures were also inadequate.

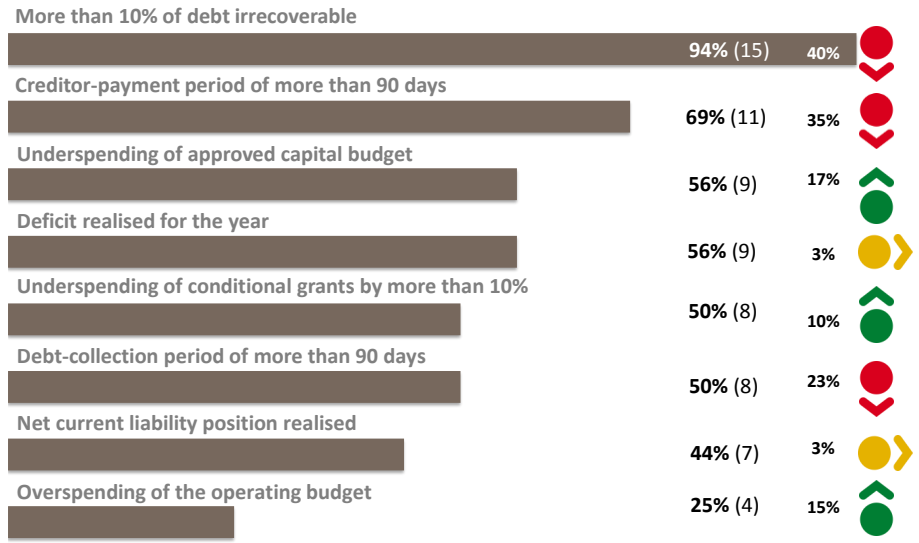
Management should prioritise the design and implementation of the above controls to lessen the risks of unauthorised access to systems, incomplete data, or the unavailability of IT systems in the event of major system disruptions or data loss.

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 are any events or conditions that may cast significant doubt on auditees' ability to continue as a going concern.

Figure 1 shows the number of auditees that had more than two of the indicators pointing to financial health concerns. No overall progress has been made by auditees to address findings on financial health since the previous year. Two auditees that previously had findings, had no findings this year; while three auditees with no findings in the previous period, regressed to having findings in the current year.

Figure 14: Areas of financial health concern



Six auditees realised a deficit for the year and their current liabilities exceeded their current assets. The National Treasury classified three of these municipalities as being in financial distress. These auditees continued to prepare their financial statements on a going concern basis, as the National Treasury approved their equitable share funding for the financial year ended 30 June 2014. In addition, these municipalities continued to levy rates and deliver other chargeable services to their communities.

Even though the number of auditees that underspent their capital budget and/or conditional grants or overspent their operating expenditure has improved slightly, the continued underspending of capital budgets and conditional grants, particularly the municipal infrastructure grant, contributed negatively to government's ability to meet its strategic goals of providing basic services to the poor and developing infrastructure. Eight of these auditees also incurred unauthorised expenditure, as they failed to take effective steps to prevent such expenditure, resulting in non-compliance with legislation.

The areas relating to the delayed payment of creditors, non-payment by service debtors and excessive write-off of debts have worsened since the previous year. Auditees did not have adequate processes to collect fees from service debtors

and to pay creditors on time. The inability to collect cash from service debtors resulted in the delayed payment of creditors and the use of money from the conditional and capital budgets to cover operational expenditure. In turn, this made it difficulty for municipalities to meet their service delivery targets. The delayed payment of creditors also contributed to the deteriorating culture of non-compliance with legislation.

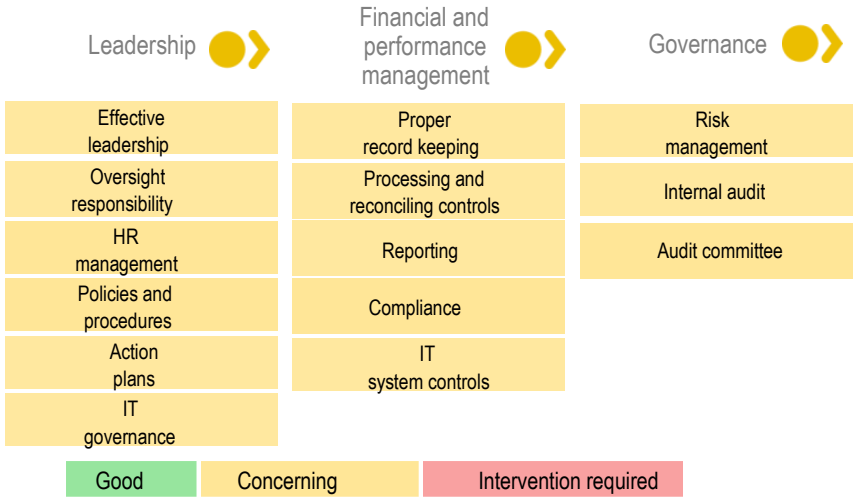
Auditees should consider the following to improve their financial health:

- Councils should ensure that municipalities properly prepare their budgets. Mayors should closely monitor the implementation of the approved budgets.
- Auditees should improve their planning to ensure, among other things, the timely appointment of service providers. They should also monitor infrastructure projects thoroughly to ensure that acceptable progress is made. This will improve the time taken to complete projects, resulting in an improvement in the quality of infrastructure and better access to water, sanitation and electricity. In turn, this will increase the revenue generated from services and the debt-collection rate.
- Auditees should monitor the implementation of debt-collection policies and practices.
- Auditees should improve processes to monitor creditor invoices for payment and to follow up any delays.

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.

Figure 15: Status of drivers of key controls



Figures 1 and 15 show the status of the different areas of control and the overall movement since the previous year. Unfortunately, the situation has not improved and continued to be assessed as concerning. This was mainly as a result of auditees not maintaining their daily disciplines, leading to fewer auditees in the financially unqualified category. The following are the three control areas that still require the most attention:

- Proper record keeping and reconciling controls
- Credible and regular reporting on both financial and performance matters
- Monitoring compliance with legislation

A total of 19 of the 21 auditees failed to obtain clean audit opinions because their financial and performance reports were of a poor quality and they had high levels of non-compliance with legislation. Root causes identified in the previous year continued to cause modified outcomes and weak controls in local government.

The political and the administrative leadership have made slow progress in implementing recommendations to address the root causes reported in the previous year.

The most common root causes of poor audit outcomes, as shown in figure 1, and recommendations to address them are discussed below.

Lack of consequences for poor performance and transgressions

Detail of root cause

This continued to be the main cause of poor audit outcomes in the province, and was identified as a root cause at 76% of the auditees (2011-12: 57%).

The performance management system in local government had been implemented at senior management level. Other staff members were not held accountable for poor performance, as the performance of staff on lower levels was not managed. Even though performance agreements were signed at senior management level, the performance assessments of individual senior managers still required improvement. Auditees failed to investigate unauthorised, irregular as well as fruitless and wasteful expenditure to determine if any person was liable for the expenditure, resulting in non-compliance with legislature. This created a culture where poor performance was tolerated.

Recommendations

- A performance management system should be designed and implemented for all employees, and line managers should regularly evaluate individual performance.
- The performance of senior management and accounting officers should be evaluated and proper action taken against poor performance.
- Management should take decisive action against poor performers and transgressors.

Slow response by the leadership to address the root causes of poor audit outcomes

Detail of root cause

This was identified as a root cause at 71% of the auditees (2011-12: 79%). The slow response by the leadership is evidenced by the fact that even though we had engagements with them (including the mayors and senior management) to discuss matters affecting the auditees, the audit outcomes did not approve. Senior management did not adequately monitor the implementation of action plans, or written commitments were not obtained. Measures to address the root causes of findings reported by various assurance providers, including the internal and external auditors, were not implemented or were implemented too late.

Recommendations

- Councils, municipal public accounts committees (MPACs), members of the mayoral committees as well as mayors, accounting officers and senior managers should be more involved in the monitoring of key governance matters and related internal controls.
- Accounting officers and senior managers should take responsibility for guiding and directing the development and performance of the system of internal control.
- The leadership should hold officials accountable for not implementing the recommendations of the internal audit unit, external auditors and other assurance providers.

Key positions vacant or key officials lacking appropriate competencies

Detail of root cause

This was identified as a root cause at 57% of the auditees (2011-12: 53%). A big challenge in local government was to attract and retain qualified personnel. This was made worse by delays in filling vacancies and key positions being occupied by staff who did not have the necessary competencies. In certain instances, officials in key positions had the necessary academic qualifications but lacked key competencies to perform their tasks. Although four vacant municipal manager and three vacant chief financial officer positions were filled during the current year, vacancies and instability in key positions led to inadequate monitoring of key controls and poor performance management, resulting in a weak control environment.

Recommendations

- All vacant municipal manager and chief financial officer positions should be filled with officials with the necessary competencies and experience. Senior management should fill all critical positions within their units with qualified and competent officials.
- A skills audit should be conducted of all officials occupying critical positions, and gaps identified should be addressed through training. The implementation of lessons learned during training should be monitored.

The level of assurance provided by key role players needs to 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 are not providing 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 SCM unit, provided only some assurance, as not all basic financial and performance controls had been fully implemented.

The poor status of internal controls, as reported in figures 1 and 15, indicates that inadequate assurance was provided and the control environment continued to weaken. The assessment of senior management is based on the persistent instances of material non-compliance with legislation, modified audit opinions and poor-quality performance reports.

It is concerning that senior management's representations to us at the start of each audit continued to be unreliable, while the quality of the financial statements and performance information submitted for auditing remained poor.

Senior managers are the first level of assurance in the internal control environment and should ensure that information supplied to the accounting officer and executive authority for decision-making is reliable. Senior management should therefore design and monitor daily and monthly disciplines in this regard. Senior management's failure to implement the recommendations of internal and external auditors further weakened the control environment. Accounting officers and mayors could thus have made incorrect decisions based on unreliable information.

To improve the assurance provided by senior management, they should focus on the following, among others:

- Implement performance management systems for all officials to instil accountability at all levels. Line managers should properly assess all of their employees.
- Regularly monitor adherence to basic financial disciplines.
- Implement the recommendations of the internal audit unit, audit committee, provincial treasury and external auditors, and report progress to the accounting officer and mayor.

Accounting officer

Accounting officers and authorities are responsible for auditees' internal controls, including leadership, planning, risk management, 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.

The level of assurance provided by the accounting officers has regressed since the previous period. The assessed level that only some assurance is provided is evidenced by continued vacancies in key positions, mostly at this level, as well as inadequate monitoring of action plans to improve weaknesses in the control environment.

The accounting officers should focus on the following, among others, to improve this situation:

- Oversee financial and performance reporting and compliance.
- Implement effective HR management to ensure that adequate and sufficiently skilled staff members are employed.
- Set the correct tone to improve the performance and productivity of staff by implementing sound performance management processes, evaluating and monitoring performance, and imposing proper consequences for poor performance.
- Play a leading role in implementing and monitoring the recommendations of other assurance providers.

Mayor

Mayors have a monitoring and oversight role at municipalities and municipal entities. They have specific oversight responsibilities in terms of the MFMA and the Municipal Systems Act (MSA), which include reviewing the integrated development plan and budget management as well as ensuring that auditees address the issues raised in audit reports.

Mayors can bring about improvements in the audit outcomes of their auditees by being actively involved in key governance matters and managing the performance of the accounting officers and authorities.

The level of assurance provided by mayors is slightly better than that of senior management and accounting officers, but has unfortunately regressed from the previous period. Engagements with mayors did not yield any positive results, as

some mayors did not make clear and specific commitments on how to monitor their accounting officers, or they were slow in honouring the commitments made.

For auditees to move forward, mayors should focus on the following, among others:

- Hold accounting officers and senior management accountable for poor performance and transgressions.
- Effectively oversee the status of key controls.
- Ensure that all issues raised by the external auditors are addressed to ensure compliance with the MFMA.

Internal audit

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 operations of most internal audit units complied with relevant legislation. However, our assessment indicates that only 14% had a positive impact on the audit outcomes. Inadequate resourcing of internal audit units and management failing to implement internal audit recommendations continued to weaken the effectiveness of these units. One auditee did also not have an internal audit unit during the period under review.

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, 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.

Overall, the assurance provided by audit committees did not have an impact on the audit outcomes of the province. Audit committees depend on the reliability and credibility of information submitted by senior management and internal audit units. The level of assurance provided by the audit committees was thus affected by the poor assurance provided by these other two role players. Furthermore, management did not take the recommendations of the audit committees seriously.

Audit committees should escalate the challenges relating to inadequate budgets and resourcing of internal audit units and the failure by management to implement audit committee and internal audit recommendations to the council through their quarterly reports.

Provincial treasury, premier's office and provincial department of cooperative governance

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

The provincial departments that have a direct role to play in supporting and monitoring local government, and thereby providing a level of assurance, are the provincial treasury, the provincial department of cooperative governance and the premier's office. 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 was assessed as providing only some assurance, based on the following:

- The support provided by the treasury was not adequately structured to identify early warning signals of possible weaknesses at municipalities and to proactively prevent such weaknesses.
- The treasury provided support to municipalities in the form of guidance, practice notes, documents and circulars, but these were not accompanied by support strategies to prevent instances of non-compliance. Such strategies would assist the treasury in identifying early warning signals and implementing corrective measures in advance.
- The support currently provided to municipalities was not effectively monitored to ensure its success and sustainability.

We assessed the support of the provincial department of cooperative governance as limited, as the department failed to comply with certain provisions of the MFMA in supporting municipalities. The department did not assess whether municipalities adequately addressed the issues raised in our audit reports, resulting in repeat findings at most municipalities. The department also delegated some of its MFMA responsibilities to the provincial treasury without adequate monitoring.

In the previous general report, we raised a concern over the lack of collaboration between the provincial department of cooperative governance and the provincial treasury in supporting local government. We would again like to stress the importance of collaboration between the two departments to ensure the effective use of resources to improve audit outcomes.

The provincial department of cooperative governance established an operation clean audit unit to assist municipalities to achieve clean audits by 2014. Unfortunately, this has not been effective, as regular meetings were not held during the year under review.

We assessed the premier's office as providing limited assurance, as most of their initiatives to assist local government were implemented too late in the year to have a meaningful impact on the audit outcomes. In addition, the inadequate monitoring of these initiatives weakened their effectiveness.

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.

MPACs were introduced as a committee of the council to deal specifically with the municipality's annual report, financial statements and audit outcomes, and to improve governance, transparency and accountability. The MPAC is an important provider of assurance, as it needs to give assurance to the council on the credibility and reliability of financial and performance reports, compliance with legislation as well as internal controls.

The level of assurance provided by most councils and MPACs was not yet at the required level to have a positive impact on the audit outcomes. MPAC members struggled to understand, and most municipal councillors did not have the required expertise to effectively fulfil, their oversight role. In addition, insufficient resources to support the members and a lack of cooperation by accounting officers and senior management weakened the effectiveness of MPACs.

For MPACs and councils to provide the required level of assurance, the following recommendations should, among others, be implemented:

- Further training should be provided to councillors to enable them to fully understand and play the role expected of them by both legislation and the citizens in their constituencies.
- Municipalities should focus on strengthening the resources of MPACs by, for example, providing researchers to assist members with information.
- Accounting officers and senior management should submit quarterly reports to MPACs on the implementation of resolutions and respond timeously to other MPAC requests.
- Councils should insist, through their speakers, on receiving regular and credible information on the status of the finances and activities of their municipalities.
- Councils should take timeous action in instances of identified weaknesses or failure by management and staff to cooperate with MPACs.

Provincial legislature and portfolio committee on cooperative governance

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 cooperative governance.

The legislature and portfolio committee did not provide the required level of assurance to positively influence the audit outcomes. They have started with some programmes to assist municipalities through the revival of the speakers' forum and the establishment of a branch of the provincial Association of Public Accounts Committees, chaired by the provincial speaker and the chairperson of the standing committee on public accounts, respectively. One of the main responsibilities of the provincial branch of the Association of Public Accounts Committees is to ensure that MPACs are provided with resources to assist them in executing their mandate, such as researchers and funds. This platform will also be used for continuous training and knowledge sharing. Both these forums are expected to improve the oversight role played by councils and their committees.

The standing committee on public accounts held regular hearings with the provincial departments of cooperative governance and of finance as well as the premier's office during the year under review, to assess the progress made by these departments in supporting local government.

District municipalities

We did not specifically assess the assurance provided by district municipalities in terms of the audit outcomes, but believe that they can help improve the governance of their local municipalities. The district municipalities in the province experience less capacity challenges than the local municipalities, as evidenced by the good quality of their financial statements and performance reports. However, Nkangala District Municipality had weaknesses in the quality of performance reporting, as they had failed to implement our previous recommendations.

The role played by district municipalities is limited to providing a platform for local municipalities to share their experiences and knowledge through various forums, such as the chief financial officers' forum, mayoral forum and accounting officers' forum. Gert Sibande and Nkangala District Municipalities further assisted their municipalities with infrastructure development, by donating infrastructure assets to local municipalities upon completion.

The initiatives and commitments of all role players should have a positive impact on future audit outcomes

Accounting officers and authorities, mayors, councils and municipal public accounts committees

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

Figure 16: Interactions with mayors

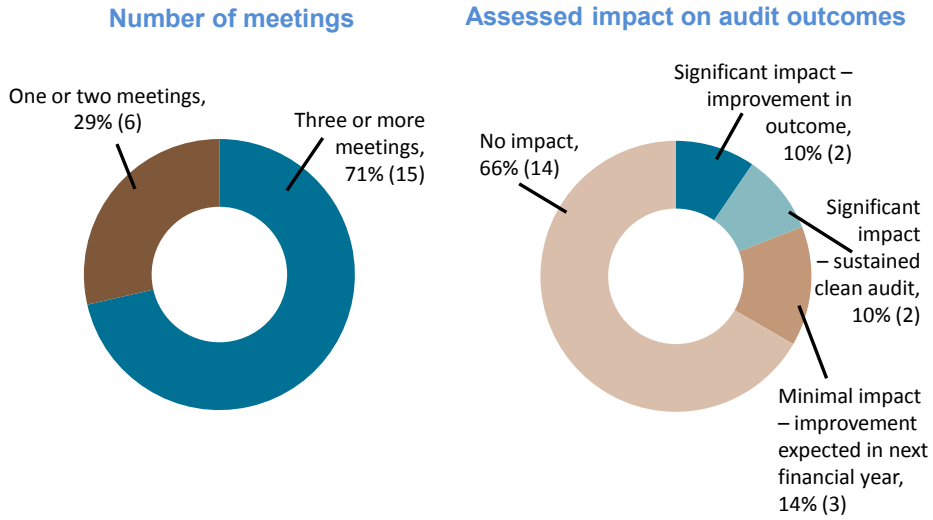


Figure 16 shows the number of meetings we had with mayors during 2012-13 and our assessment of the impact of these interactions. Despite meeting with the mayors three times or more at 71% of the auditees, this still did not have a positive impact on the overall results. The improvements achieved by some auditees through the intervention of mayors were unfortunately negated by the regression of other auditees, which resulted in a net regression in the overall provincial outcomes.

Throughout the year, we obtained and monitored the commitments of mayors, councils and MPACs 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 are included in the section on the audit outcomes of individual municipalities.

Mayors showed their commitment by meeting with us, but obtaining written commitments to address internal control weaknesses remained a challenge. Slow progress in honouring the commitments made by mayors weakened the impact of our interactions with them. Until such time as auditees take internal control seriously and honour their commitments to rectify weaknesses, the audit outcomes of local government will not improve.

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 furthermore confirmed the progress of the commitments made by these role players in response to the previous year's audit outcomes. The commitments and their progress as well as their impact on the audit outcomes are discussed in more detail below.

Provincial treasury

Previous commitments included the following:

- Develop an evaluation checklist to monitor the effectiveness of internal audit units and audit committees through quarterly assessments.
- Facilitate training sessions and workshops on SCM practices.
- Establish a dedicated unit to assist municipalities on site with financial management requirements.
- Improve the availability of quality documents to support financial statements and management information (guidelines and monitoring).
- Hold monthly chief financial officers' forums to monitor the provincial clean audit strategy against milestones.

The provincial treasury complied with legislation to support municipalities and progress has been made in honouring the above commitments, with the exception of the one on monthly chief financial officers' forums. However, none of these initiatives had a positive impact on the audit outcomes of municipalities, as the roles of officials deployed to support municipalities were not clearly defined. Adequate processes were also not in place to monitor and assess the performance of these officials.

The provincial treasury issued guidelines and circulars, but their implementation was not adequately monitored. Furthermore, the provincial treasury did not have

clearly documented processes to report municipalities that were not supporting initiatives or participating in programmes to their mayors, the relevant member of the executive council and the premier.

The provincial treasury made a commitment to strengthen its capacity to support municipalities by firstly reviewing the current skills composition within support units with the intention of pairing the nature of support provided to municipalities with the appropriate skills. They also undertook to clearly define the role and expectations of the municipal specialists before they are deployed at struggling municipalities, which would improve the performance monitoring of these resources. Quarterly MINMEC meetings, consisting of the member of the executive council for finance, members of the mayoral committees responsible for finance, chief financial officers and heads of internal audit units from the various municipalities, were initiated during the year under review. These meetings would be strengthened to monitor the progress made by municipalities in addressing financial and audit-related internal weaknesses identified by us and the provincial treasury. The resolutions taken at MINMEC together with the progress made by municipalities are tabled at the quarterly cooperative governance MUNIMEC meetings, which consist of the member of the executive council for cooperative governance, mayors and municipal managers.

Provincial department of cooperative governance

Previous commitments included the following:

- Monitor progress of officials made available to assist with operation clean audit.
- Implement the remedial action plan developed to address shortcomings identified during the gap analysis.
- Conduct a skills audit of officials in key positions.
- Strengthen capacity to implement the operation clean audit strategy at all leadership levels and report on the activities of the operation clean audit committee each quarter.

The department made progress in honouring these commitments. However, they did not have a positive impact on the audit outcomes, as they were not adequately monitored during the year and some were still in progress at year-end.

The department is committed to addressing the skills challenge in its municipal finance unit, including finalising the appointment of the head of the municipal support programme to ensure the effective implementation of the programme's strategic initiatives.

Monthly operation clean audit meetings have been revived to follow up on the progress made by municipalities to address our findings. As stated above, the progress made by municipalities is presented at quarterly cooperative governance MUNIMEC meetings.

Premier's office

Previous commitments included the following:

- Add suppliers linked to officials to the prohibited supplier database.
- Take steps against officials who transgressed SCM legislation.
- Establish a premier's coordinating forum to be attended by the premier, provincial department of cooperative governance, provincial treasury, mayors, municipal managers and chief financial officers.
- Establish the provincial executive committee outreach where specific municipalities are visited and assisted in addressing their financial management challenges.
- Review the quality, implementation and monitoring of municipalities' action plans, especially those municipalities that continue to receive disclaimed, adverse and qualified opinions.

The premier's office has been slow to implement these commitments. They intervened at some municipalities where early warning signs were identified during the year, including placing two municipalities who previously had disclaimed audit outcomes on administration in terms of section 139 of the MFMA. However, these interventions were introduced too late in the year to have a positive impact on the audit outcomes. In addition, the inadequate monitoring of initiatives and action plans weakened the effectiveness of the commitments.

The premier's office made a further commitment to continue with the quarterly premier's coordinating forum meetings to monitor the progress made by the provincial support structures as well as municipalities. This forum gives the provincial department of cooperative governance an opportunity to provide feedback on the progress made by MUNIMEC.

The premier's office once again made a commitment to monitor the effective collaboration of coordinating departments, including the South African Local Government Association, district municipalities and other stakeholders such as the National Treasury and the Municipal Infrastructure Support Agent. This would eliminate the duplication of efforts and improve the effectiveness of the support provided to municipalities.

Speaker and provincial legislature

Previous commitments included the following:

- Attend meetings of the municipal finance group committee that meets quarterly with the leadership of individual municipalities on matters raised in management and audit reports.

- The speaker to convene quarterly meetings with the provincial oversight group, consisting of the chairpersons of oversight committees relating to local government, to monitor areas that stand in the way of achieving results.
- Develop an induction training and continuous further development programme to empower councillors to fulfil their responsibilities.

Slow progress has been made with the implementation of these commitments.

Portfolio committee on cooperative governance

Previous commitments included the following:

- Intensify the monitoring of support given to municipalities.
- Establish a joint oversight committee to monitor the oversight role of councils.
- Analyse and visit all municipalities with adverse, disclaimed and qualified audit opinions to monitor the progress of resolutions.

The committee started looking at the first two commitments during the year under review.

Summary of common commitments and recommendations

As outlined in this report, most auditees are still struggling with the quality of their financial statements and performance reports as well as compliance with legislation. Our message continues to focus on the strengthening of key internal controls and the effective use of the internal audit unit and the audit committee. We are confident that if the political and the administrative leadership intensify their efforts in addressing the matters discussed above, the audit outcomes of local government in the province will drastically improve. The following is a summary of the most common commitments and recommendations made in this report:

- Municipalities should ensure that accurate and complete financial and performance reports are regularly prepared and audited by the internal audit unit. The audit committee should review these reports at quarterly meetings.
- The leadership should design and effectively implement a credible performance management system and regularly evaluate the performance of staff. Poor performers should be dealt with decisively.
- Daily and monthly controls and reviews should be established across all disciplines within all municipalities. The implementation of these controls should be strictly monitored until they are institutionalised.
- The councils should be actively involved in ensuring that management develops a credible action plan to address audit findings. The councils should also continuously monitor the progress of the implementation of this plan, and hold management accountable for a lack of progress.
- The implementation of the recommendations of various role players, including those of internal audit units, audit committees, members of the mayoral committees, MPACs and councils, should be tracked and monitored monthly.

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

The state of municipal infrastructure is a crucial element to ensure service delivery to all communities in South Africa. 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 services

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

As local government is responsible for providing water and sanitation services, this function lies with municipalities that have been classified as water services authorities. There are 19 water services authorities in the province.

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

We identified some warning signs that could have a serious impact on municipalities' ability to provide a large portion of the province's population with clean water and proper sanitation. The leadership must urgently pay attention to the following to ensure that government's objectives relating to water and sanitation are achieved:

- Six auditees did not adopt a water services development plan.
- The backlog in the provision of basic water and sanitation will not be eliminated in 2014.
- Four auditees did not include access to basic water and sanitation as a key performance indicator.

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

Roads infrastructure

In terms of the Constitution, the functions and powers relating to roads lie with those municipalities classified as roads authorities. There are 19 roads authorities in the province.

The condition of roads has an impact on all citizens and, as such, poor road conditions create challenges for many with unnecessary time delays, increased transportation costs, and reduced access to education, health care and social services.

We identified some warning signals that could have a serious impact on municipalities' ability to provide people with proper roads. The leadership must urgently pay attention to the following to ensure that government's objectives relating to roads are achieved:

- Auditees did not have a roads maintenance plan to indicate the strategy to be followed.
- There were no plans to address the backlog relating to roads infrastructure.
- Auditees did not have a roads asset management system.
- Auditees did not have an approved policy on roads infrastructure.

AUDIT OUTCOMES OF INDIVIDUAL MUNICIPALITIES

Demographics and audit outcomes of municipalities

This section of the report firstly illustrates statistical information for the province as a whole as well as information on the district municipalities. 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 Mpumalanga 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 depicts the audit outcomes of municipalities. This graphic analyses information that we have audited and gives an overview of the following:

- Movement in audit outcome
- Drivers of key controls
- Assurance level provided by different role players
- Progress made in addressing risk areas
- Root causes to be addressed
- Status of key commitments by the mayor

The narrative following the graphics puts into context the information in the second graphic by summarising the status of the municipality's audit outcome and providing the way forward.

MPUMALANGA PROVINCE

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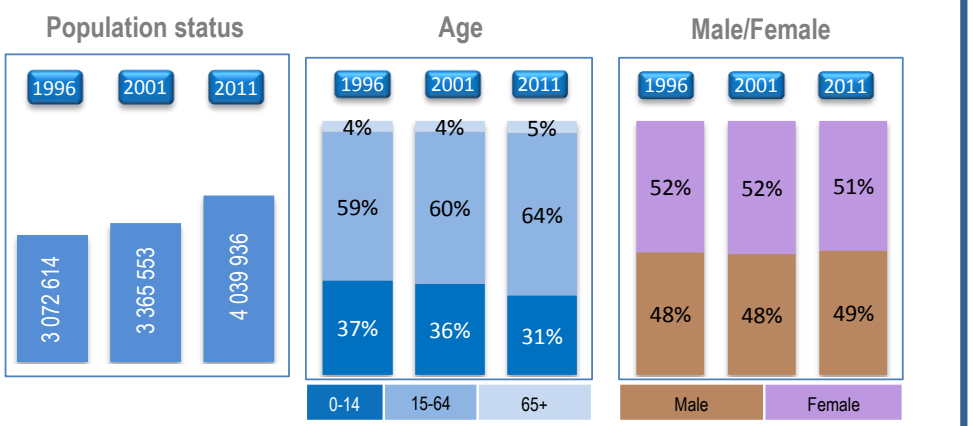
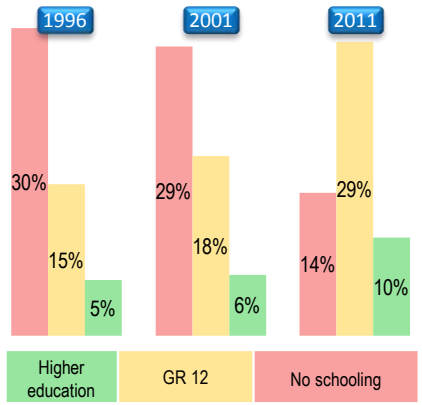
Population

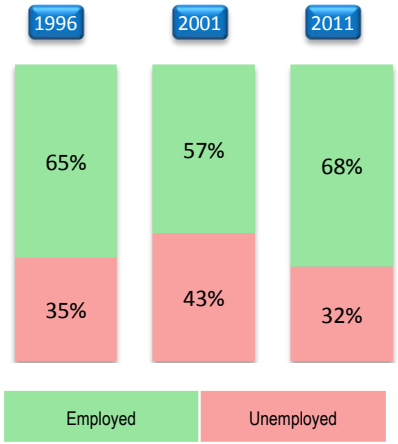


Education

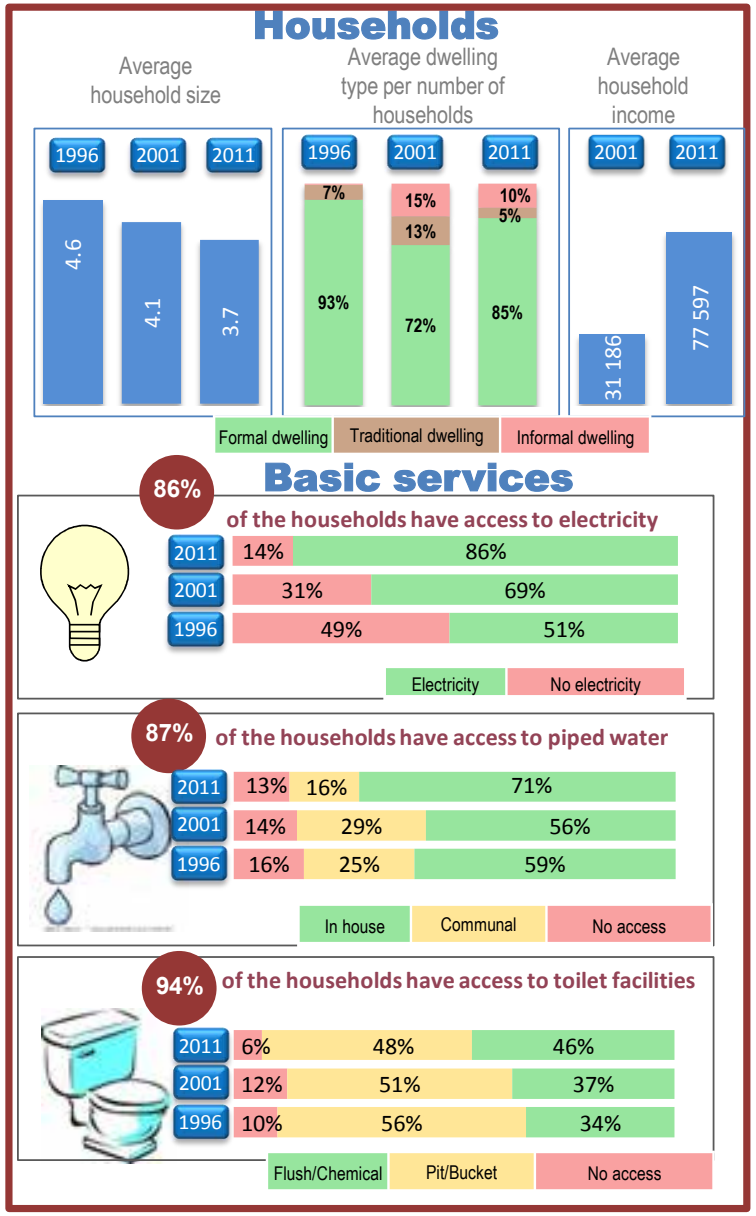


The statistics depicted above do not reflect those who only did partial primary or secondary schooling. The graphic therefore does not add up to 100%.

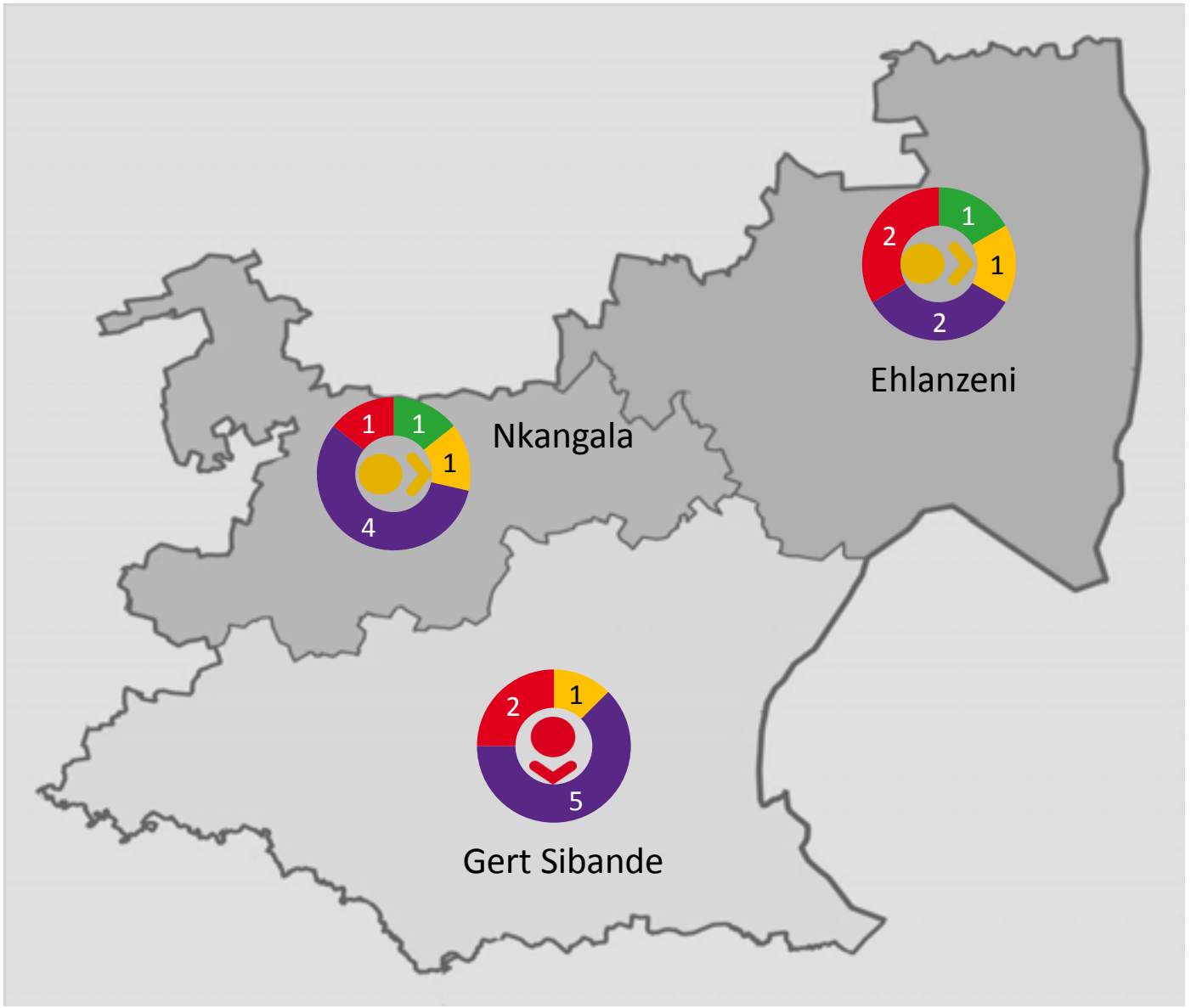
Labour



Households



Municipal audit outcomes per district



- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse or disclaimer with findings
- Audits outstanding

- Improved
- Stagnant or little progress
- Regressed

Ehlanzeni District

EHLANZENI DISTRICT

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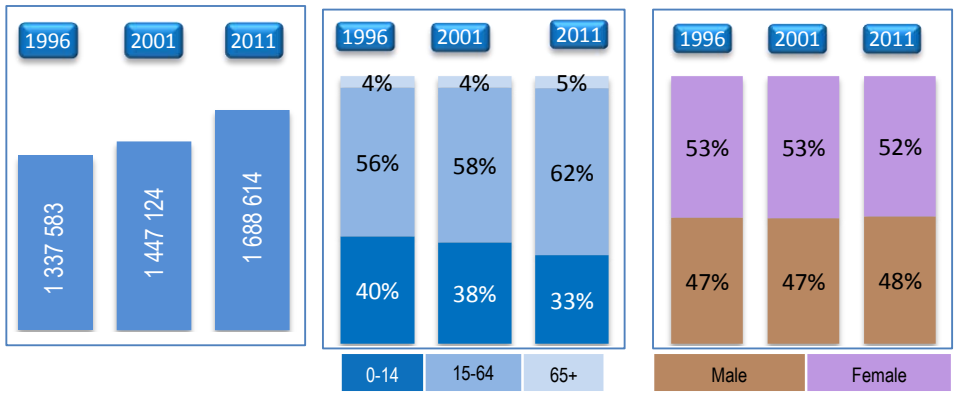
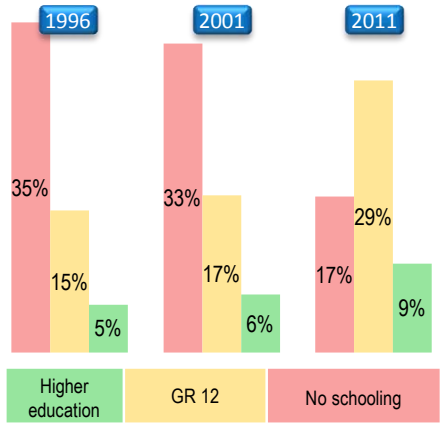
Population



Education



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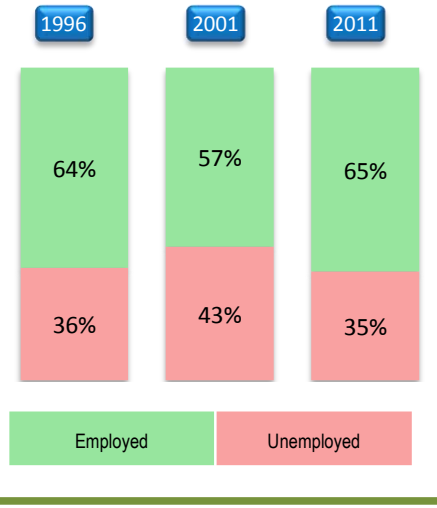
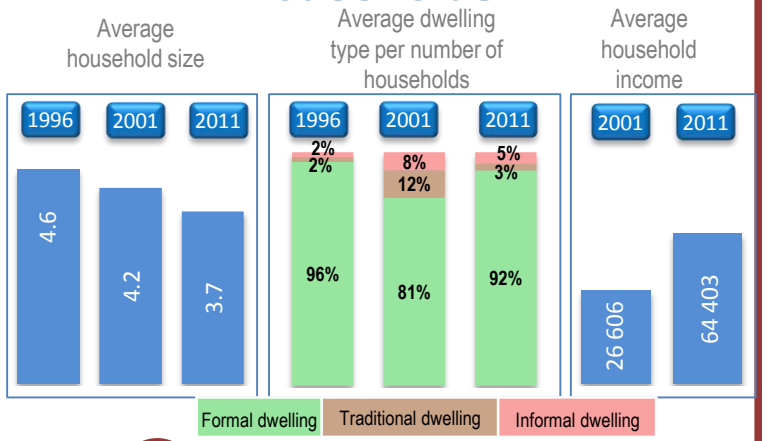
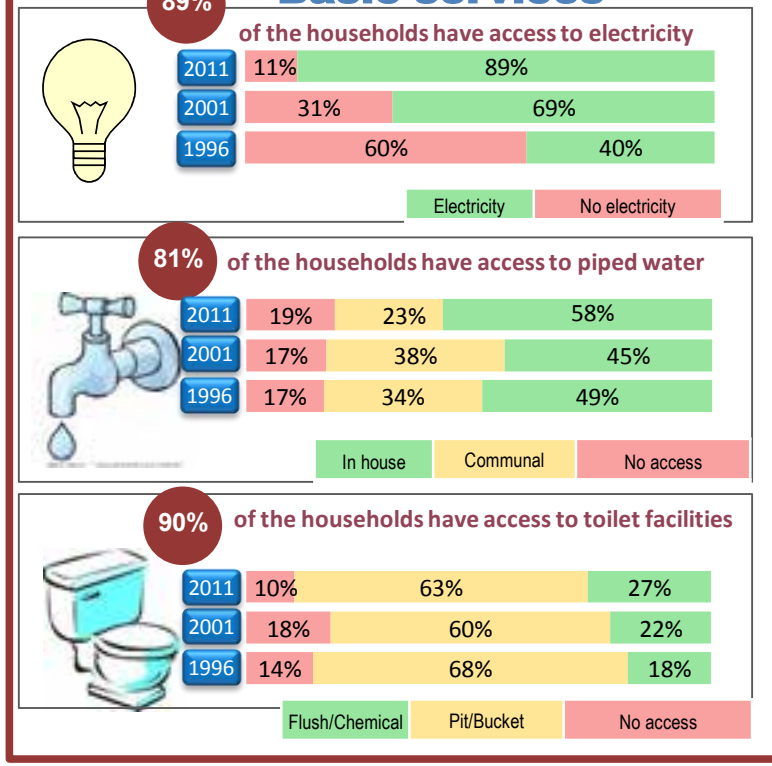
Labour



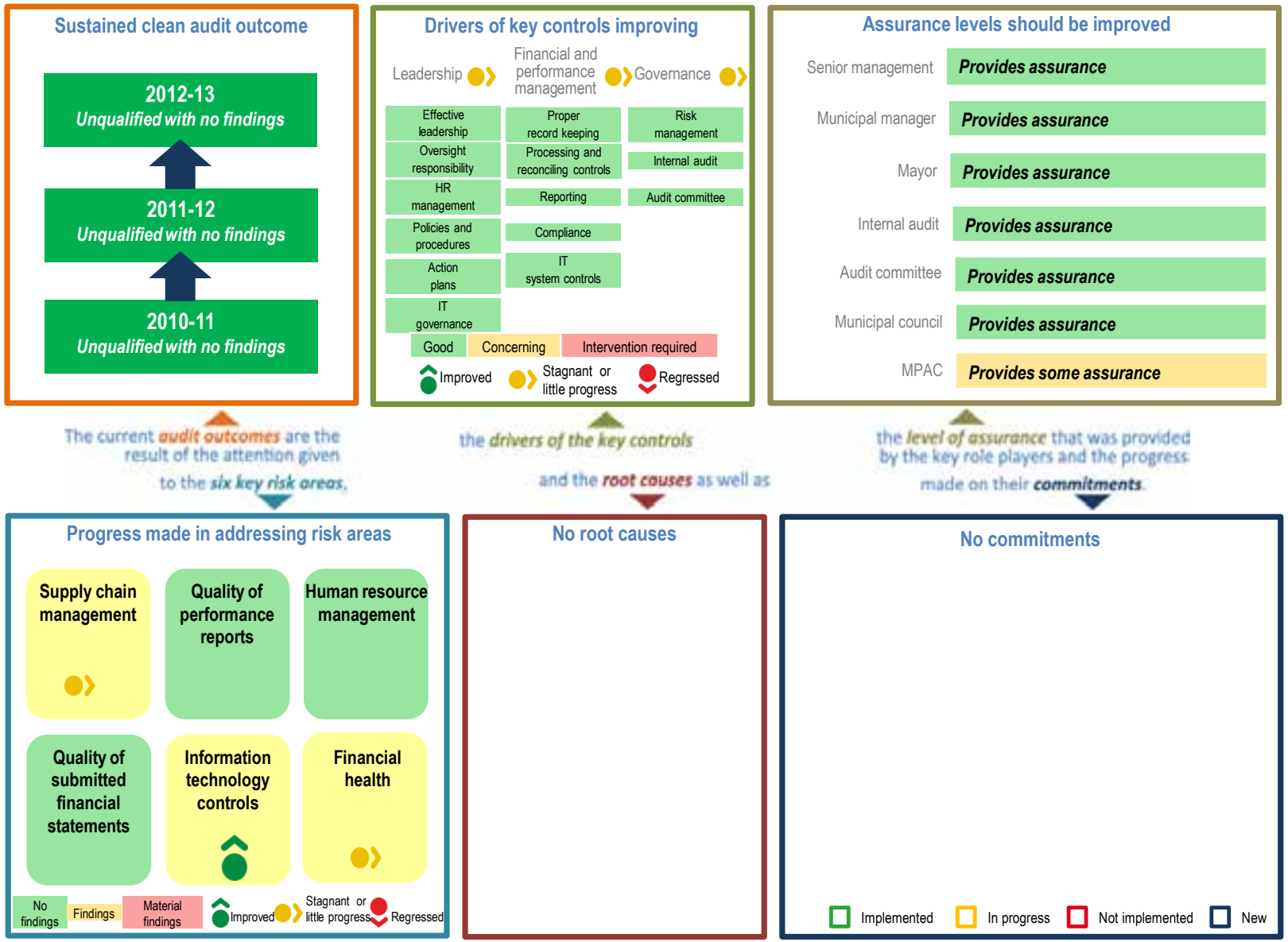
Households



Basic services



Ehlanzeni District Municipality



Current year audit outcome: ■ *Ehlanzeni District Municipality*

Sustained clean audit outcome

The municipality sustained its financially unqualified outcome with no matters.

The municipality did not rely on the services of consultants to assist with the preparation of financial statements.

Key risk areas

The municipality maintained political and administrative stability. The municipal manager, chief financial officer and other senior managers had been at the municipality for more than three years, have relevant experience and skills, and collectively established a good system of internal control.

The relationship between the administrative and the political leadership, specifically the mayor, was sound and they worked towards a common goal. The municipality had a capacitated internal audit unit, complemented by a skilled audit committee.

The internal audit unit audited quarterly predetermined objective reports and made recommendations in this regard. The municipality acted on the recommendations of both the internal audit unit and the audit committee.

The municipality had findings relating to SCM in the management report. We will continue to highlight this, as it could influence future audit outcomes. The municipality has implemented an action plan to strengthen the SCM controls.

Key controls and root causes

Key controls are in place and the control environment supports reliable financial and performance reporting and compliance with legislation as follows:

- The municipality, including the council, oversees financial and performance management.
- The staff base is made up of skilled officials who have the required knowledge to ensure that the municipality maintains a sound internal control system.
- There is stability in the leadership of the municipality and a culture of financial management is instilled within all sections of the municipality.

Impact of key role players on audit outcomes

All role players provided the relevant assurance for their respective responsibilities and therefore worked collectively to strengthen the control environment.

The audit committee met quarterly and discussed internal audit reports, performance information and financial issues. The audit committee also made and followed up recommendations.

The internal audit unit was fully staffed and operated effectively.

Risk assessments were done each year and an audit plan had been drawn up. The audit committee had approved the internal audit plan.

We met with the mayor three times during the financial year. The mayor and the municipal manager had a good working relationship.

The council paid attention to all the matters brought to its attention.

The MPAC was new but determined to play its part.

BUSHBUCKRIDGE MUNICIPALITY

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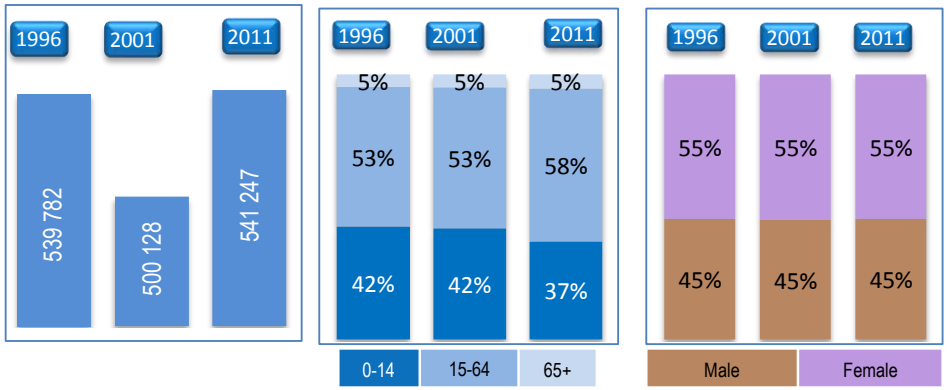
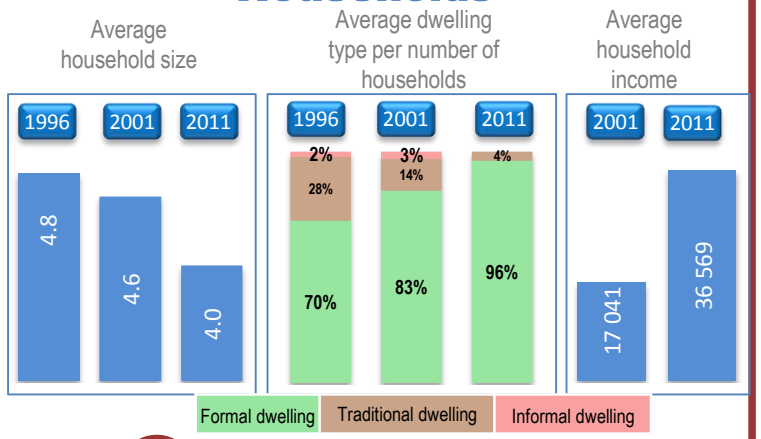
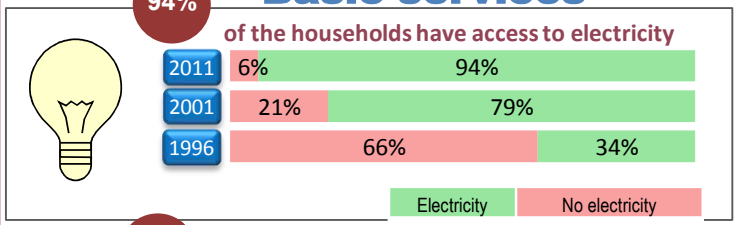
Population

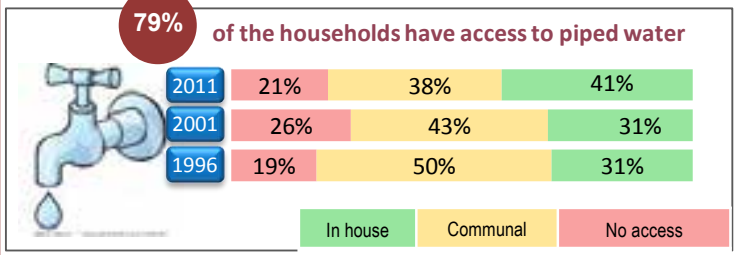


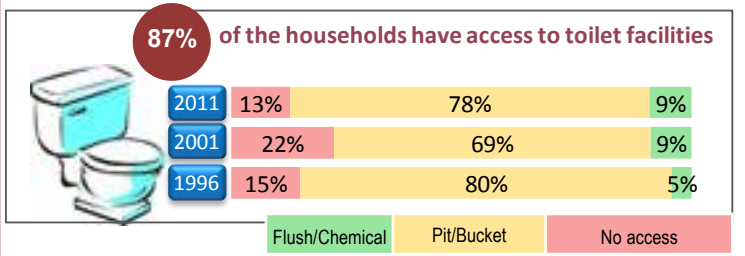
Households



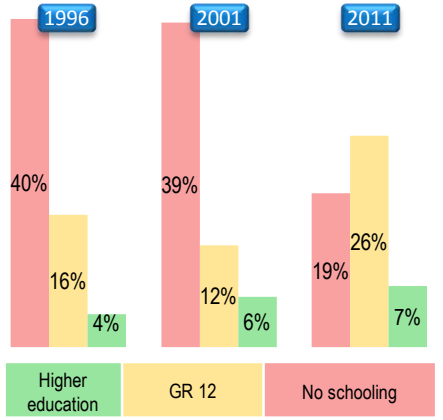
Basic services







Education



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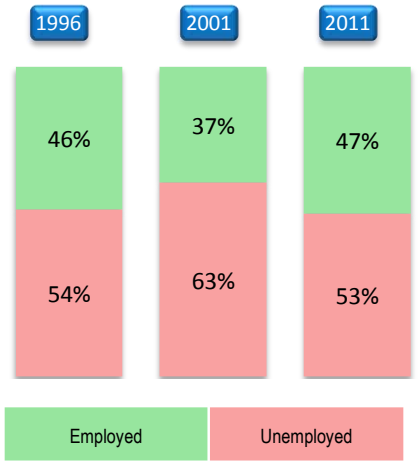
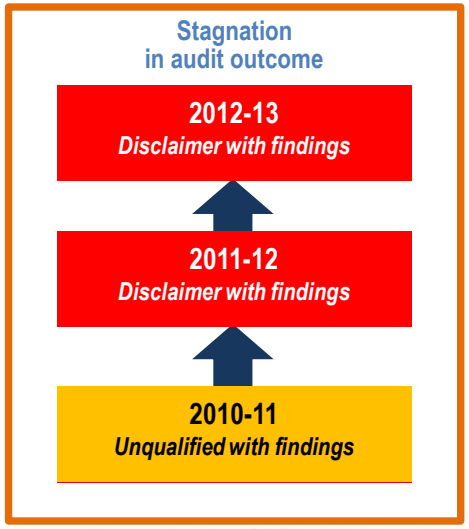
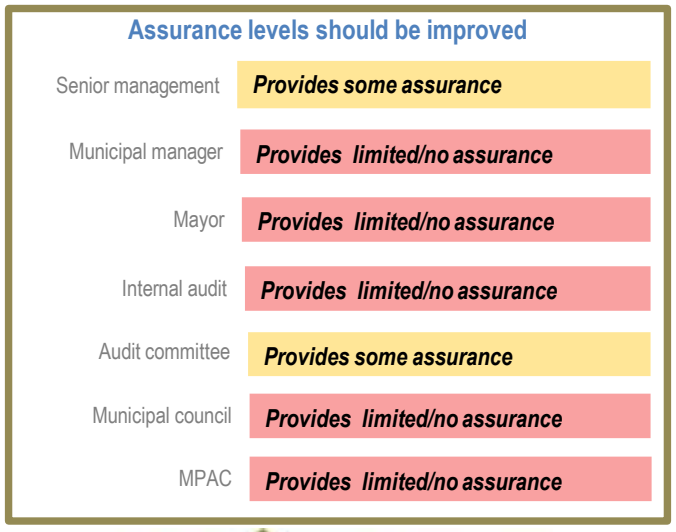
Labour



Bushbuckridge Local Municipality

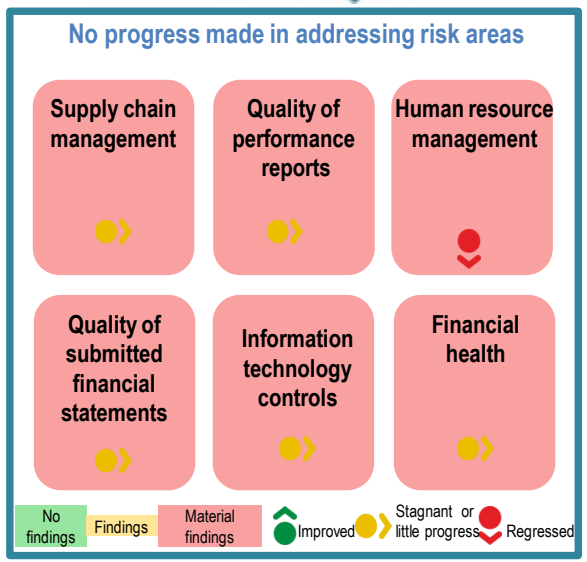


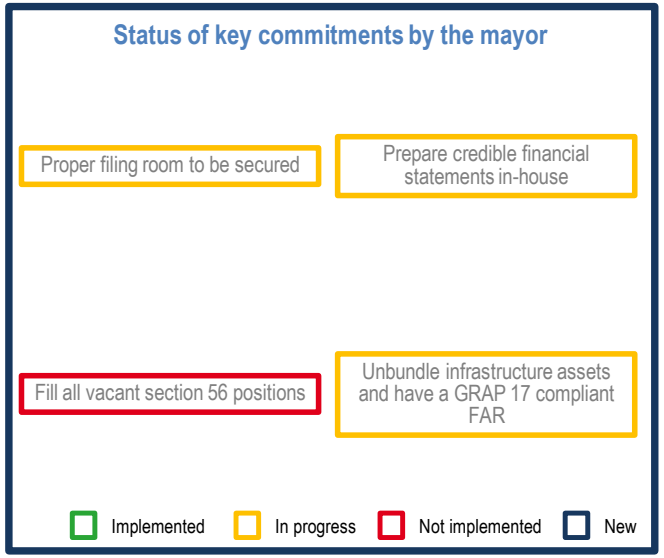


The current *audit outcomes* are the result of the attention given to the *six key risk areas*,

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*.





Current year audit outcome: Bushbuckridge Local Municipality

No change in audit outcome

The stagnant audit outcome was caused by prolonged vacant positions in key management positions (including that of the chief financial officer), which created leadership instability. In addition, the municipality was placed under administration. Staff members lacked financial skills and knowledge of basic accounting principles, while inadequate record keeping remained a major challenge. The accounting system could still not generate reports for individual debtors, resulting in a repeat finding.

The municipality continued to rely on the services of consultants to assist with the preparation of financial statements, at a cost of R8 395 951 (2011-12: R7 185 230).

Six key risk areas

The reported performance information was not supported by credible documentation, as the line managers responsible for service delivery did still not fully understand this requirement.

Section 56 manager positions were not filled, resulting in officials acting in these positions. These officials lacked commitment, skills and competencies. Financial staff were not properly trained in, and knowledgeable of, basic accounting principles or the requirements of Generally Recognised Accounting Practice and its implementation. The municipality depended too much on consultants as a result of unfilled vacancies. Consultants were not effectively managed and did not transfer skills, resulting in the continued dependence on them.

The poor quality of the financial statements and performance report submitted for auditing was a symptom of the weak control environment, as information that was not credible was used to prepare the financial statements and performance report. Review processes were not adequate to identify errors before the financial statements and performance report were submitted for auditing.

We did not assess financial health indicators at the municipality due to the disclaimed opinion.

Key controls and root causes

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

- The municipality should implement effective HR management to ensure that adequate and sufficiently skilled officials are in place and that their performance is monitored. Section 56 managers should be appointed as a matter of urgency.
- The political leadership should lead by example by implementing the recommendations of oversight bodies and the external auditors.
- The municipality should implement a proper performance management system to deal with poor performance and to hold people accountable for their actions.

Role players should address the root causes of poor audit outcomes and inadequate controls as follows:

- Senior management should monitor the implementation of daily and monthly disciplines, including proper record keeping and the reconciliation of transactions.
- The municipal manager should prioritise the filling of vacancies at senior management level to create leadership stability.
- The mayor, MPAC, council and audit committee should oversee the implementation of commitments made to address the poor audit outcome. In addition, these oversight structures should monitor the implementation of the action plan by senior management.
- The council should ensure that the handover process between the administrator and the municipal manager goes smoothly.

Impact of key role players on audit outcomes

The key role players did not have a positive impact on the audit outcome. The National Treasury, the provincial department of cooperative governance, the provincial treasury and the South African Local Government Association provided support to the municipality, but a lack of clear guidelines on their roles and responsibilities as well as inadequate monitoring lessened the effectiveness of their support. Commitments made by the mayor during our interactions were not honoured.

MBOMBELA MUNICIPALITY

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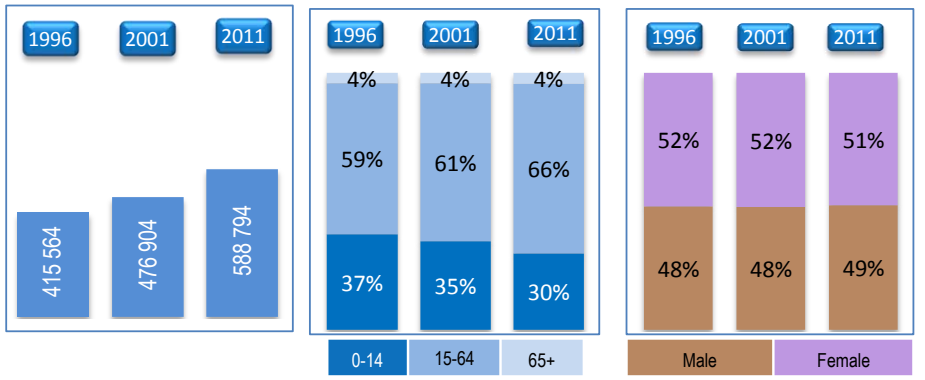
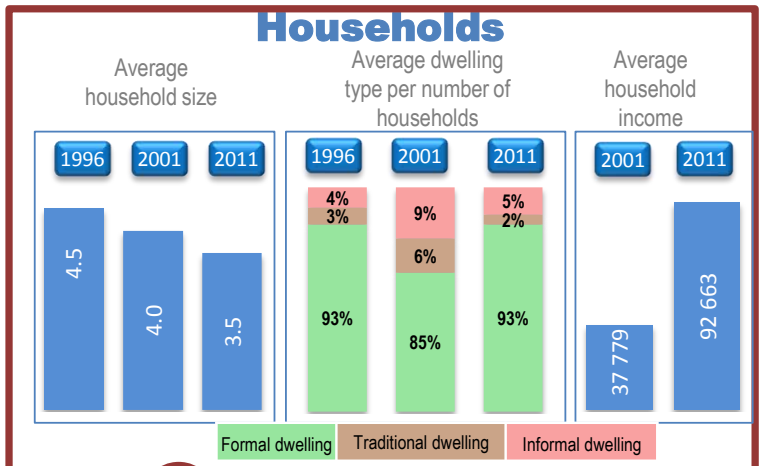
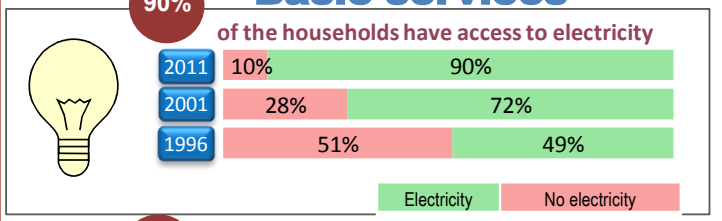
Population

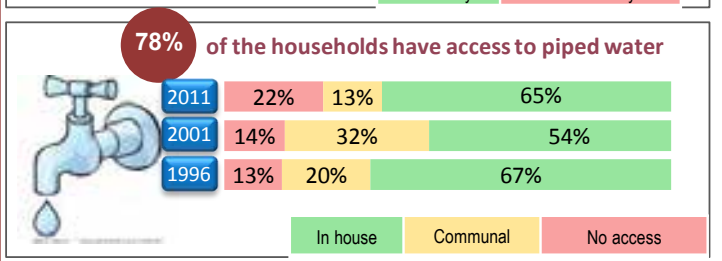


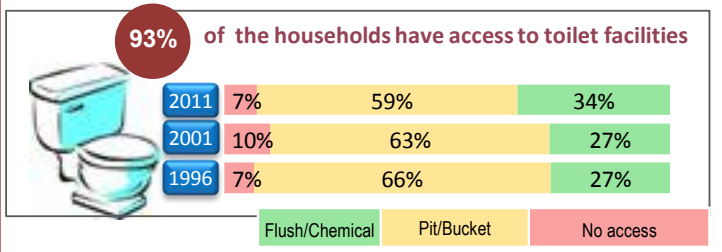
Households



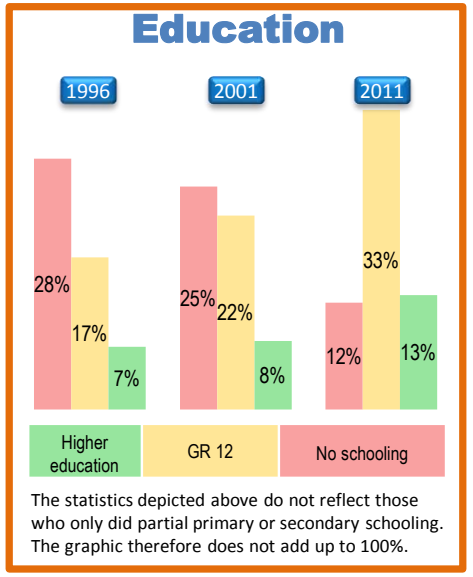
Basic services







Education



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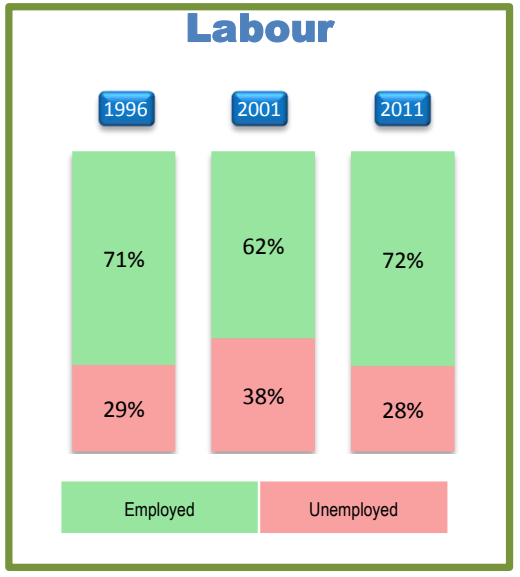
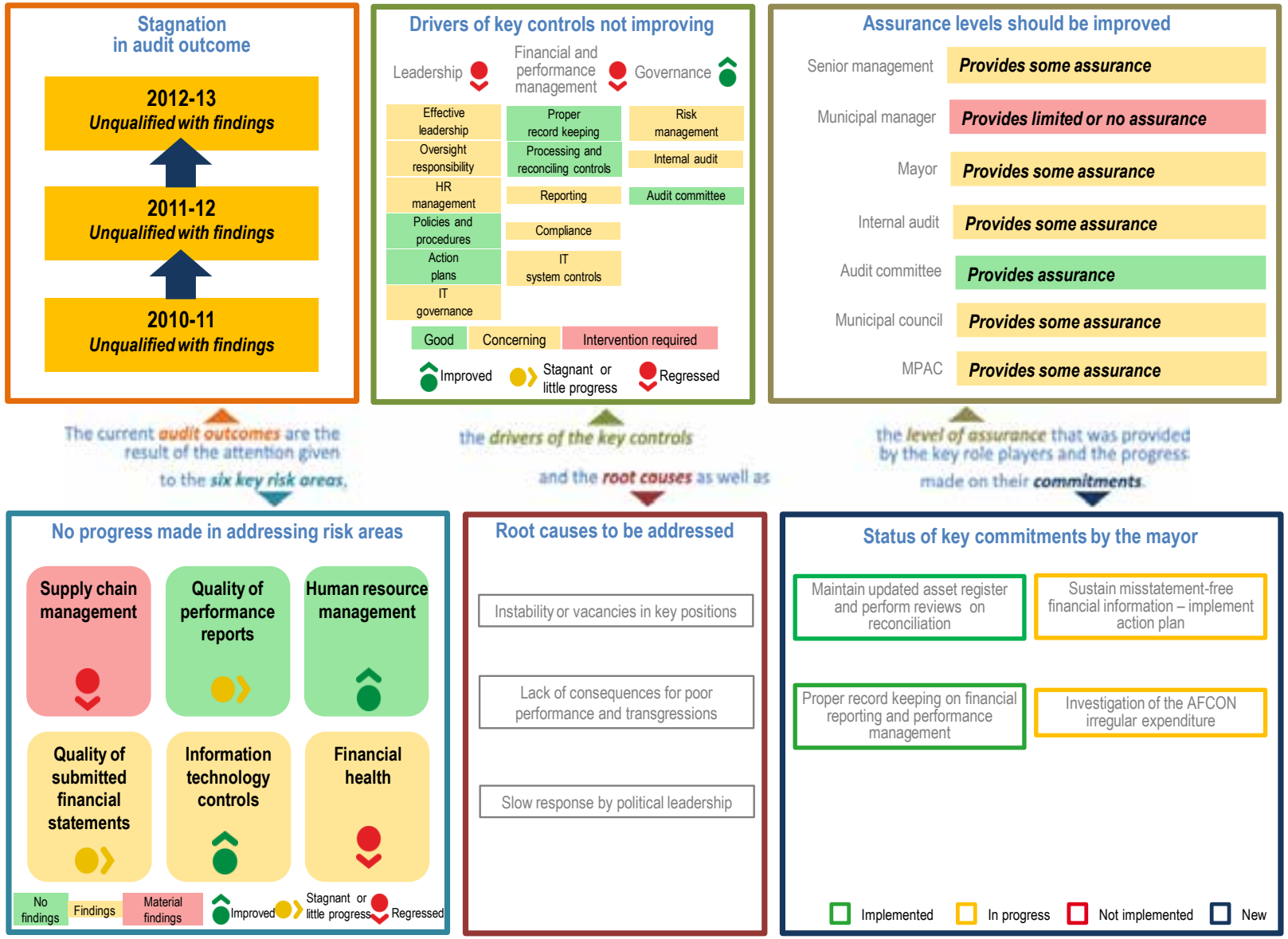
Labour



Mbombela Local Municipality



Current year audit outcome: ■ *Mbombela Local Municipality*

No change in audit outcome

There was no improvement in the audit outcome, due to a lack of a permanently appointed chief financial officer and because the municipality did not review compliance with legislation.

The municipality prepared their financial statements themselves.

Six key risk areas

Progress was made to address the key risk areas, most notably in the areas of HR management and the quality of the submitted performance information.

The quality of the annual performance report improved, which should be maintained by the municipality.

The municipality underspent the final approved capital budget by 51% and conditional grants by 20%. This had a negative impact on infrastructure and service delivery to municipal residents.

The status of SCM remained unsatisfactory, mainly because the municipality did not comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process.

Key controls and root causes

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

- The municipality should oversee financial management.
- The municipality should implement effective HR management to ensure that adequate and sufficiently skilled officials are in place and that their performance is monitored.
- The municipality should review and monitor compliance with legislation.

Role players should address the root causes of poor audit outcomes and inadequate controls as follows:

- The municipal manager should ensure that skilled staff are appointed in critical positions, especially that of the chief financial officer.
- Senior management should ensure the adequate review and monitoring of compliance with legislation and SCM processes. They should also hold staff accountable for poor performance.

Impact of key role players on audit outcomes

For improved audit outcomes, the assurance levels should be strengthened by ensuring stability at the level of accounting officer and senior management and by implementing the recommendations of the internal and external auditors.

We met with the mayor twice during the financial year and these interactions had some impact on the audit outcome. The reason for our assessment is the impact of the mayor on the controls of the municipality as well as the status and impact of previous commitments.

The council committed to fully honour the previous year's commitment to investigate the African Cup of Nations expenditure. No new commitments were received.

NKOMAZI MUNICIPALITY

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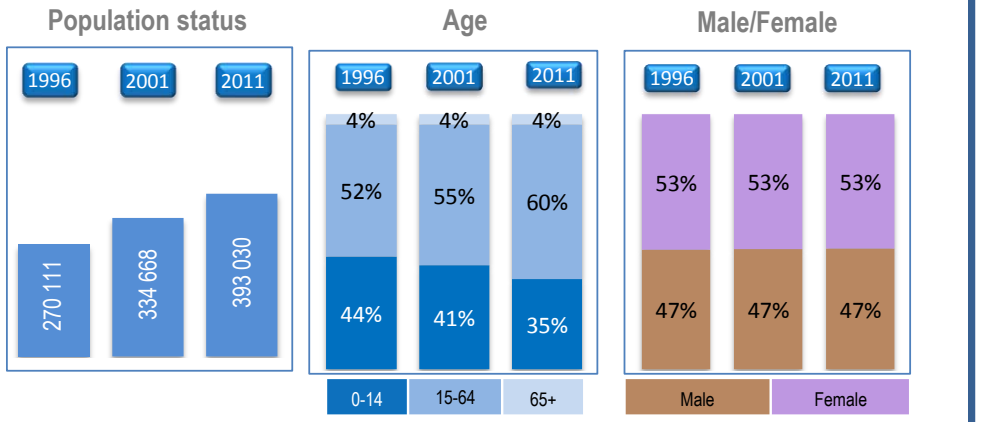
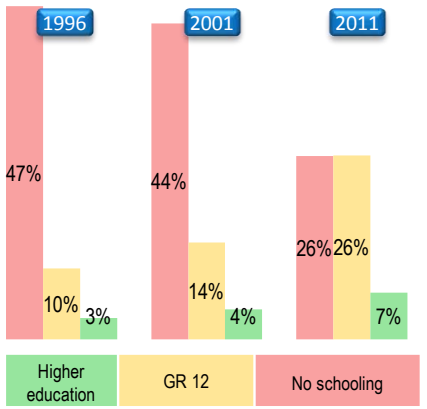
Population

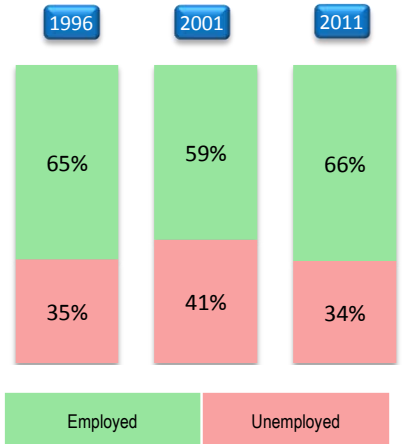


Education

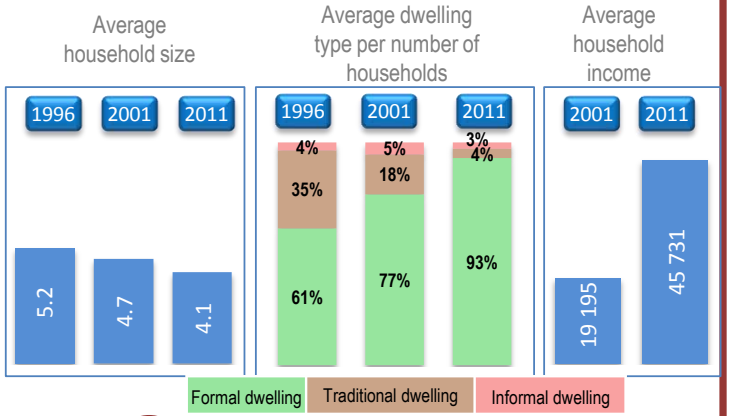


The statistics depicted above do not reflect those who only did partial primary or secondary schooling. The graphic therefore does not add up to 100%.

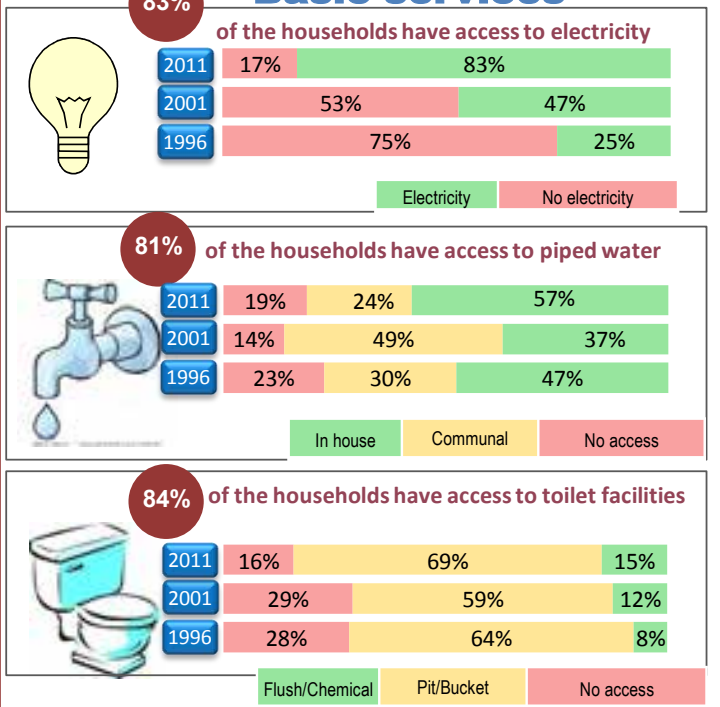
Labour



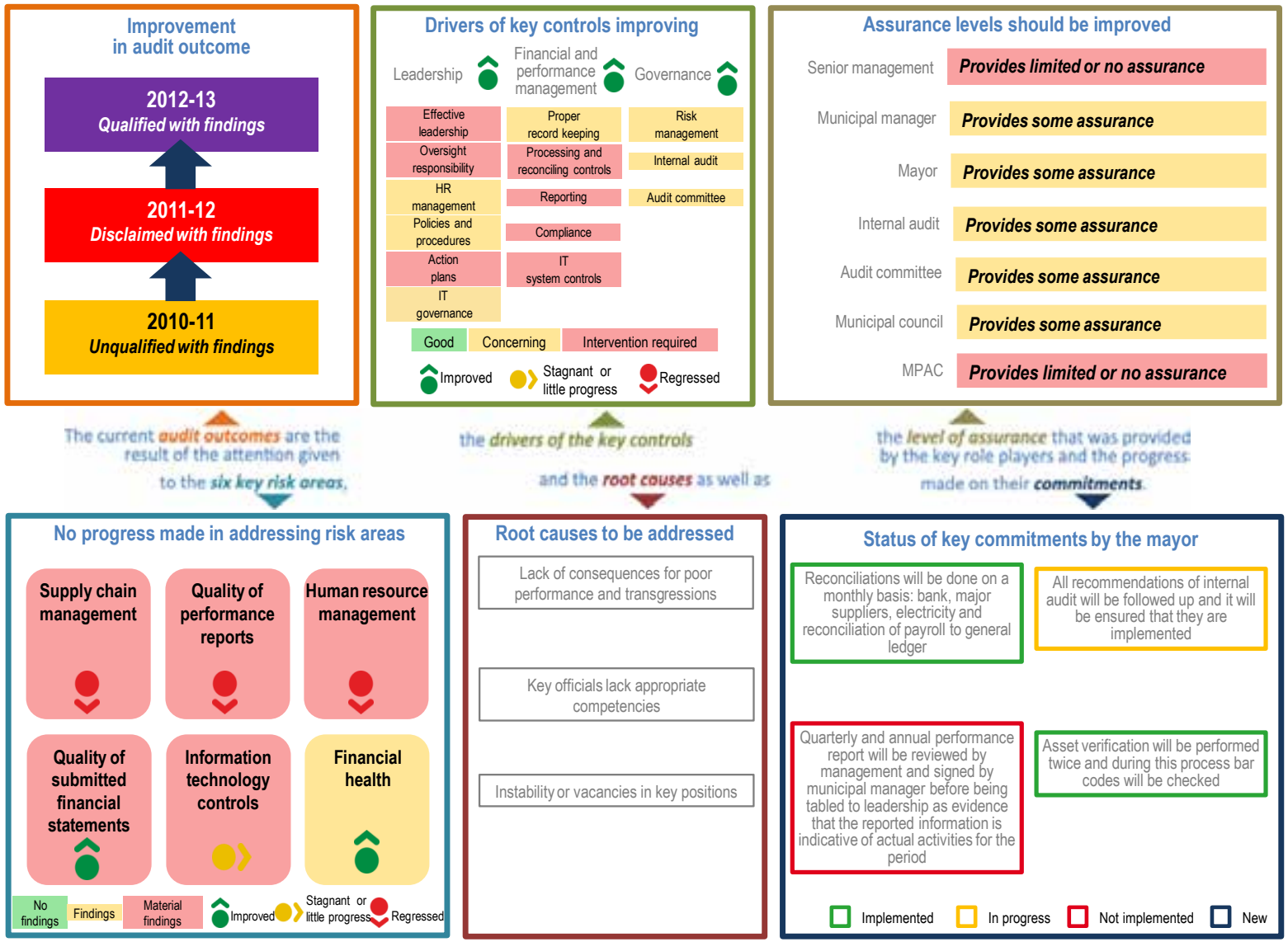
Households



Basic services



Nkomazi Local Municipality



Current year audit outcome: ■ *Nkomazi Local Municipality*

Significant movement in audit outcome

The improvement in the audit outcome was due to the municipality addressing prior year audit findings as well as stability in key positions.

The municipality did not rely on the services of consultants to assist with the preparation of financial statements.

Six key risk areas

Progress was made to address the key risk areas, most notably in the areas of HR management and the quality of the submitted financial statements. However, inadequate monitoring controls over the processing and reconciling of transactions continued to create challenges for the municipality.

The quality of the annual performance report regressed. The municipality should focus on the presentation, measurability and reliability of the performance information to address the material findings on the usefulness of its performance report.

The status of SCM remained unsatisfactory, mainly because the municipality did not comply with the legislative requirement of not making awards to suppliers in the service of government. This weakness was not resolved, as the head of the SCM unit position was vacant.

Key controls and root causes

The overall improvement in the key controls was due to better leadership controls.

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

- The municipality should oversee financial and performance management.
- The municipality should ensure that all processing and reconciliations are performed accurately and that these functions are sufficiently monitored.
- The municipality should review and monitor compliance with legislation.

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

- Ensure that SCM processes are adequately reviewed and monitored.
- Ensure adequate review processes for financial reporting.
- Ensure that there are consequences for poor performance.
- Appoint adequately skilled staff in key positions, including a head for the SCM unit.

Impact of key role players on audit outcomes

For improved audit outcomes, the assurance levels should be strengthened by implementing internal and external audit recommendations and by directing the work of the audit committee towards evaluating performance information.

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 is the impact that the mayor had on the controls of the municipality as well as the status and impact of previous commitments.

The council made a new commitment to develop an action plan to ensure that qualification matters are addressed.

THABA CHWEU MUNICIPALITY

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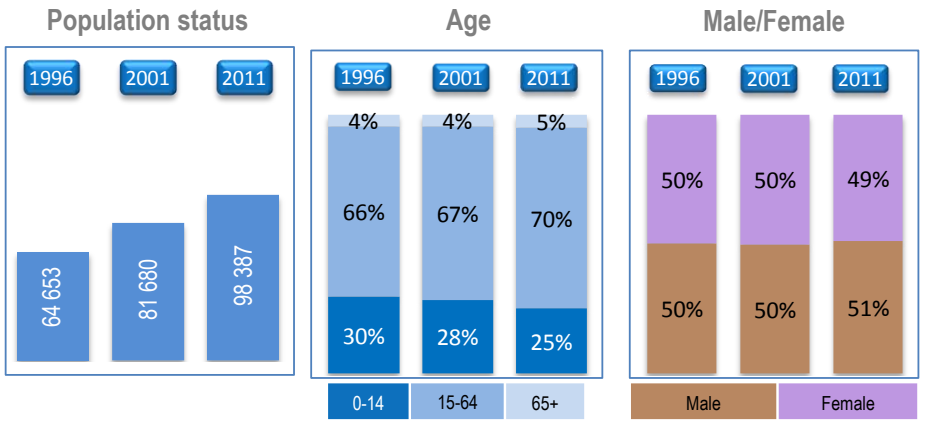
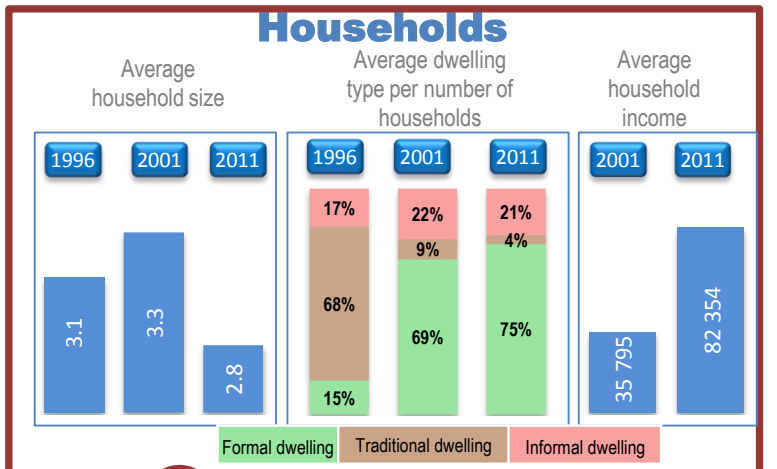
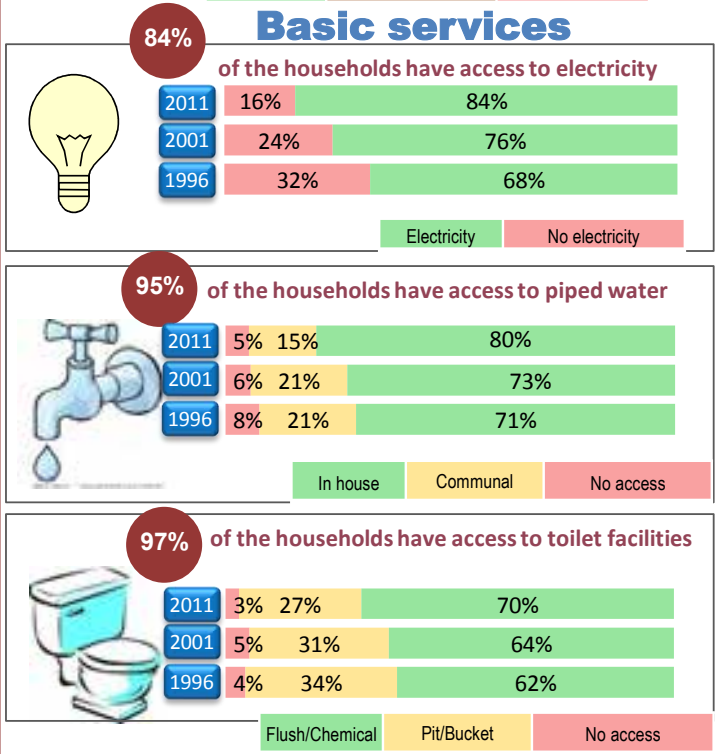
Population



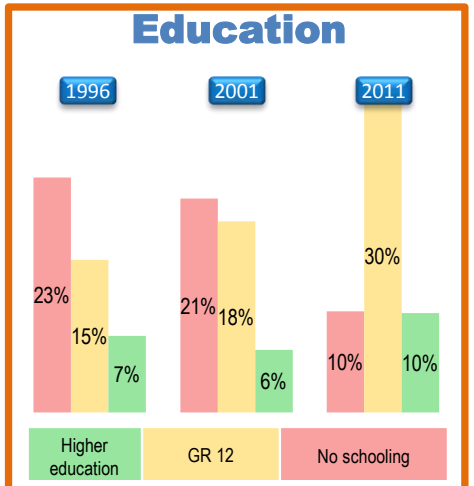
Households



Basic services



Education



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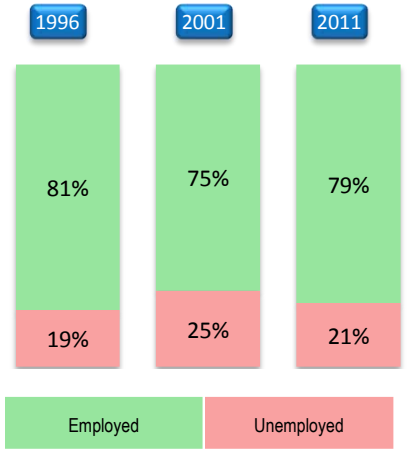
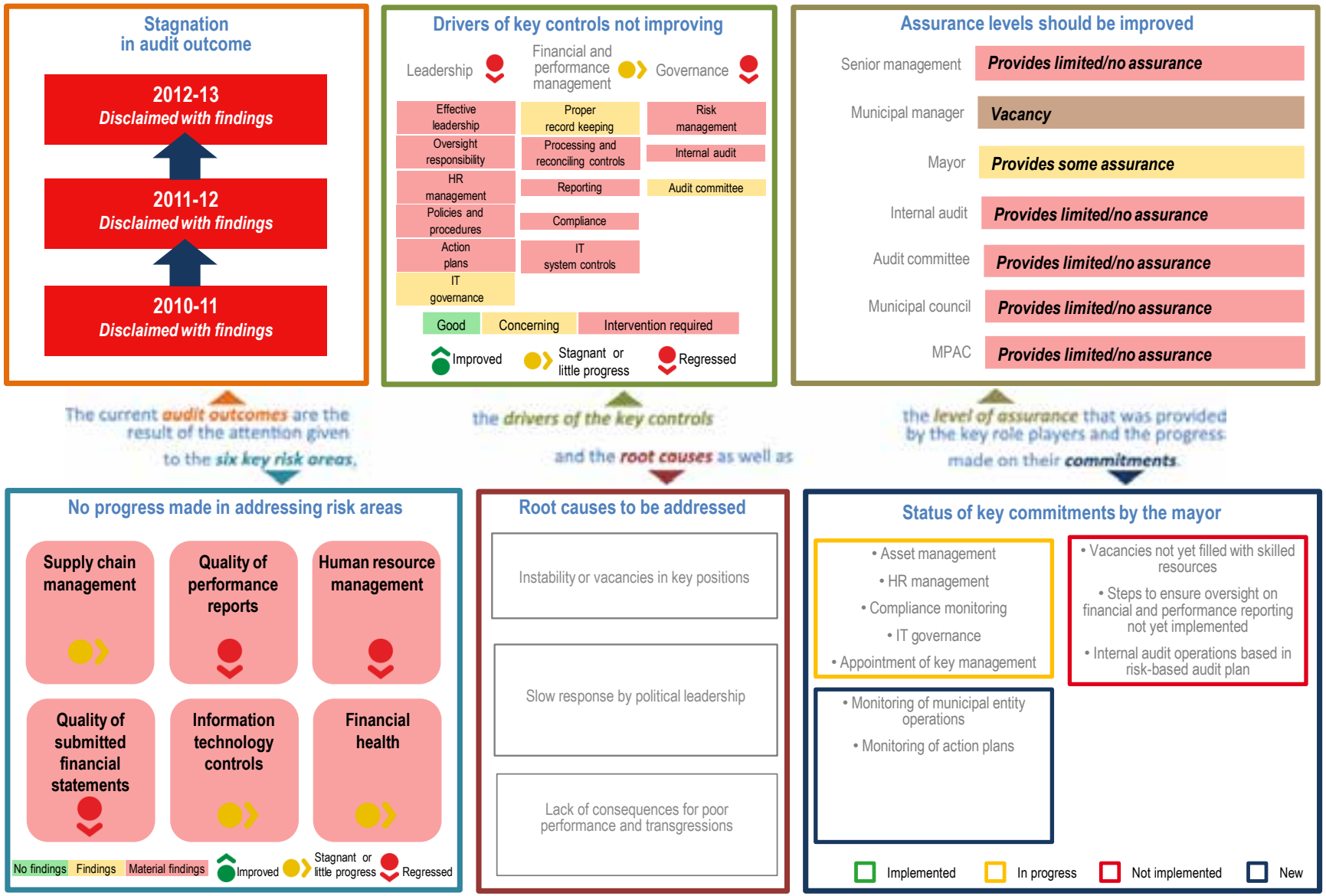
Labour



Thaba Chweu Local Municipality



Current year audit outcome: ■ *Thaba Chweu Local Municipality*

No change in audit outcome

The audit outcome stagnated as a result of leadership instability, as there were no permanently appointed accounting officer and chief financial officer during the year under review. Performance information was also not useful and reliable. We raised various findings of non-compliance relating to internal audit, the audit committee, procurement and contract management, HR management, conditional grants, revenue and expenditure management.

Six key risk areas

No progress was made to address the key risk areas. The quality of the financial statements deteriorated, as they did not balance and the variance could not be supported.

Consultants were used in connection with asset management at the municipality, at a cost of R1 699 368. The entity relied on the services of a consultant to assist with day-to-day accounting and financial statement preparation, at a cost of R48 600. The municipality and its entity depended too much on consultants as a result of unfilled vacancies. Consultants were not effectively managed and did not transfer skills, resulting in the continued dependence on them. Consultants were also appointed for duties that could have been performed by internal staff.

The quality of the annual performance report deteriorated. Both the municipality and the entity should focus on aligning the integrated development plan and the service delivery and budget implementation plan as well as on the measurability, monitoring and regular reporting of performance information to address the material findings on the performance report.

The status of SCM remained unsatisfactory, mainly because the municipality did not comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process.

Key controls and root causes

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

- The municipality and its entity should oversee financial and performance management.
- The municipality and its entity should implement effective HR management to ensure that adequate and sufficiently skilled officials are in place and that their performance is monitored.
- The municipality and its entity should prepare and review a full set of financial statements each month.

Role players should address the root causes of poor audit outcomes and inadequate controls as follows:

- The audit committee should monitor the progress of the implementation of the action plan.
- Once appointed, the accounting officer should monitor progress and performance, including appropriate consequence management, and ensure that adequate and skilled officials are employed.
- Senior management should take responsibility for the implementation of the action plan, hold staff accountable, monitor performance, and oversee daily operations and controls.

Impact of key role players on audit outcomes

We met with the mayor three times during the year and these interactions had a minimal impact on the audit outcome. The reason for our assessment is the lack of impact that the mayor had on the controls of the municipality and its entity as well as the status and impact of previous commitments, due to the vacant positions of accounting officer and chief financial officer.

An MPAC was appointed, but did not play an effective oversight role.

UMJINDI MUNICIPALITY

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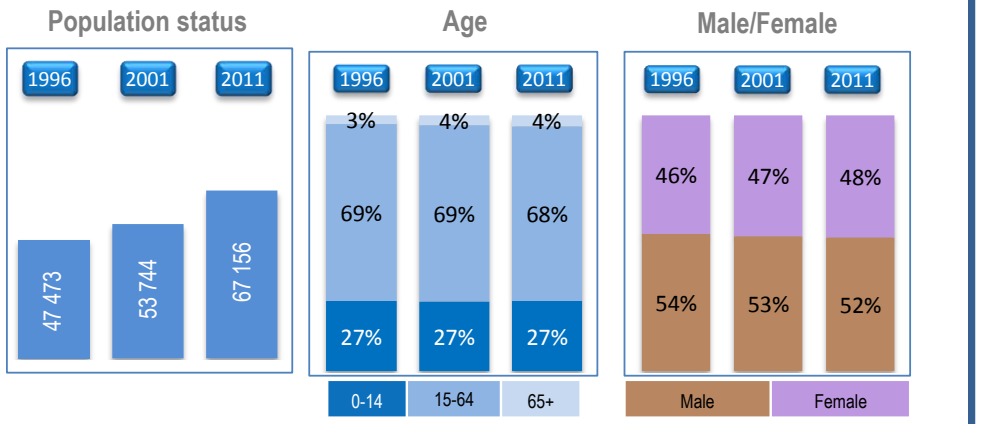
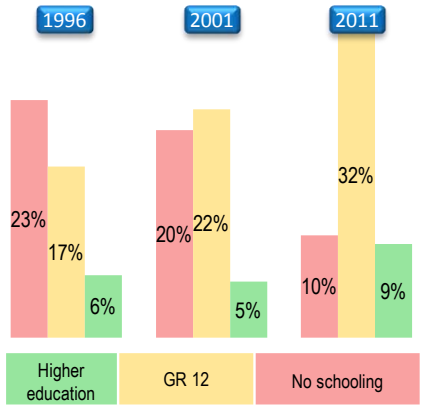
Population



Education



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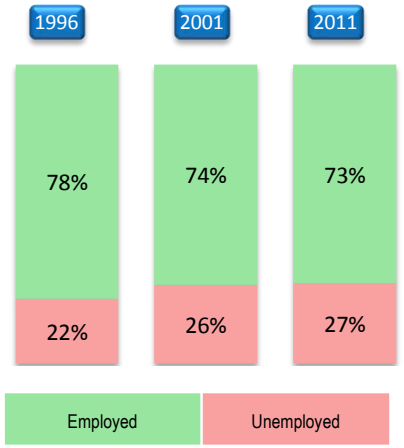
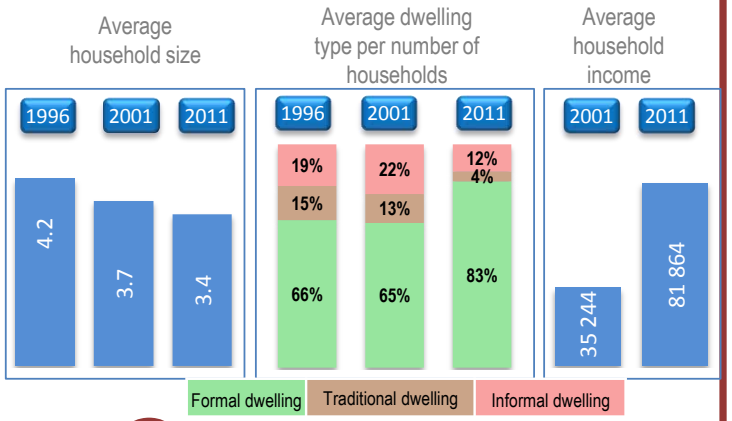
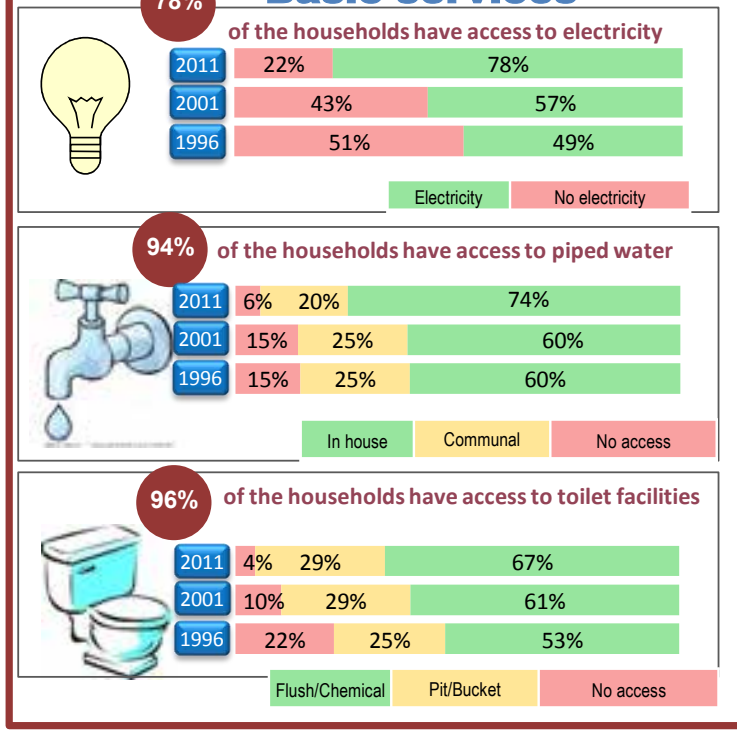
Labour



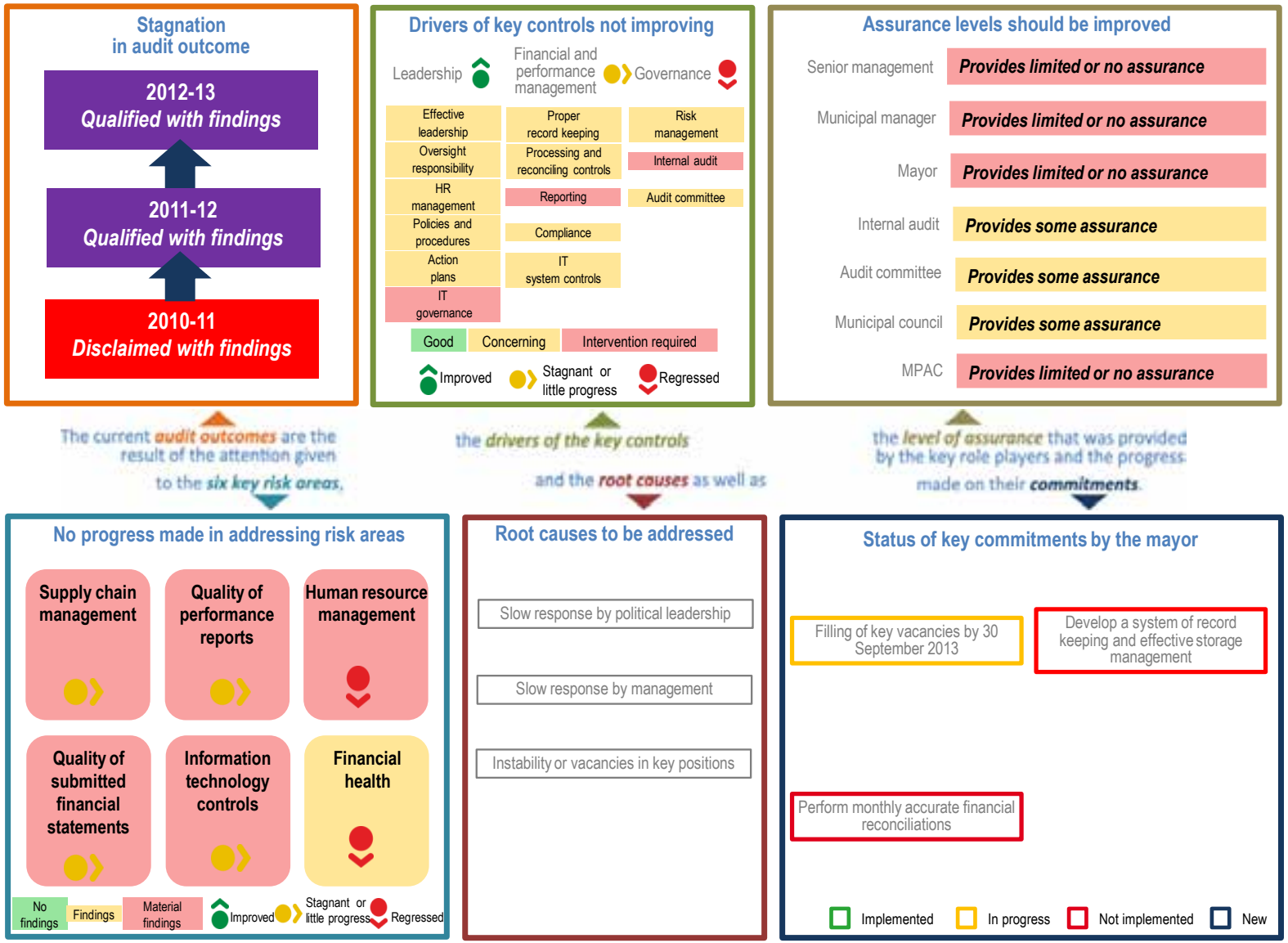
Households



Basic services



Umjindi Local Municipality



Current year audit outcome: ■ *Umjindi Local Municipality*

No change in audit outcome

The municipality maintained its qualified opinion and some of the findings raised in the previous year recurred in the current year. The stagnation was caused by the municipality not monitoring the implementation of the action plan developed to address external audit findings as well as management and the internal audit unit not thoroughly reviewing the financial statements submitted for auditing.

The municipality still had numerous findings on non-compliance with legislation. The municipality did not improve the usefulness and reliability of its performance information, due to a lack of understanding on the part of management. The municipality needs to develop a proper record-keeping system to ensure a documentation management system that works effectively.

Six key risk areas

The financial health of the municipality improved, but little progress was made to address other key focus areas. HR management regressed, mainly due to unfilled vacancies in key positions. Consultants were again used in connection with financial reporting, at a cost of R593 498, but skills were not transferred.

The status of SCM remained unsatisfactory, mainly because the municipality did not comply with the legislative requirements to obtain three written quotations, to advertise bids for the required period, and to properly administer the list of suppliers.

The quality of the annual performance report did not improve. The municipality should focus on the presentation, consistency and measurability of performance information.

Key controls and root causes

The key controls did not improve because management did not have a proper action plan to address the root causes of prior year audit findings. The implementation of the action plan was also not adequately monitored. We identified material misstatements in the financial statements submitted for auditing, as management did not adequately review the financial statements.

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

- The municipality should oversee financial and performance management as well as compliance with legislation.
- The municipality should prepare and review a full set of financial statements each month.
- The municipality needs to fill key vacancies to ensure that oversight committees, including the internal audit unit, are well equipped to fulfil their roles.

The accounting officer together with the council and MPAC should address the root causes of poor audit outcomes and inadequate controls as follows:

- Financial statements, the performance report and supporting documentation should be adequately reviewed.
- Consultants should transfer skills during their appointment to ensure that staff can perform their duties by themselves and to avoid the over-reliance on consultants.

Impact of key role players on audit outcomes

For improved audit outcomes, the assurance levels should be strengthened by the accounting officer providing an action plan to address external audit findings. The plan should be monitored and corrective action taken where necessary.

We met with the mayor three times during the financial year and these interactions had a minimal impact on the audit outcome.

Gert Sibande District

GERT SIBANDE DISTRICT

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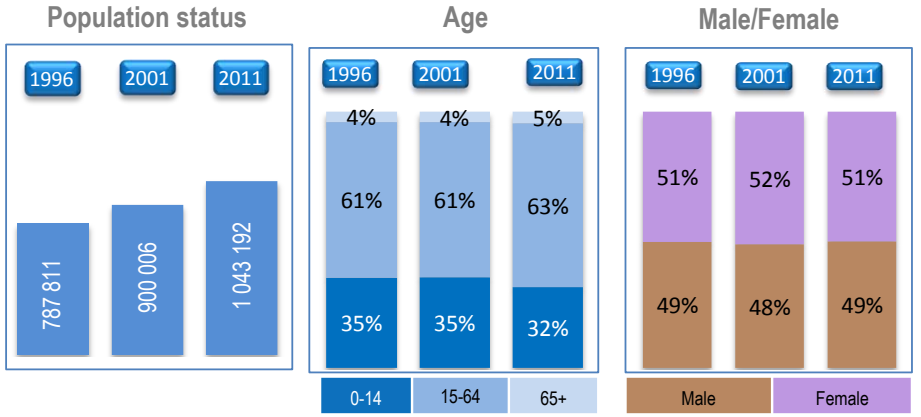
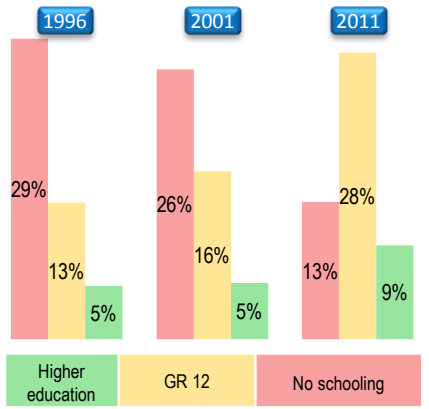
Population



Education



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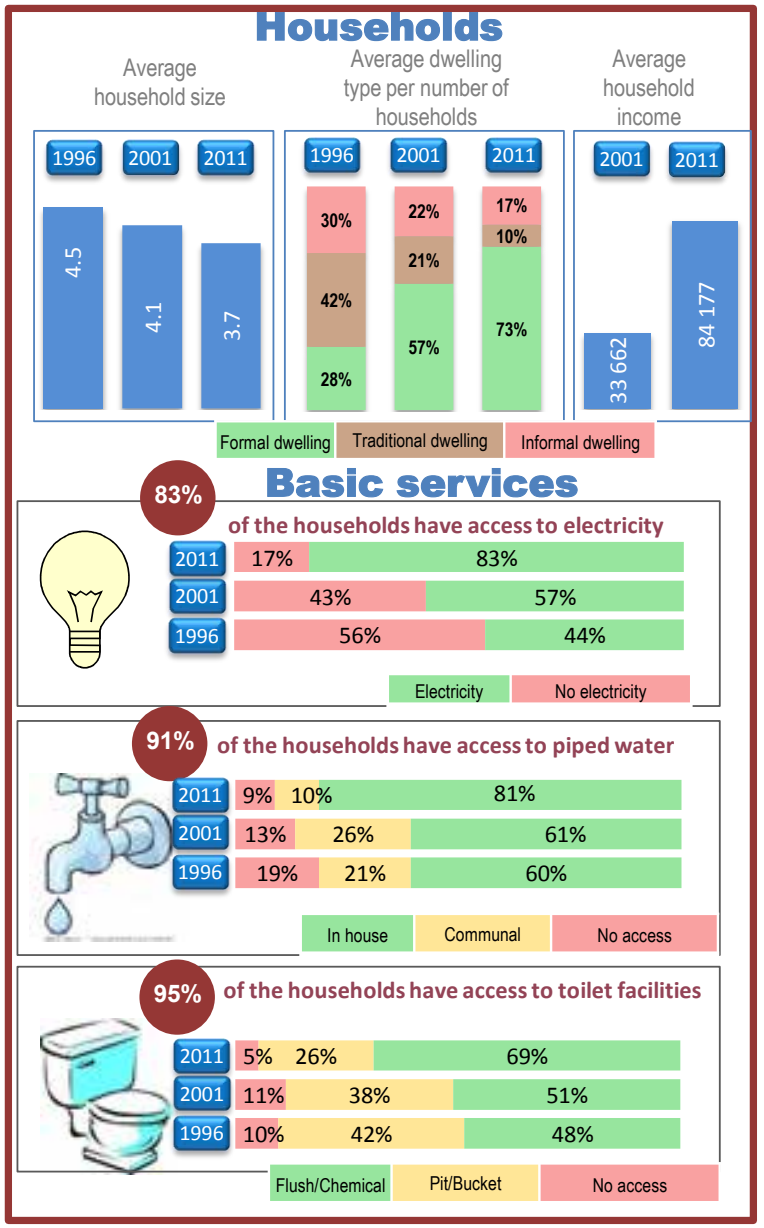
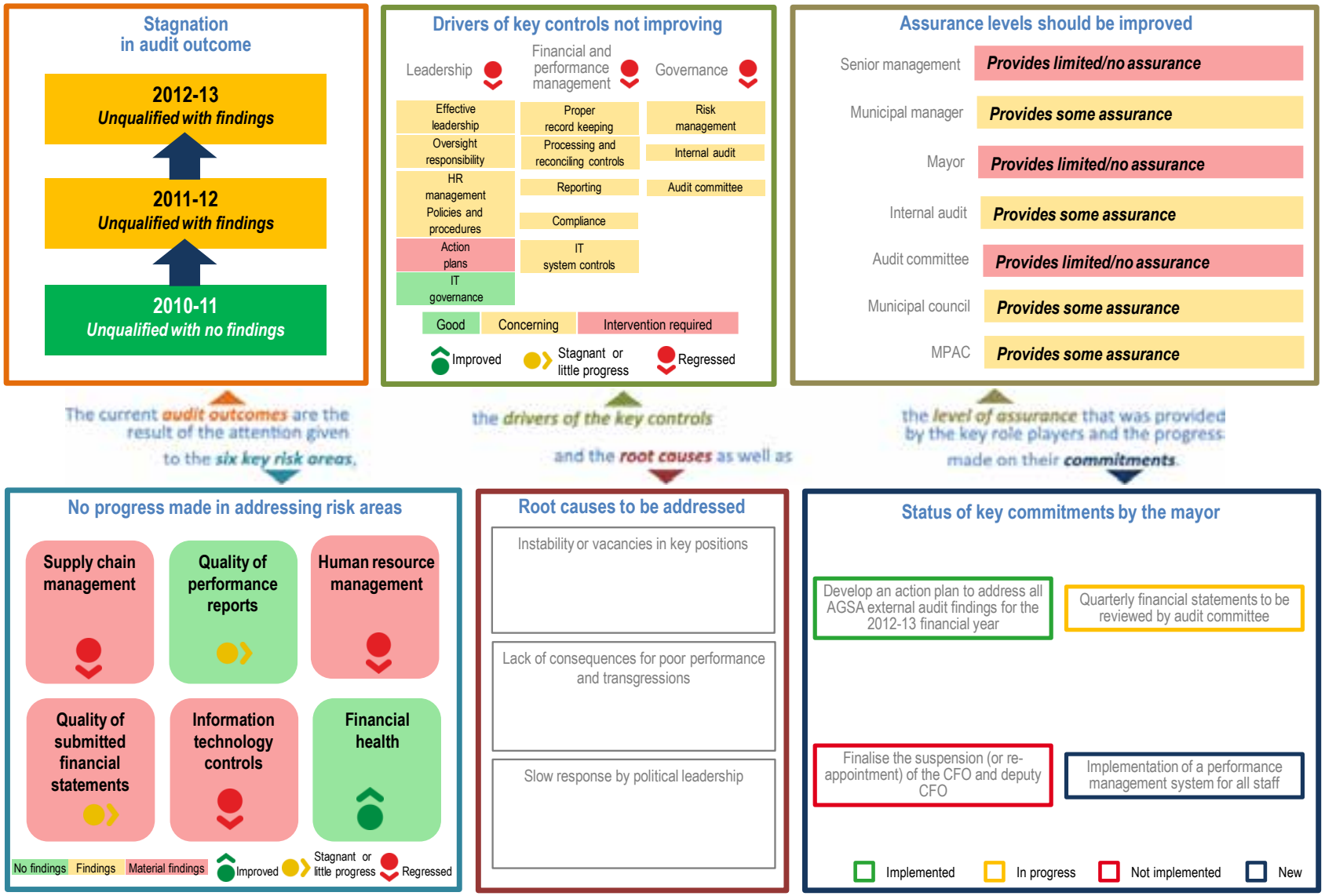
Labour

Households



Gert Sibande District Municipality



Current year audit outcome: Gert Sibande District Municipality

No change in audit outcome

The municipality's audit outcome has remained unchanged on unqualified with findings for the past two years, due to instability in the management structure and inadequate monitoring of controls.

Six key risk areas

Progress was not made in addressing the key risk areas, most notably in the areas of IT controls and SCM. Consultants were used in connection with operation clean audit, which included assistance with SCM and financial reporting. However, the consultants did not transfer skills to municipal staff.

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

SCM has deteriorated since the previous year, as mere findings have now regressed to become material findings. In many instances, the municipality did not comply with the legislative requirement to procure goods and services through a competitive bidding process. The municipality should also incorporate monitoring processes for identifying irregular, unauthorised as well as fruitless and wasteful expenditure.

Key controls and root causes

The overall deterioration in the key controls was caused by instability or vacancies in key positions, which related to the chief financial officer and the deputy chief financial officer being suspended before the audit began.

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

- The municipality should oversee financial and performance management.
- The municipality should finalise the suspension (or re-appointment) of the chief financial officer and the deputy chief financial officer.
- The municipality should develop an action plan to address all external audit findings, and actively monitor its progress.

Role players should address the root causes of poor audit outcomes and inadequate controls as follows:

- The mayor should finalise the suspension (or re-appointment) of the chief financial officer and the deputy chief financial officer, to ensure that these key positions are filled with suitably qualified individuals.
- The council and mayor should provide timely responses to address the significant deterioration in internal controls.
- Senior management should put mechanisms in place to ensure compliance with applicable legislation.

Impact of key role players on audit outcomes

For improved audit outcomes, the assurance levels should be strengthened by ensuring stability at the level of accounting officer and senior management, implementing the recommendations of the internal auditors, and directing the work of the audit committee towards evaluating performance information.

We met with the mayor once during the financial year and this interaction had no impact on the audit outcome, as the mayor did not influence the controls of the auditee and did not honour previous commitments.

The mayor subsequently gave us new commitments to address all external audit findings of the 2012-13 financial year.

CHIEF ALBERT LUTHULI MUNICIPALITY

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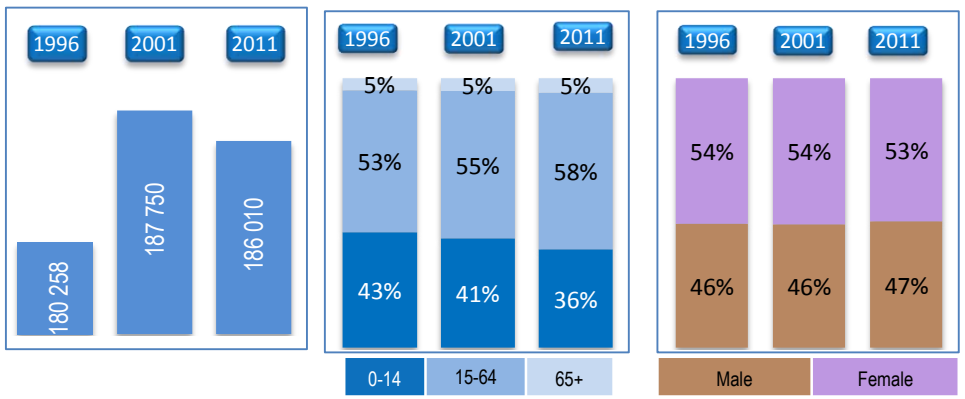
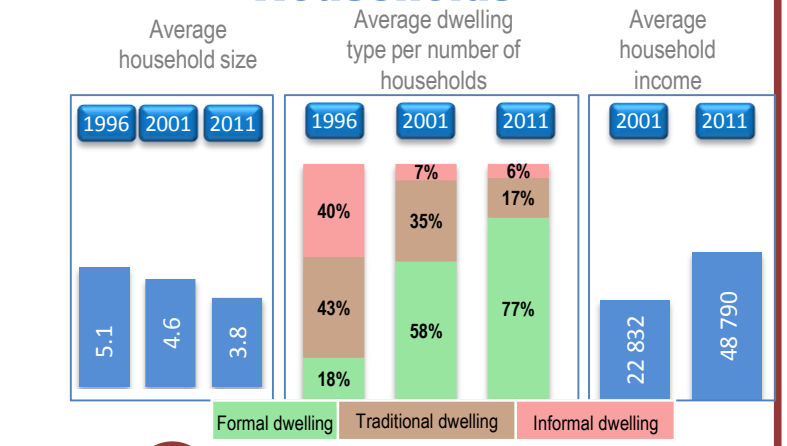
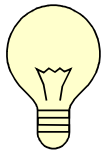
Population



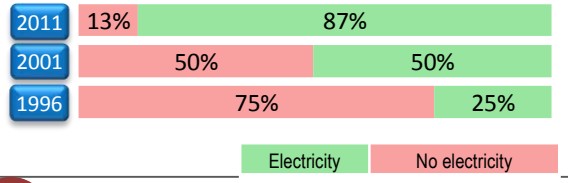
Households



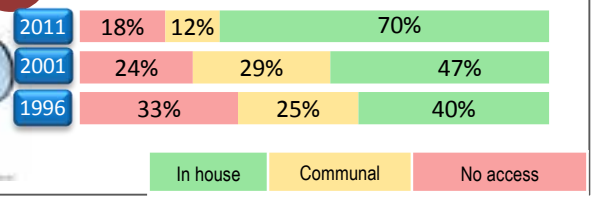
Basic services



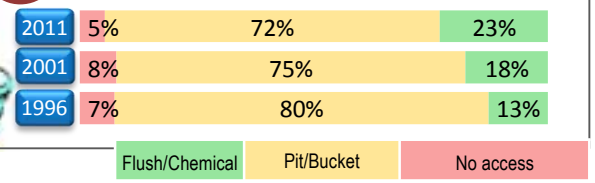
87% of the households have access to electricity



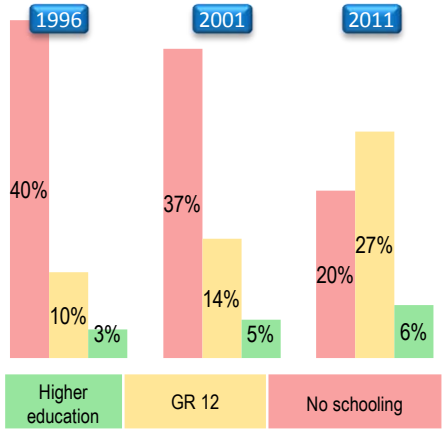
82% of the households have access to piped water



95% of the households have access to toilet facilities



Education



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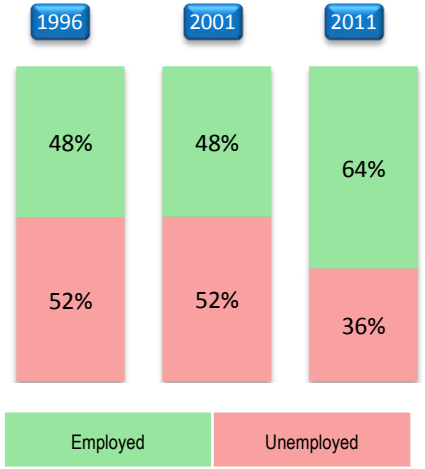
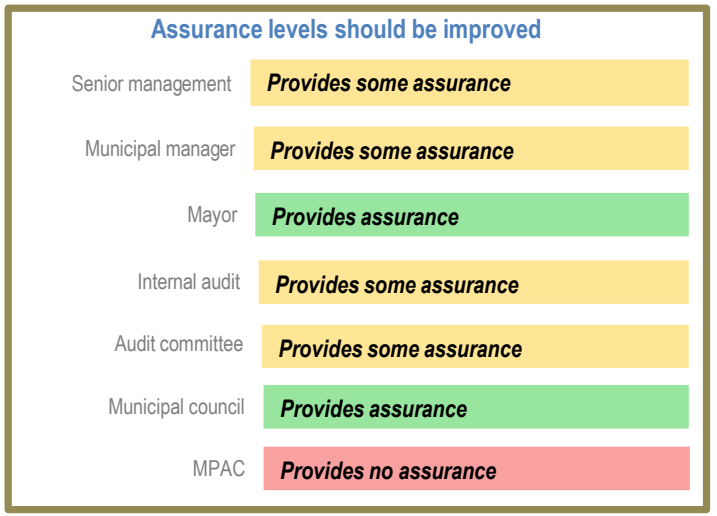
Labour



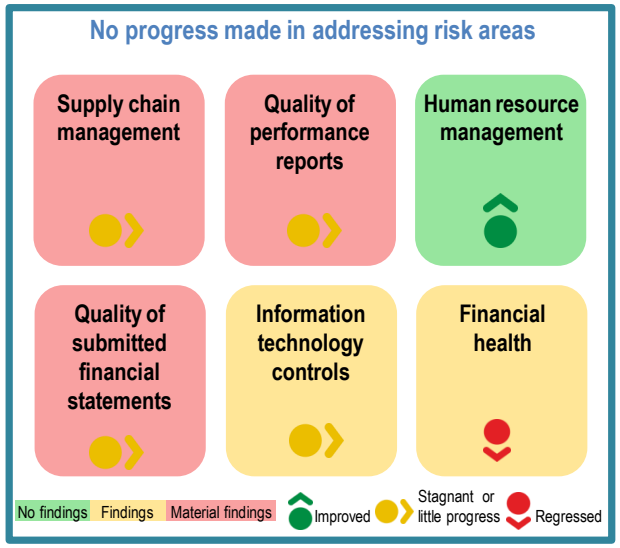
Chief Albert Luthuli Local Municipality

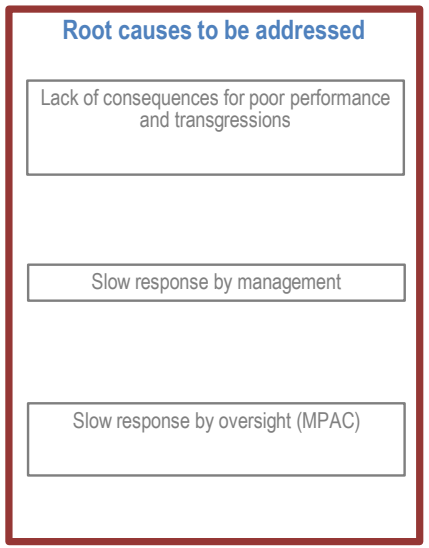
The current *audit outcomes* are the result of the attention given to the *six key risk areas*,

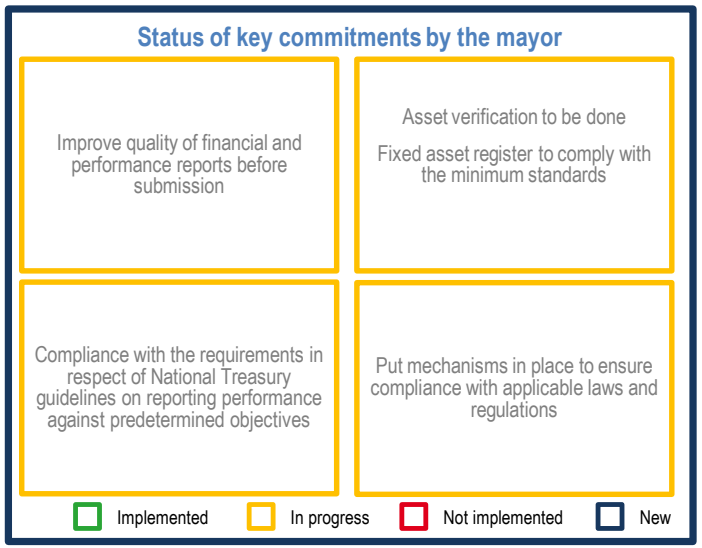
the *drivers of the key controls* and the *root causes* as well as



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







Current year audit outcome: ■ *Chief Albert Luthuli Local Municipality*

No change in audit outcome

The municipality maintained its audit outcome by appointing consultants on a three-year contract to assist with the compilation of the financial statements. Except for assets, all prior period qualifications were effectively addressed.

Performance reporting remained a problem, with material findings on the usefulness and the reliability of performance information.

The municipality has made steady progress towards clean administration. Focused action to clear the findings relating to assets will likely result in an unqualified audit opinion.

Six key risk areas

No progress was made to address the key risk areas, most notably in the area of IT controls. The quality of the submitted financial statements did not show material improvement, as the municipality had to make corrections to the financial statements to avoid qualifications in other areas. Consultants could not address the findings relating to the quality of the financial statements, mainly due to the inaccuracy of the information used to compile the financial statements. The municipality used a tax consultant at a cost of R6 385 418 for duties that could have been performed by municipal staff.

The quality of the annual performance report remained unchanged. The municipality should focus on the measurability of the performance information to address the material findings on the usefulness of its performance report.

The financial health of the municipality deteriorated during the current year, as the municipality overspent its budget. Current liabilities exceeded current assets, mainly due to the inability of the municipality to collect debt. This in turn resulted in the delayed payment of creditors. Debt-collection practices were ineffective and the municipality did not have controls to monitor the payment of creditor invoices.

The status of SCM remained unchanged, mainly as a result of the municipality not complying with the legislative requirement to register construction contracts with the Construction Industry Development Board as well as making awards to providers in the service of other state institutions.

Key controls and root causes

Improving leadership controls and addressing governance weaknesses resulted in an overall improvement in the key controls. However, the following controls must still be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The municipality should regularly oversee financial and performance management.
- The municipality should prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- The municipality should review and monitor compliance with applicable legislation.

Role players should address the root causes of poor audit outcomes and inadequate controls as follows:

- Senior management should ensure that financial and performance reports of a high quality are produced and submitted for auditing.
- The audit committee should adequately review the financial statements and the performance reports, together with supporting documentation.
- The accounting officer should implement mechanisms to ensure compliance with legislation.

Impact of key role players on audit outcomes

We met with the mayor three times during the financial year and these interactions had some impact on the audit outcomes. The reason for our assessment is the impact that the mayor had on key controls as well as the status and impact of previous commitments.

The council remained committed to fully implement the previous year's commitments, namely to physically verify assets and to comply with the National Treasury's guidelines on reporting against predetermined objectives.

DIPALISENG MUNICIPALITY

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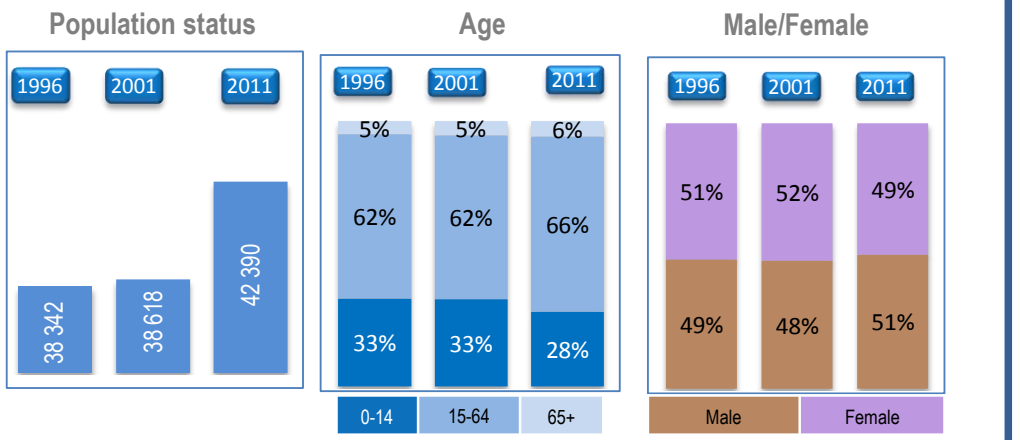
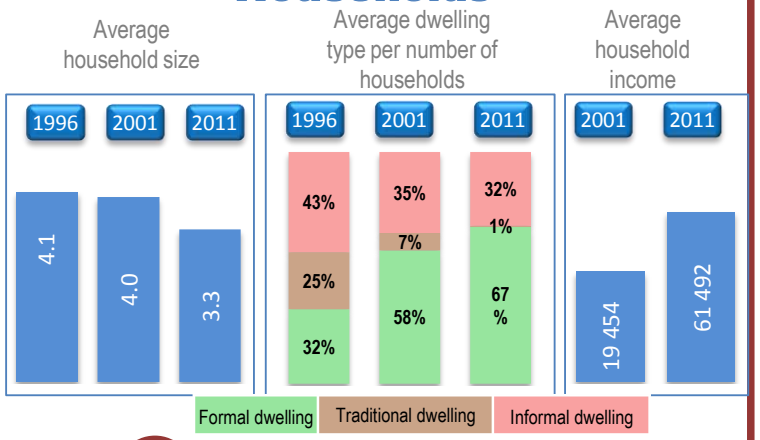
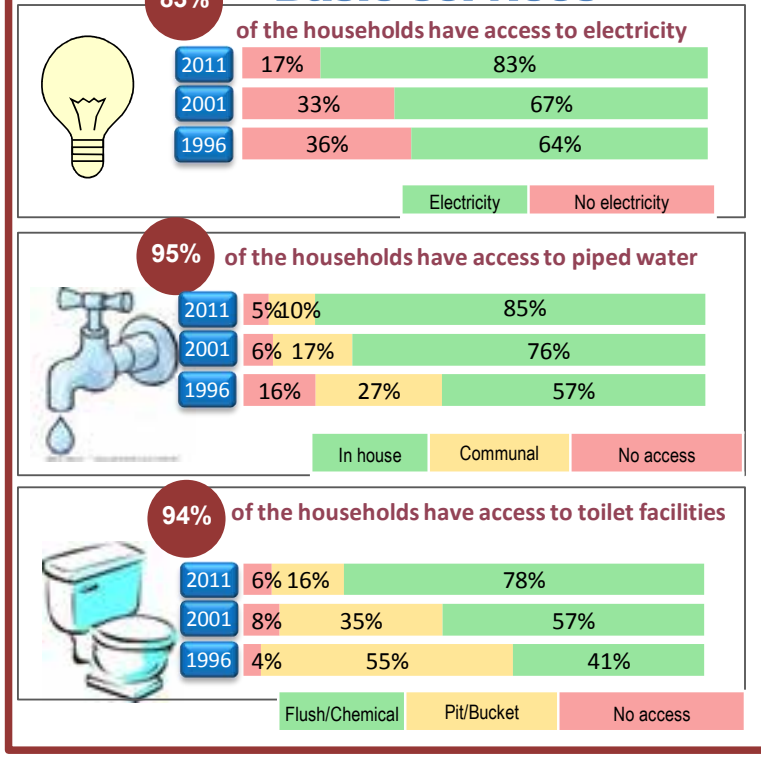
Population



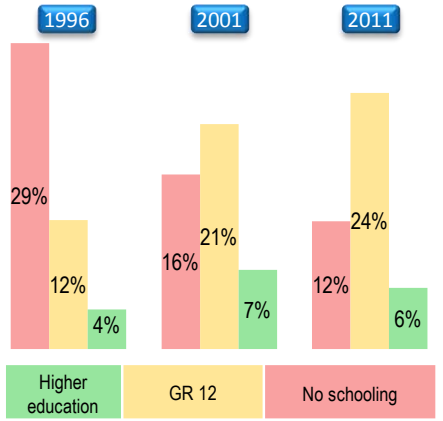
Households



Basic services



Education



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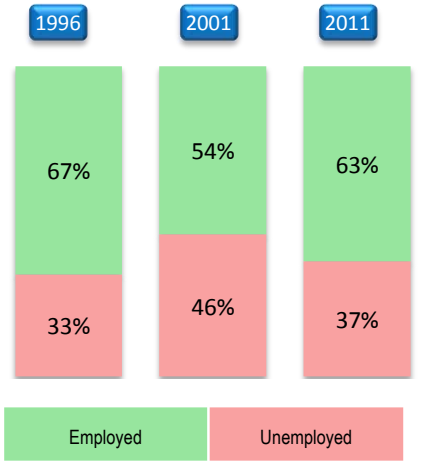
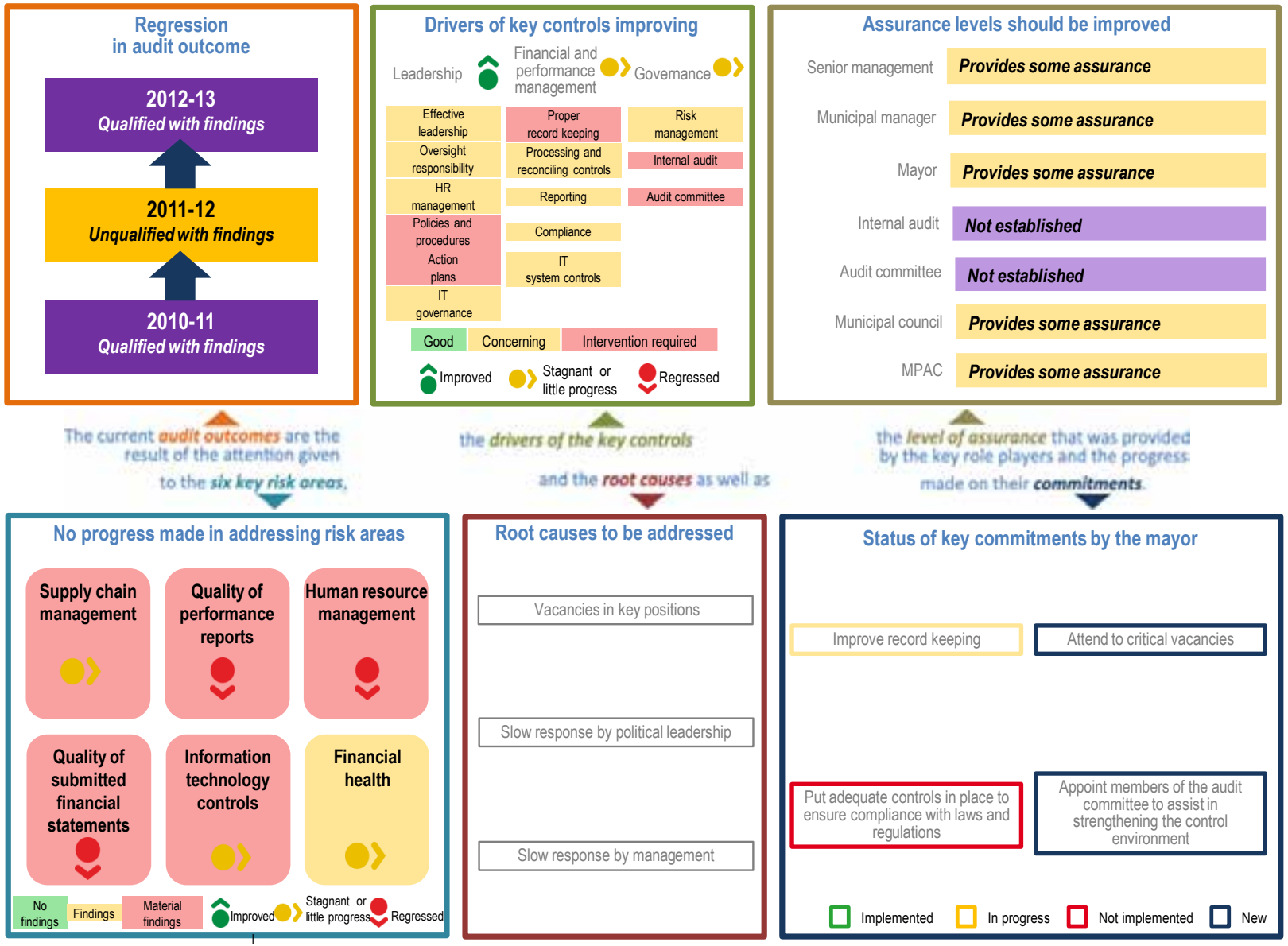
Labour



Dipaliseng Local Municipality



Significant movement in audit outcome

The regression in the audit outcome was caused by the high vacancy rate at senior management level and in the finance section. In addition, the municipality relied on consultants without the proper transfer of skills and the filing systems were inadequate. This contributed to a weakened internal control environment.

Six key risk areas

No progress was made to address the key risk areas, most notably in the areas of IT controls and HR management. The quality of the submitted financial statements regressed, indicating that internal controls were neglected during the year, which resulted in the information used to prepare the financial statements not being credible.

Consultants were again used for financial reporting at a cost of R1 635 901. The municipality depended too much on consultants as a result of unfilled vacancies. Consultants were not effectively managed and did not transfer skills, resulting in the continued dependence on them.

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

The status of SCM remained unsatisfactory, mainly because the municipality did not comply with the legislative requirement to procure goods and services through a competitive bidding process in many instances. This was due to, among other reasons, the municipality not having a head for their SCM unit.

Key controls and root causes

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

- Effective HR management should be implemented to ensure that adequate and sufficiently skilled officials are in place and that their performance is monitored.
- Critical vacancies should be attended to by filling all senior management positions as well as those in the finance section.
- A proper record-keeping system should be implemented.
- An internal audit unit and audit committee should be established.

Role players should address the root causes of poor audit outcomes and inadequate controls as follows:

- The municipal manager should establish an internal audit unit and audit committee with skilled and competent personnel. Vacancies in key positions should also be filled as a matter of urgency.
- Senior management should design and implement an action plan to address prior year internal and external audit findings. The implementation of the action plan should be closely monitored.
- The mayor should review, update and approve the audit committee charter before the beginning of each financial year, and appoint an internal audit manager.
- The council, MPAC and mayor should effectively oversee the implementation of internal controls and the action plan.

Impact of key role players on audit outcomes

The municipal manager and chief financial officer were newly appointed and therefore did not have adequate experience of the municipality to positively influence its audit outcome.

We met with the mayor three times during the financial year. Although some of our recommendations were implemented, it happened too late in the year to noticeably improve internal controls.

Although the MPAC reviewed reports of the municipality and made resolutions during the year, the reliability of those reports is uncertain in the absence of an internal audit unit and audit committee to confirm the credibility of the information produced by management.

DR PIXLEY KA ISAKA SEME MUNICIPALITY

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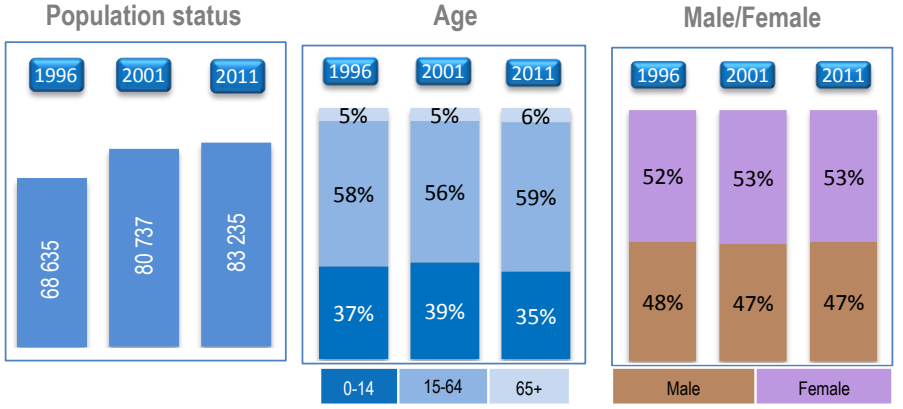
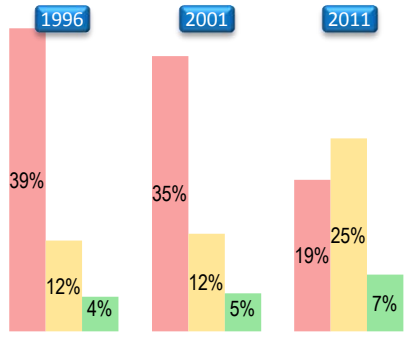
Population



Education



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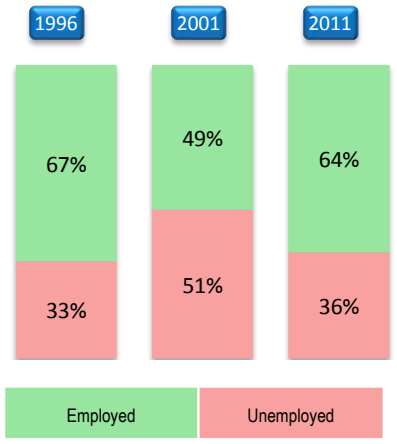
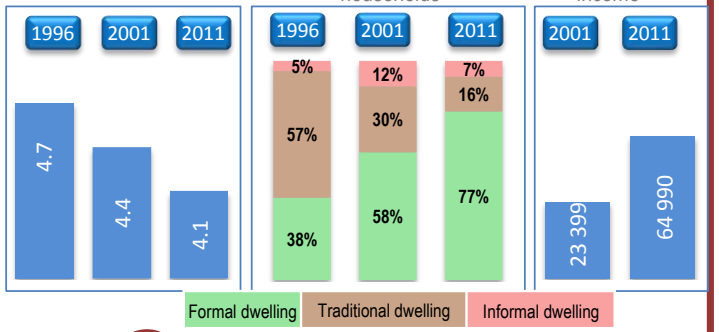
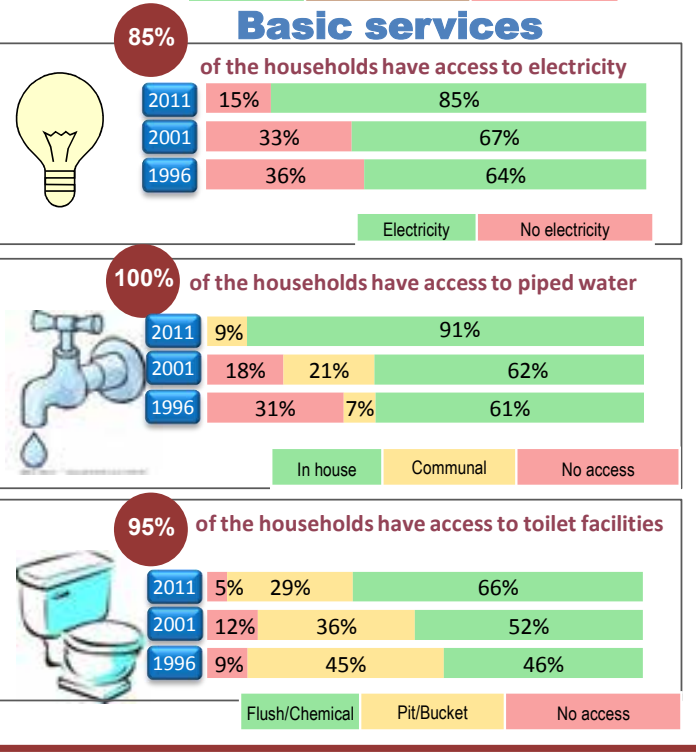
Labour



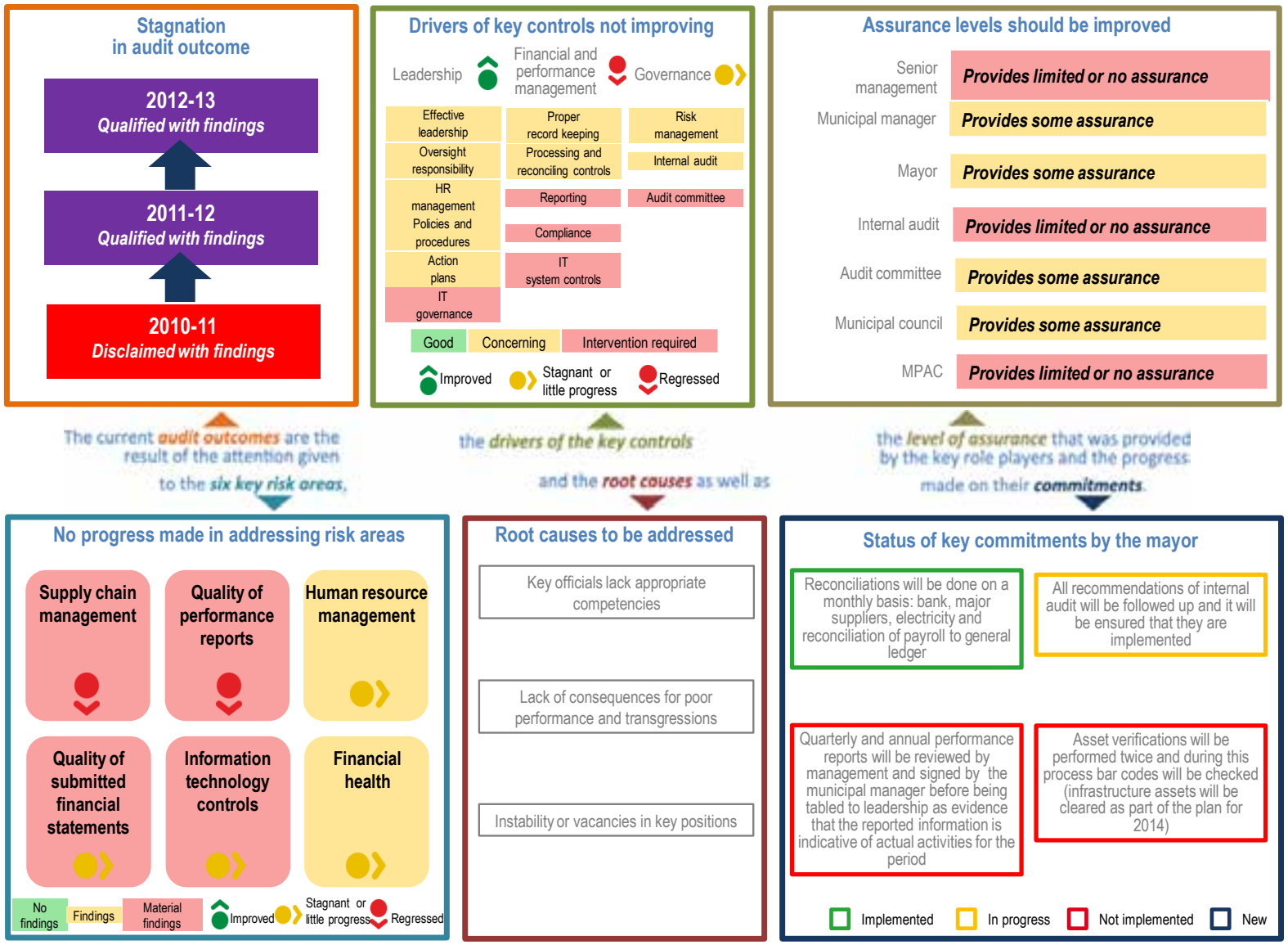
Households



Basic services



Dr Pixley Ka Isaka Seme Local Municipality



Current year audit outcome: ■ *Dr Pixley Ka Isaka Seme Local Municipality*

No change in audit outcome

The audit outcome did not improve, as vacant senior management positions were not filled during the year under review.

Six key risk areas

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

Consultants were again used for financial reporting and the preparation of performance information, at a cost of R3 858 580 (2011-12: R3 784 387). The municipality depended too much on consultants as a result of unfilled vacancies. Consultants were not effectively managed and did not transfer skills, resulting in the continued dependence on them. Consultants were also appointed for duties that could have been performed by municipal staff.

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

The status of SCM remained unsatisfactory, mainly because the municipality did not comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process.

Key controls and root causes

The overall improvement in the key controls was due to the accounting officer ensuring that the municipality had a turnaround strategy to improve the audit outcome.

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

- The municipality should oversee financial and performance management.
- The municipality should implement effective HR management to ensure that adequate and sufficiently skilled officials are in place and that their performance is monitored.
- The municipality should review and monitor compliance with legislation.
- The audit committee should ensure that the internal audit unit spends enough time on reviewing compliance with legislation as well as performance information.

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

- Ensure that adequately skilled senior staff are employed, especially with regard to asset management, performance reporting and SCM.
- Ensure the adequate review and monitoring of SCM processes.
- Ensure that there are consequences for poor performance.

Impact of key role players on audit outcomes

For improved audit outcomes, the assurance levels should be strengthened by ensuring that adequate and skilled senior managers are employed in critical areas as well as by monitoring and reviewing compliance with legislation.

We met with the mayor six times during the year and these interactions had some impact on the audit outcome. The reason for our assessment is the impact that the mayor had on the controls of the municipality as well as the status and impact of previous commitments.

The council committed to fully implement the previous year's commitments, which were to properly reconcile all income and expenditure accounts. The council also made a new commitment to ensure that all assets are accounted for and recognised in terms of Generally Recognised Accounting Practice.

GOVAN MBEKI MUNICIPALITY

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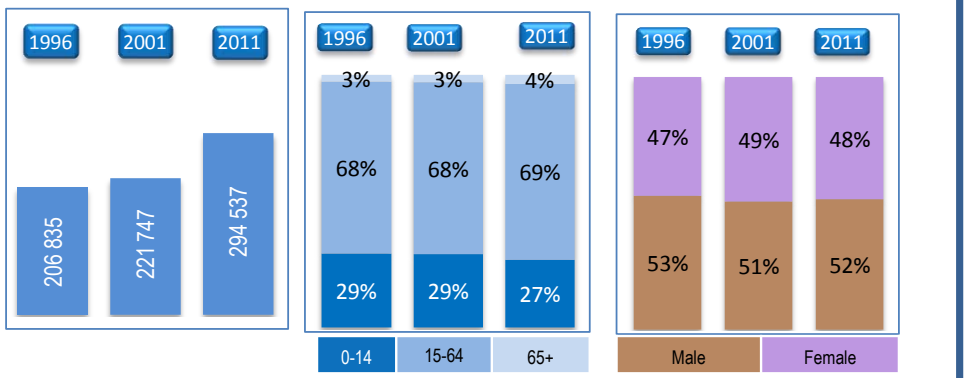
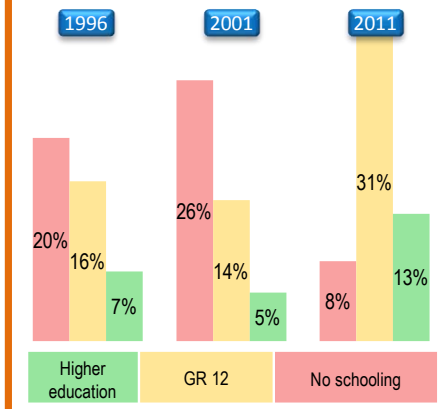
Population



Education



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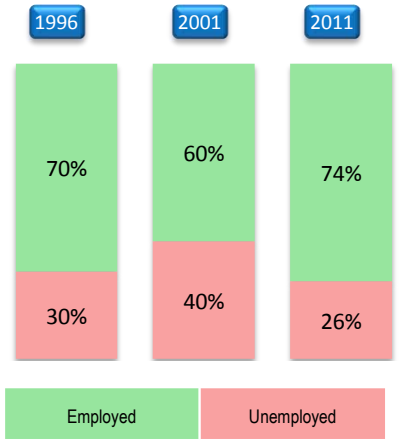
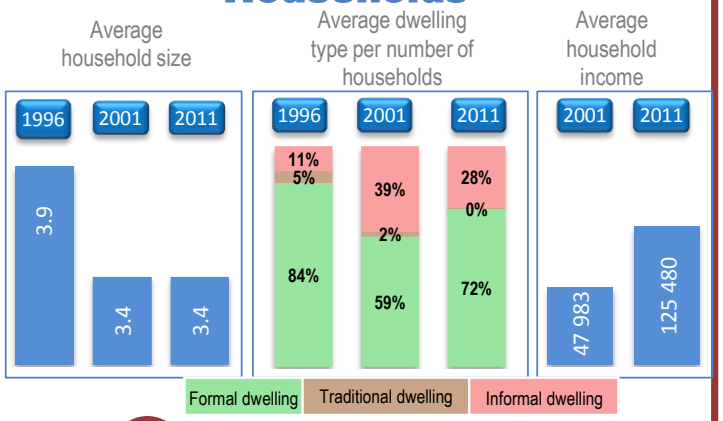
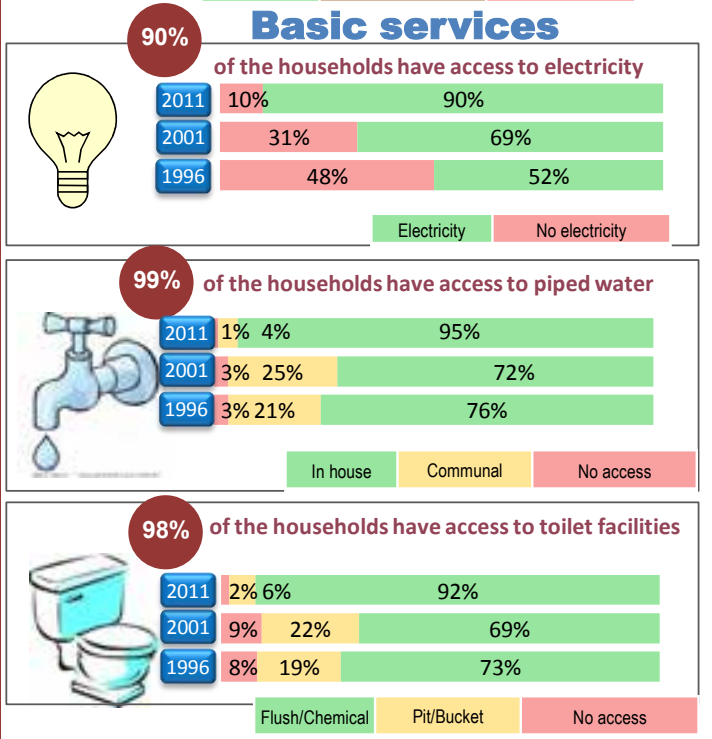
Labour



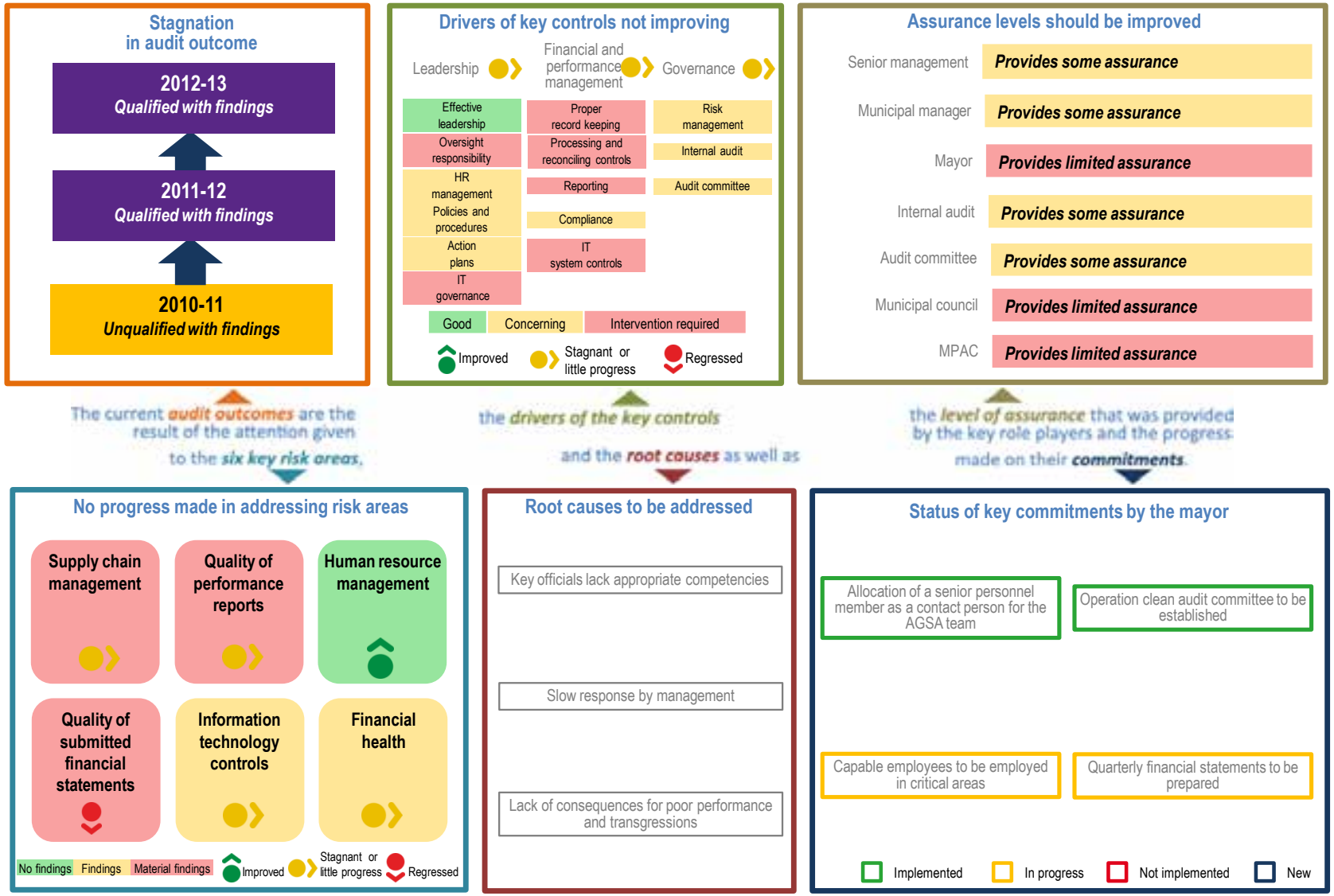
Households



Basic services



Govan Mbeki Local Municipality



Current year audit outcome: Govan Mbeki Local Municipality

No change in audit outcome

Over-reliance on consultants and a lack of appropriate skills and competencies to process and report financial and performance information resulted in the lack of improvement in the audit outcome.

Financial staff were unable to prepare the municipality's financial statements themselves. The municipality continued to rely on the services of consultants to assist with the preparation of financial statements, at a cost of R4 984 292 (2011-12: R1 342 113).

Six key risk areas

The municipality continued to have non-compliance findings on SCM, as proper processes were not followed when procuring goods and services.

There was no consistency between the planned and the reported targets, which made it difficult to confirm whether the municipality had delivered on some of its planned objectives.

Although consultants were used to prepare the financial statements, the financial statements submitted for auditing were not accurate. This indicates that basic accounting disciplines were not performed to ensure the credibility of the underlying data.

Limitations on the scope of our audit continued to be a problem during the testing of compliance and financial statements.

Our concerns relating to the continued use of consultants include their appointment without a proper needs assessment and a lack of transfer of skills. Management was furthermore unable to explain some of the assumptions made by consultants in arriving at the amounts included in the financial statements, indicating that management did not take full responsibility for the financial statements prepared by the consultants.

The financial health of the municipality remained unchanged, as spending of grants continued to be under the budgeted amount. Poor planning of capital spending resulted in project delays. The delayed payment of creditors continued to be the norm at the municipality.

Key controls and root causes

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

- The municipality should implement processes to monitor and track the implementation of the recommendations of governance structures.
- The municipality should implement effective HR management to ensure that adequate and sufficiently skilled officials are in place and that their performance is monitored. Where gaps are identified, for example in the finance section, training should be provided.

Role players should address the root causes of poor audit outcomes and inadequate controls as follows:

- Senior management should take full accountability for the financial statements and performance reports submitted for auditing by ensuring an understanding of the assumptions made in preparing them.
- The mayor should oversee the implementation of both the action plan to address internal and external audit findings and a proper performance management system at all levels.

Impact of key role players on audit outcomes

None of the assurance providers provided full assurance.

We met with the mayor twice during the financial year and these interactions had some impact on the audit outcome. The mayor implemented some of the previous commitments but their impact was not yet visible on the audit outcome.

LEKWA MUNICIPALITY

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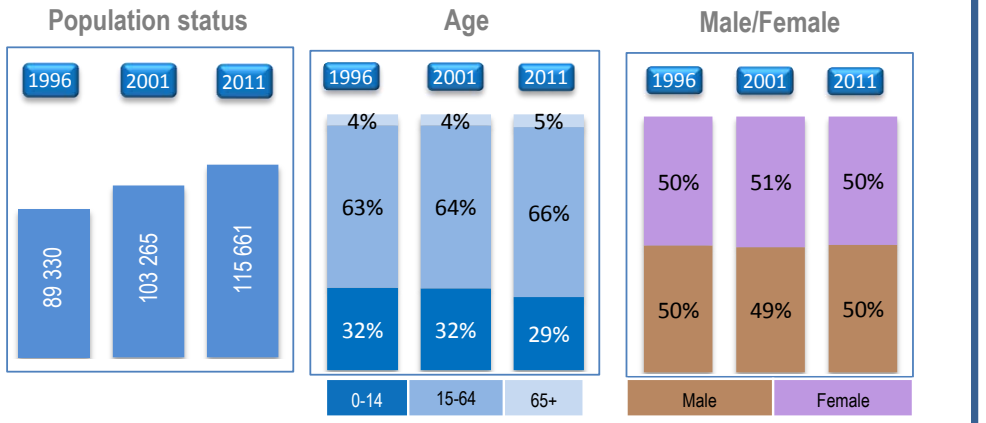
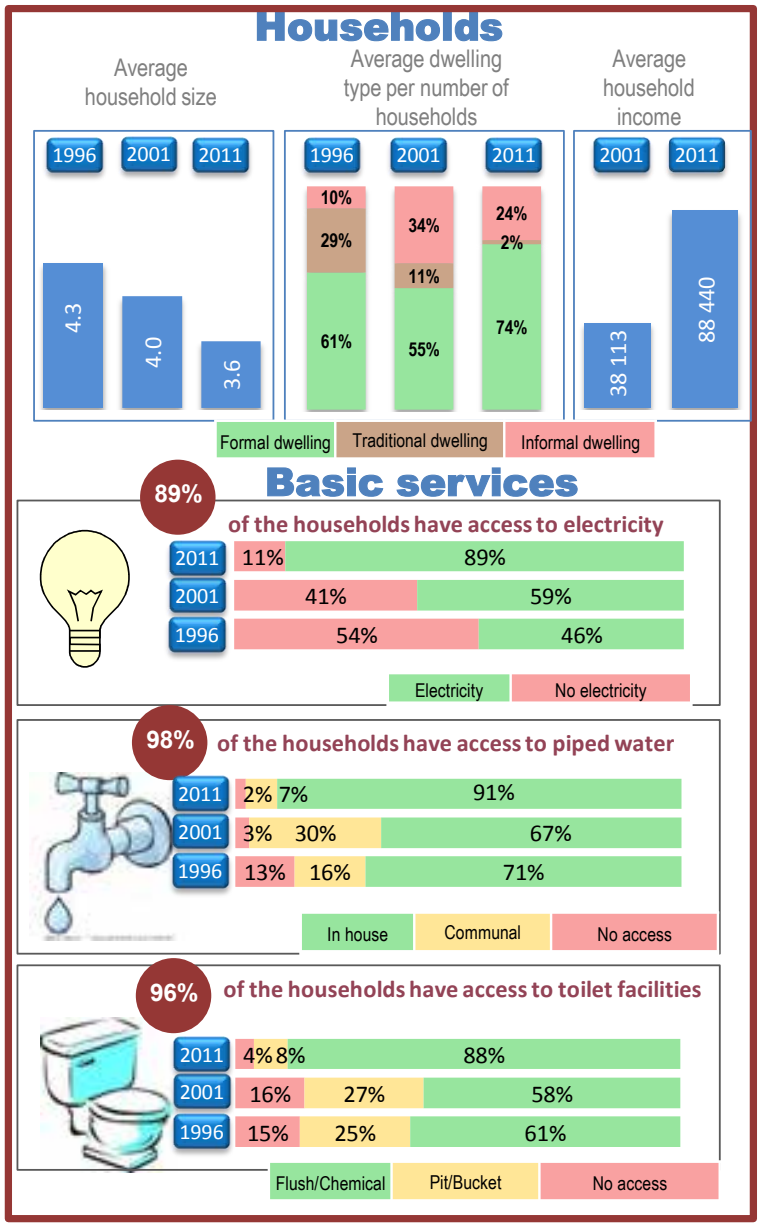
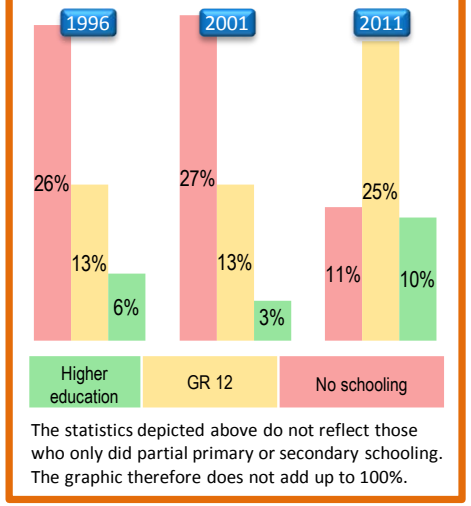
Population



Households



Education



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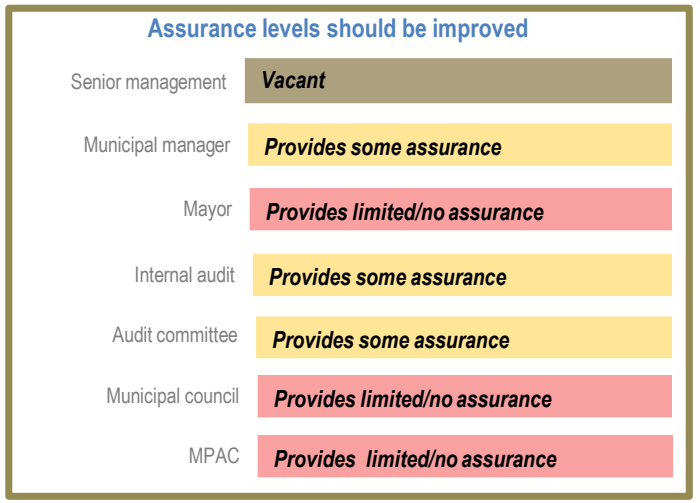
Labour

Lekwa Local Municipality



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

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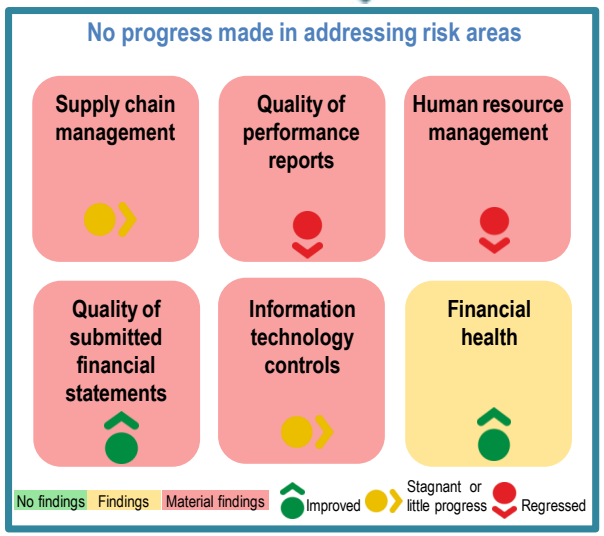
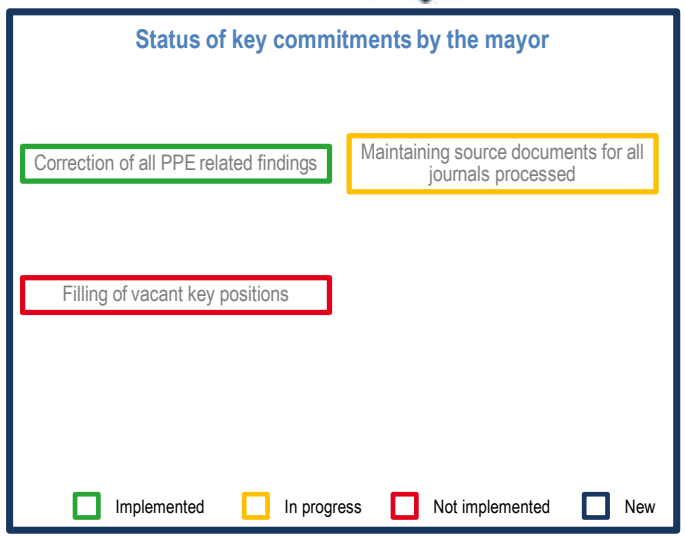
the *level of assurance* that was provided by the key role players and the progress made on their *commitments*.





Current year audit outcome: Lekwa Local Municipality

Significant movement in audit outcome

The use of consultants resulted in the improvement in the audit outcome. The municipality continued to rely on the services of consultants to assist with the preparation of financial statements, at a cost of R3 277 000 (2011-12: R5 000 000). The consultants reviewed the transactions during the year and corrected all identified errors, while also ensuring that the filing system was in order.

Six key risk areas

Non-compliance with SCM legislation remained a challenge, as the municipality did not always apply the preference point system when awarding tenders and did not obtain tax clearance certificates from suppliers.

As there was no consistency between the planning documents and the reported performance, we could not determine whether the municipality had achieved its planned objectives. The performance unit had no dedicated staff and quarterly reporting was not done timeously.

HR management deteriorated, as not all section 56 manager positions and other finance unit vacancies were filled, which put a lot of pressure on the available staff. This was evident in the misstatements identified during the audit and the over-reliance on consultants.

The financial statements were prepared by consultants but there was no transfer of skills. If the consultants were to leave, the audit outcome of the municipality might regress.

The municipality was not in a good financial position, as the delayed payment of creditors, overspending of the operational budget and underspending of conditional grants remained a challenge. In addition, the municipality's current liabilities were more than its assets.

Key controls and root causes

The overall improvement in the key controls was the result of good record management and having competent consultants on site for longer, who were able to make the necessary audit adjustments identified by the auditors.

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

- The municipality should improve the skills and competency levels of existing staff by offering training programmes and short courses on Generally Recognised Accounting Practice to empower them.
- The municipality should implement effective HR management to ensure that adequate and sufficiently skilled officials are in place and that their performance is monitored.

Role players should address the root causes of poor audit outcomes and inadequate controls as follows:

- The council and mayor should lead by example in responding to recommendations by oversight bodies and the external auditors.
- The municipal manager should fill the section 56 manager positions and all other key positions with skilled employees who would be able to develop and monitor action plans to address the current findings.

Impact of key role players on audit outcomes

None of the assurance providers provided full assurance.

We met with the mayor more than three times during the financial year and these interactions had some impact on the audit outcome. The mayor implemented some of the previous commitments, which contributed to the improved audit outcome.

MKHONDO MUNICIPALITY

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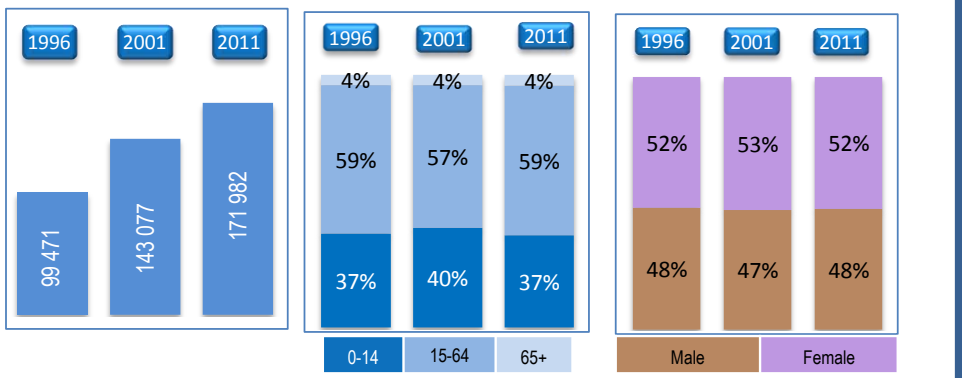
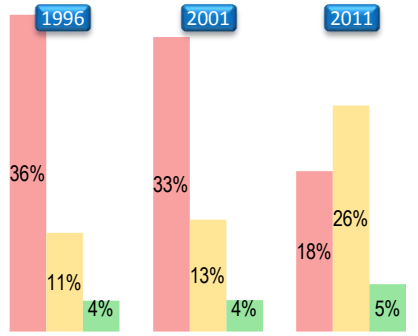
Population



Education



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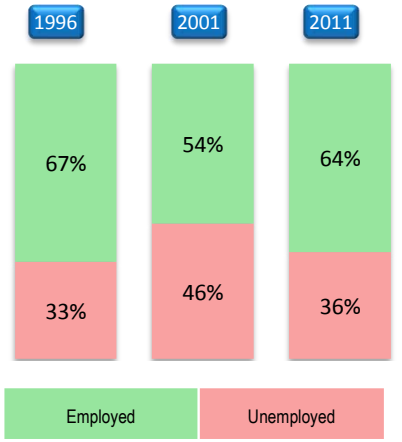
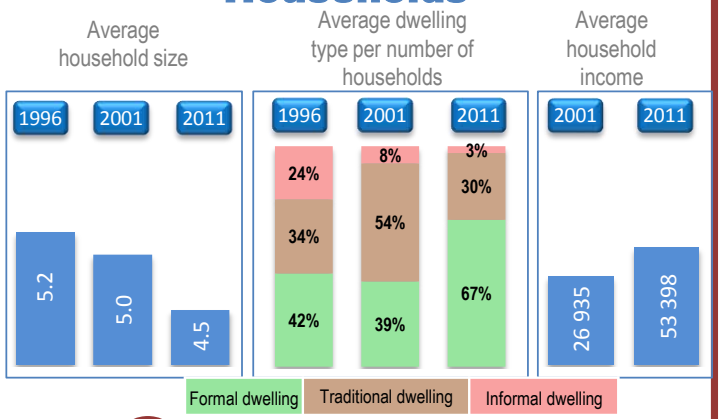
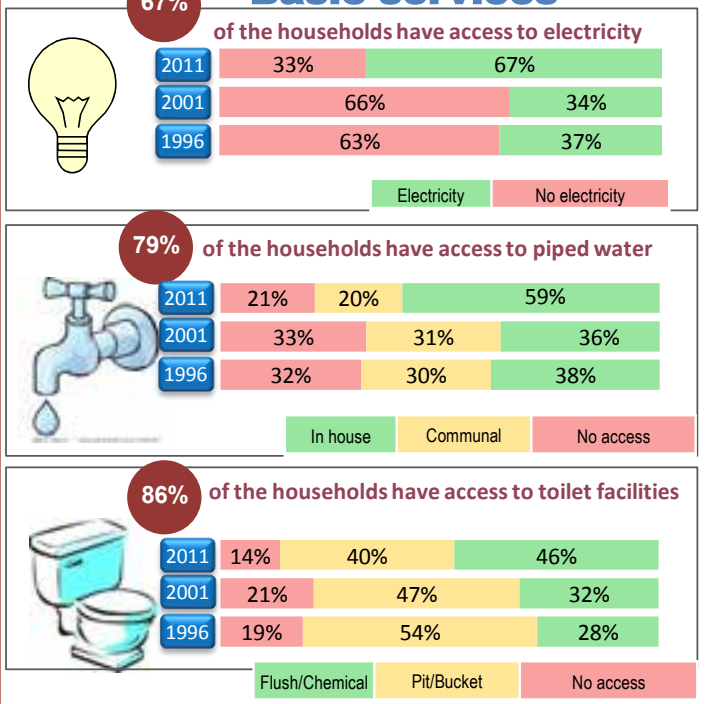
Labour



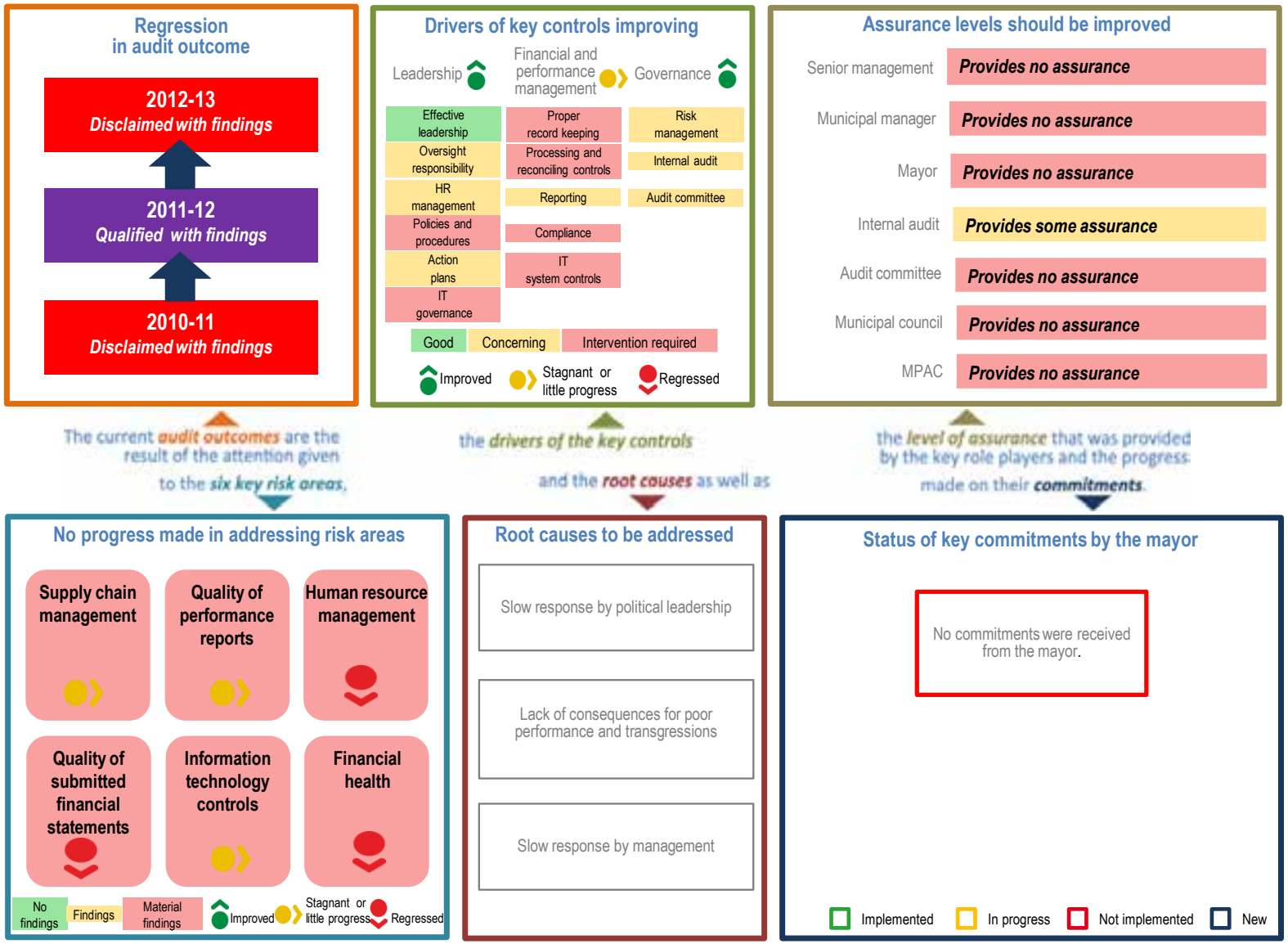
Households



Basic services



Mkhondo Local Municipality



Current year audit outcome: ■ *Mkhondo Local Municipality*

Significant movement in audit outcome

The reason for the regression in the audit outcome was that the municipality did not address the basis for the qualified audit opinion, which included poor asset and liability management. This was because the leadership did not have the required competencies. Performance information was also not useful and reliable.

The municipality did not provide sufficient and appropriate audit evidence for property, plant and equipment, payables from exchange transactions, other financial assets, investment properties, revenue, consumer debtors, provisions, unspent conditional grants, irregular expenditure, commitments, contingent liabilities, material losses, the accumulated surplus and the cash flow statement reflected in the financial statements.

Six key risk areas

No progress was made to address the key risk areas. The quality of the financial statements deteriorated, despite consultants being used for day-to-day accounting entries and the preparation of the financial statements, at a cost of R5 664 932. Our concerns relating to the use of consultants include their ineffective management, consultants being appointed for duties that could have been performed by municipal staff, and overdependence on consultants as a result of a lack of transfer of skills, resulting in continued dependence on them.

The quality of the annual performance report deteriorated. The municipality should focus on aligning the integrated development plan and the service delivery and budget implementation plan as well as on the measurability, monitoring and regular reporting of performance information to address the material findings on the performance report.

The status of SCM remained unsatisfactory, mainly because the municipality did not comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process.

Key controls and root causes

The overall improvement in the key controls was due to the filling of vacancies and the use of consultants. However, the accounting officer and senior management did not monitor the implementation of controls and adequately oversee financial and performance reporting and compliance.

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

- The municipality should implement a system of proper record management.
- The municipality should implement effective HR management to ensure that staff are adequately trained for their respective roles.
- The municipality should develop a proper IT governance structure.

Role players should address the root causes of poor audit outcomes and inadequate controls as follows:

- The audit committee should monitor the progress of the implementation of the action plan to address internal and external audit findings.
- The municipal manager should monitor progress and performance, including appropriate consequence management, and ensure that adequate and skilled staff are employed.
- Senior management should take responsibility for the implementation of the action plan, hold staff accountable, monitor performance, and oversee daily operations and controls.

Impact of key role players on audit outcomes

For improved audit outcomes, the assurance levels should be strengthened by hiring skilled and competent accounting personnel and senior management and by directing the work of the audit committee towards evaluating performance information.

We met with the mayor four times during the financial year and these interactions had only a minimal impact on the audit outcome. The reason for our assessment is the lack of impact that the mayor had on the controls and the inadequate monitoring of the action plan.

MSUKALIGWA MUNICIPALITY

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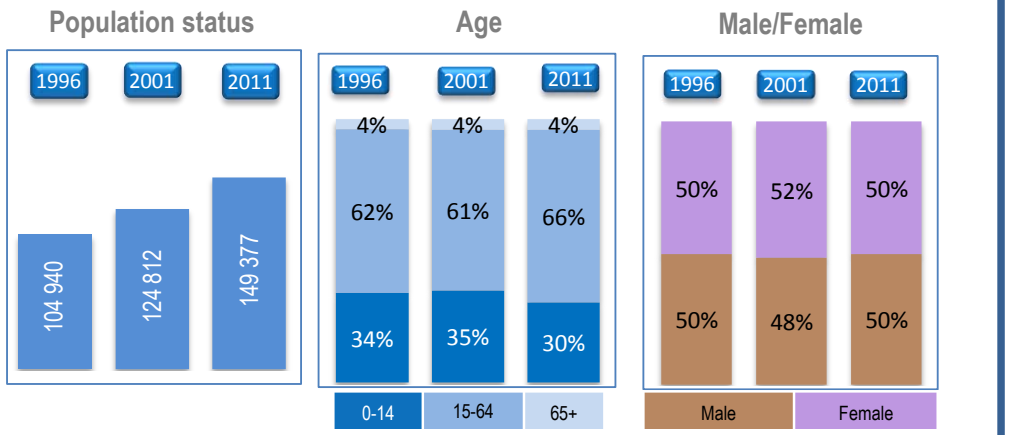
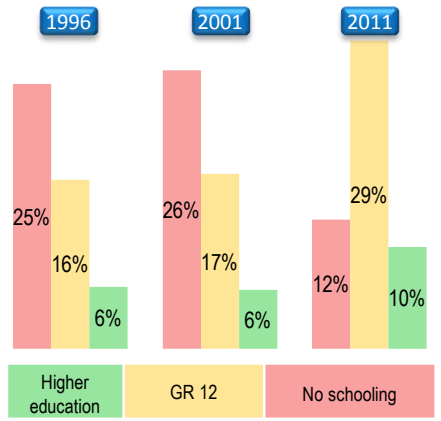
Population



Education



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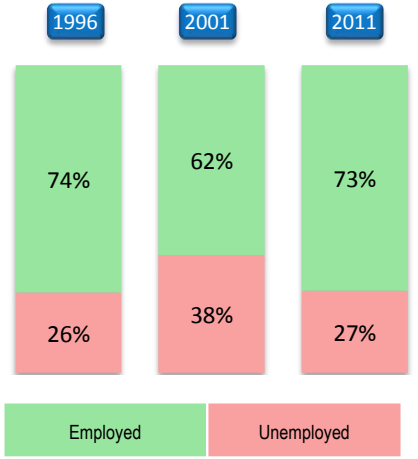
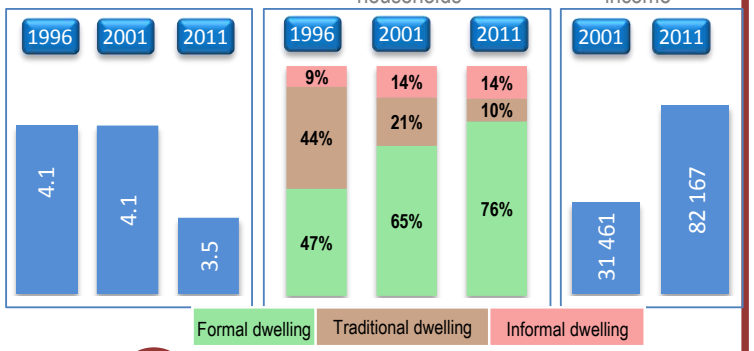
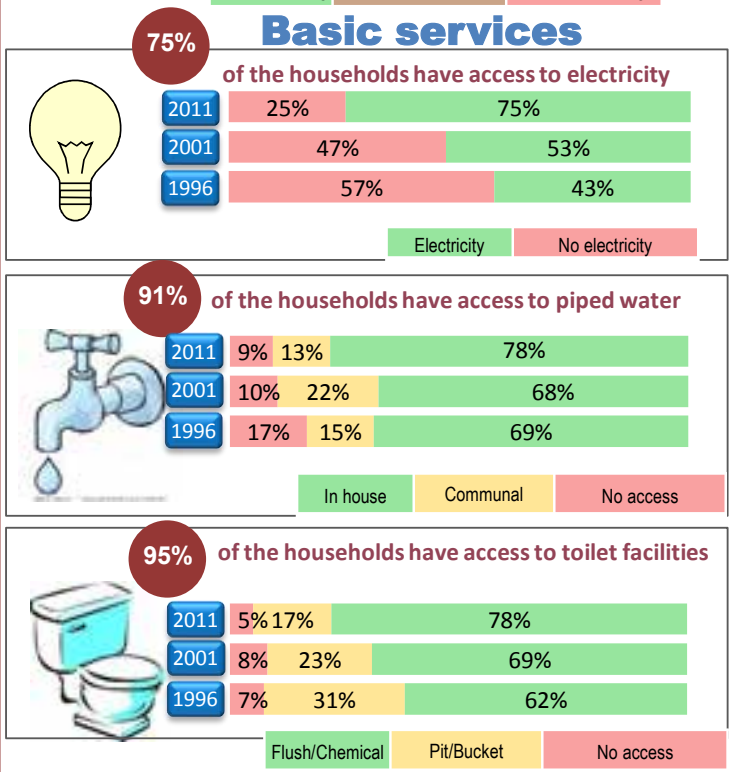
Labour



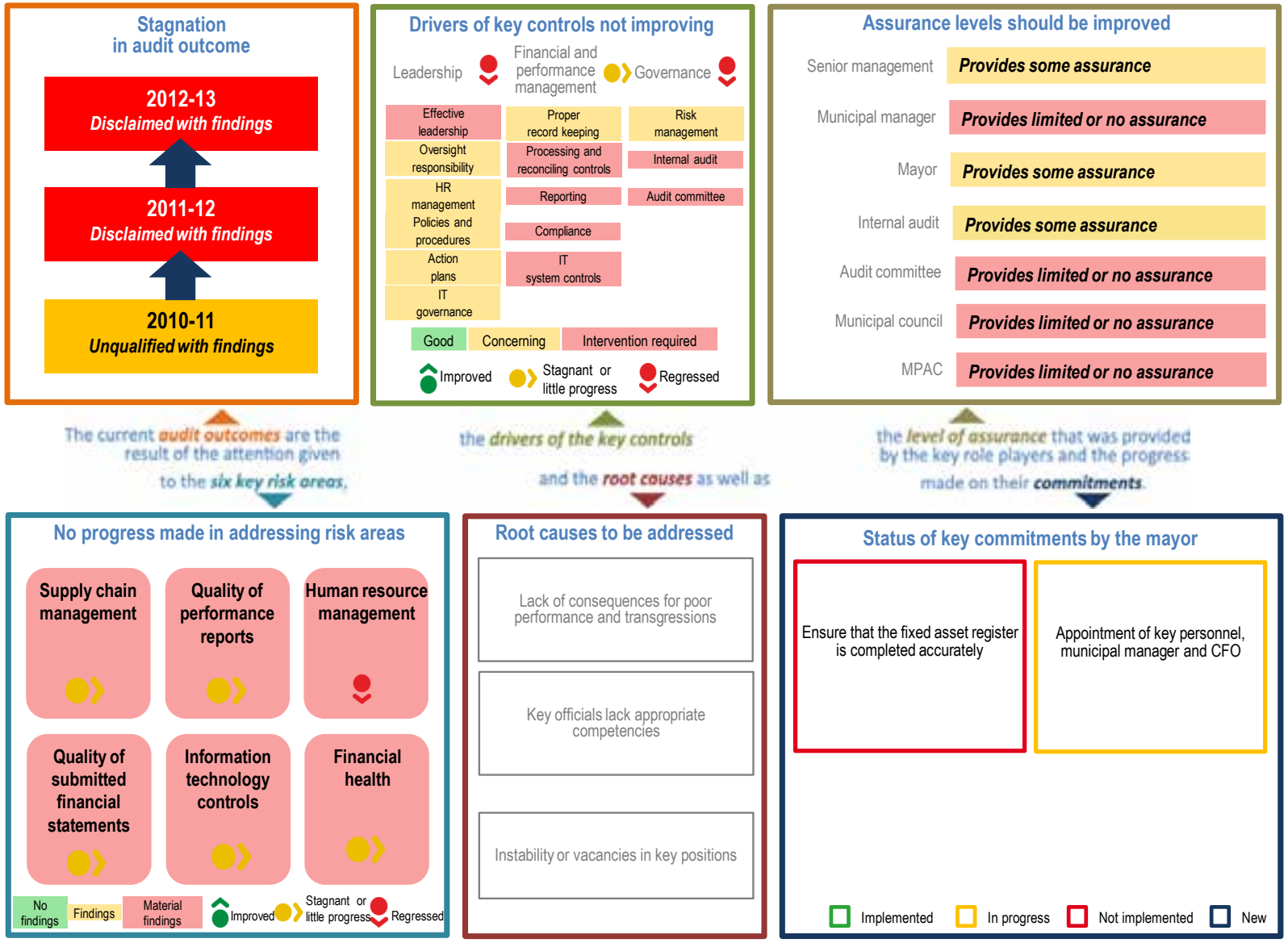
Households



Basic services



Msukaligwa Local Municipality



Current year audit outcome: ***Msukaligwa Local Municipality***

No change in audit outcome

The audit outcome stagnated because the municipality did not address the basis for the disclaimed opinion, which included poor asset management and a lack of proper supporting documents for reported line items. This was as a result of senior management not being committed to improving the audit outcome. Performance information was also not useful and reliable, while various instances of non-compliance were identified. The municipality should develop a proper record-keeping system to prevent a loss of documentation.

Six key risk areas

No progress was made to address the key risk areas. The quality of the financial statements did not improve when compared to that of the previous year. The municipality used consultants to assist with the entire financial process, including compiling financial statements, at a cost of R11 329 734. However, consultants were not effectively managed and were appointed for duties that could have been performed by municipal staff.

The quality of the annual performance report deteriorated. The municipality should focus on the usefulness, measurability, monitoring and regular reporting of performance information to address the material findings on its performance report.

The status of SCM remained unsatisfactory, mainly because the municipality did not comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process. Furthermore, the adjudication committee did not always assess bids, and awards were made to employees of the municipality.

Key controls and root causes

The overall deterioration in the key controls was caused by a lack of commitment by those charged with governance. This resulted in financial and performance reporting and compliance not being overseen at all.

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

- The municipality should implement a system of proper and accurate record management.
- The municipality should prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information, which should be reviewed by oversight committees (namely, the internal audit unit and the audit committee).
- The municipality should ensure that competent people are appointed in the key vacant positions of chief financial officer and municipal manager.

Role players should address the root causes of poor audit outcomes and inadequate controls as follows:

- The council should ensure that the municipal manager and chief financial officer positions are filled as a matter of urgency.
- Senior management should ensure that quality financial and performance reports are produced and submitted to the oversight committees on time, by adequately reviewing the reports and related supporting documentation.

Impact of key role players on audit outcomes

For improved audit outcomes, the assurance levels should be strengthened by implementing external and internal audit recommendations and by directing the work of the audit committee towards evaluating performance information. An asset manager needs to be appointed to oversee asset maintenance.

We met with the mayor twice during the financial year and these interactions had a minimal impact on the audit outcome.

Nkangala District

NKANGALA DISTRICT

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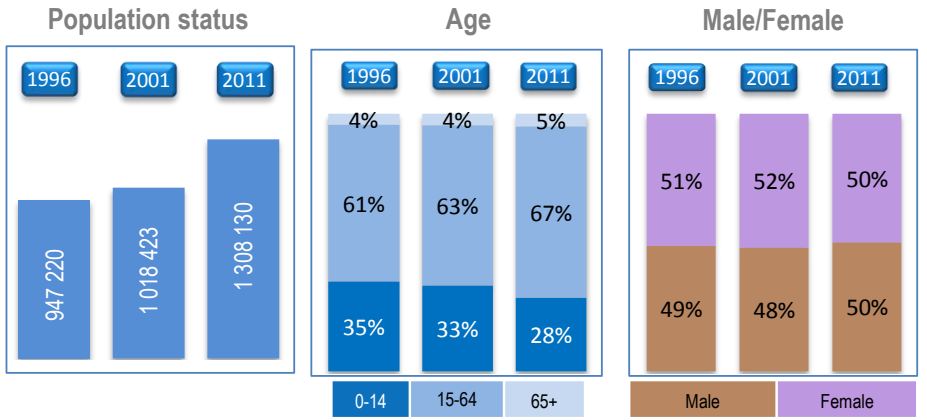
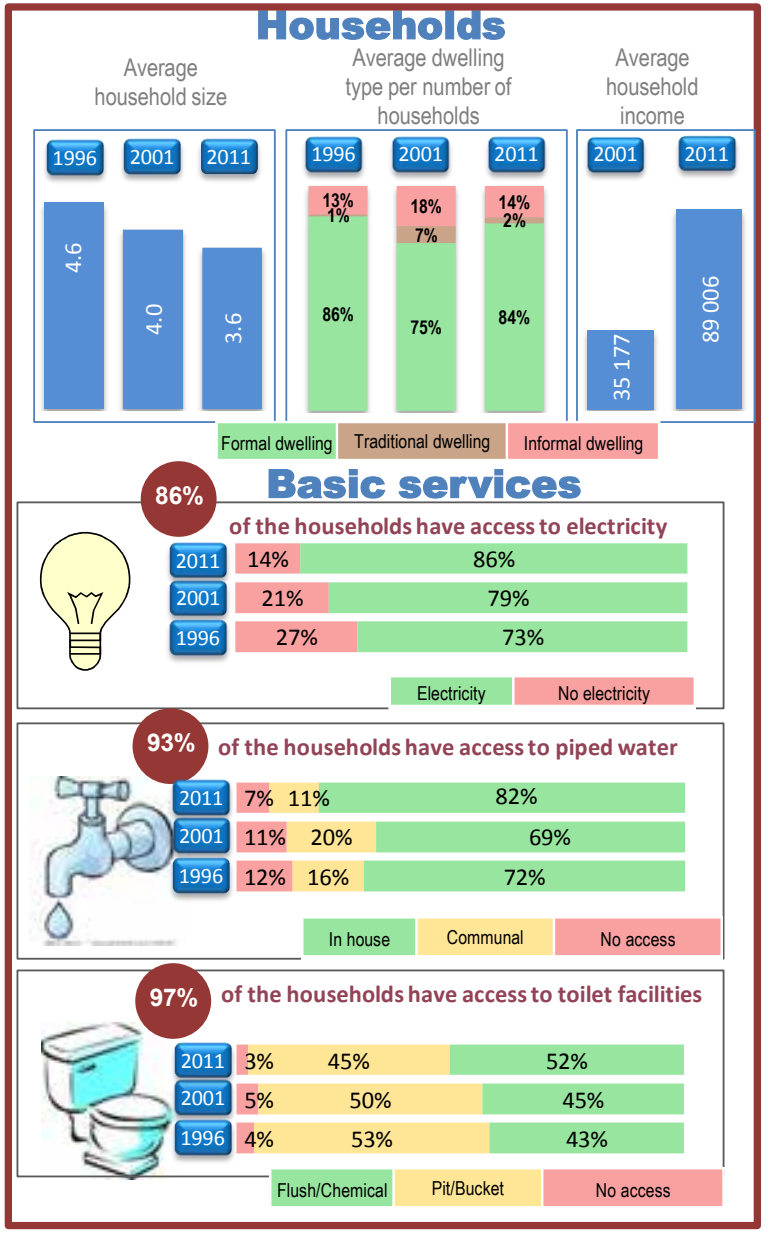
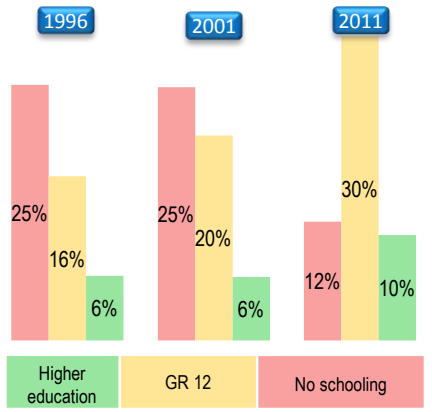
Population



Households



Education



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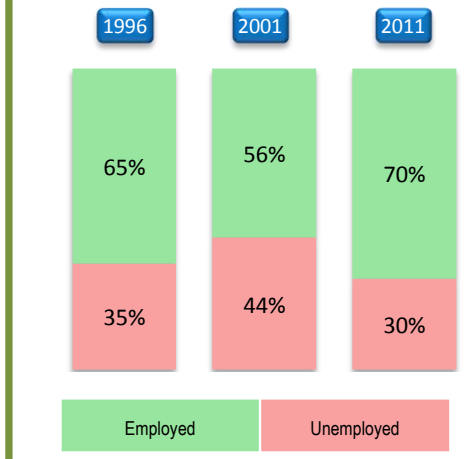
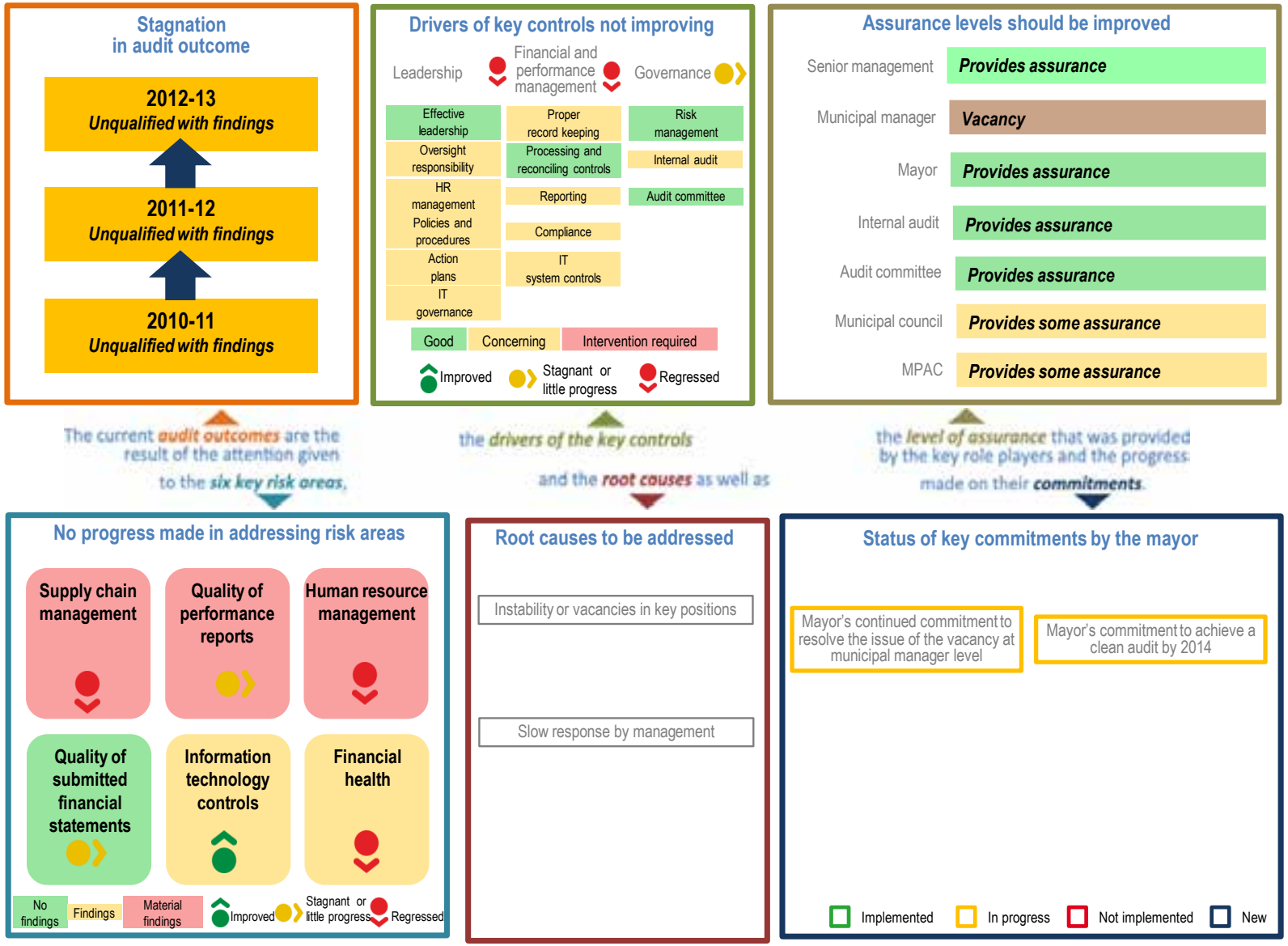
Labour



Nkangala District Municipality



Current year audit outcome: ■ *Nkangala District Municipality*

No change in audit outcome

The municipality continued to obtain an unqualified opinion with findings and is struggling to move to the desired outcome of a clean audit. This is mainly due to the leadership not paying enough attention to SCM and the quality of performance reports as well as delays in the appointment of a municipal manager.

Six key risk areas

Not much progress has been made to address the risk areas.

The position of municipal manager was vacant for far too long. However, some progress has been in this regard, as the case of the previous municipal manager was finalised and the municipality appointed a municipal manager in the new financial year.

We again reported findings on performance information regarding the misalignment of indicators in the integrated development plan and the service delivery and budget implementation plan as well as targets that were not measurable. Management did not pay much attention to our recommendations in the previous year.

SCM regressed, as evidenced by the increased findings in this regard, while not much progress was made in the area of IT controls. Management needs to pay more attention to these two areas.

Key controls and root causes

The overall deterioration in the key controls was caused by the leadership not paying enough attention to the continued monitoring of controls and not taking appropriate actions to correct shortcomings.

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

- The municipality should strengthen oversight of financial and performance management.
- The municipality should implement effective HR management to ensure that adequate and sufficiently skilled officials are in place and that their performance is monitored.
- The municipality should regularly review and monitor compliance with legislation.

Impact of key role players on audit outcomes

Senior management should strengthen the assurance levels to improve the audit outcome, with the municipal manager taking the lead in this regard.

We met with the mayor three times during the financial year. These interactions had a minimal impact on improving the audit outcome, but assisted the municipality to maintain an unqualified opinion.

The council should be actively involved in ensuring that management develops a credible action plan to address audit findings. The council should also continuously monitor the progress of the implementation of the action plan, and hold management accountable for a lack of progress in this regard.

DR JS MOROKA MUNICIPALITY

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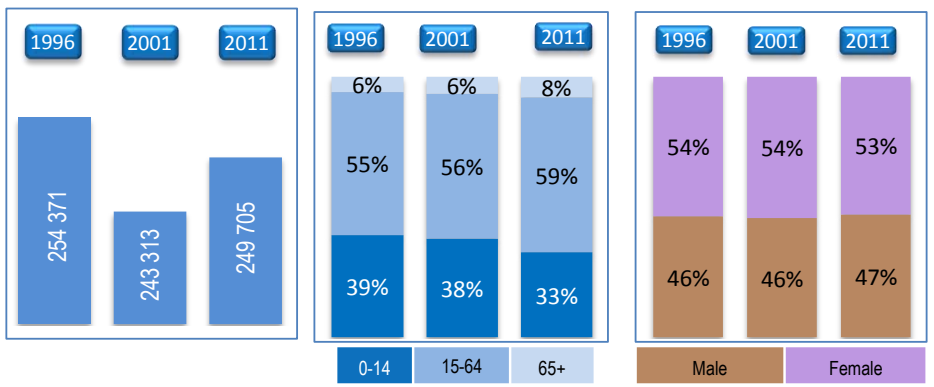
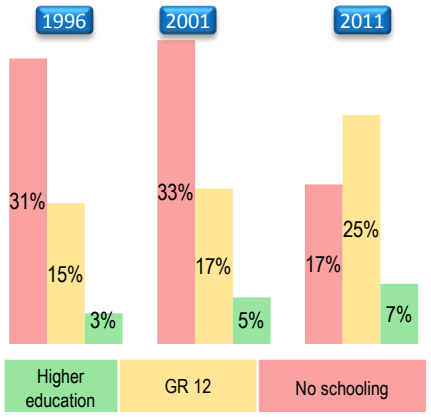
Population



Education



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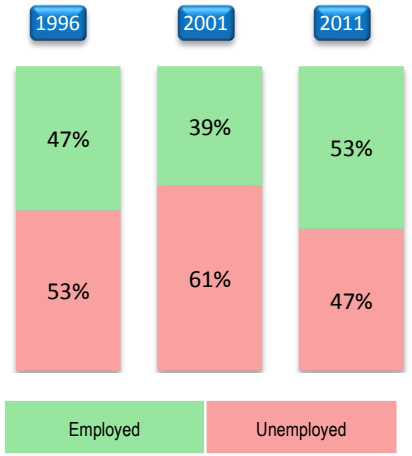
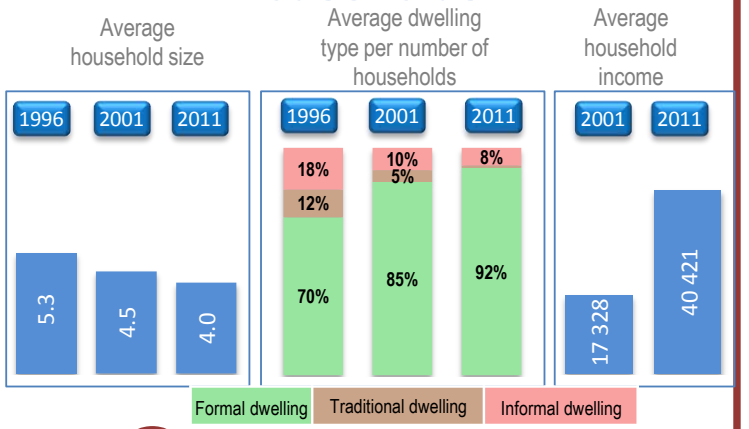
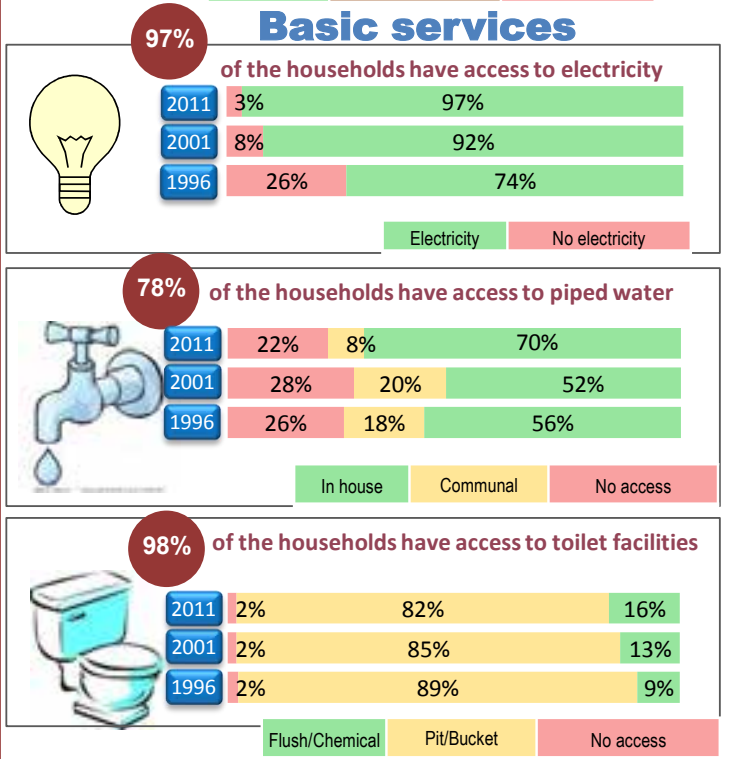
Labour



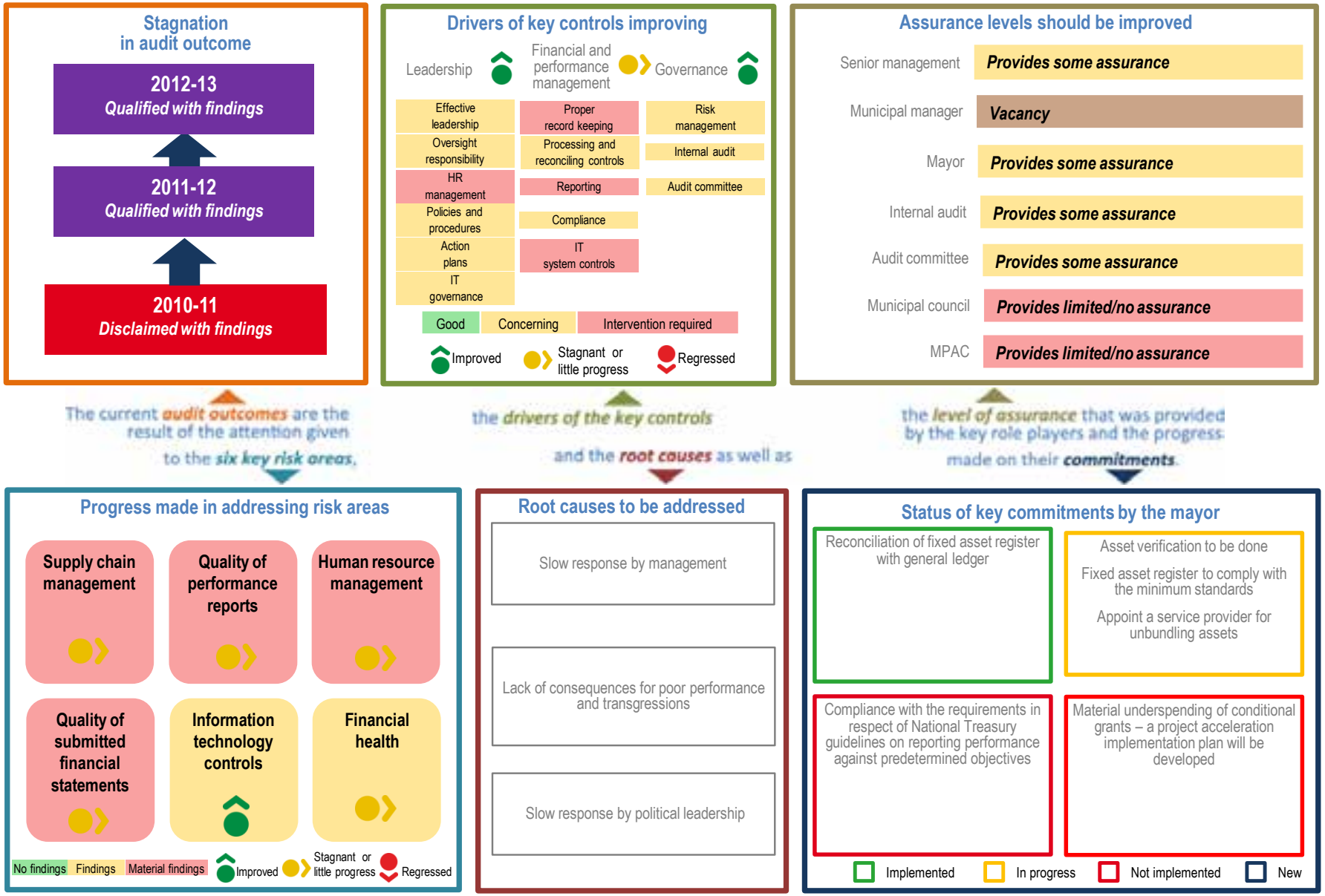
Households



Basic services



Dr JS Moroka Local Municipality



Current year audit outcome: ■ *Dr JS Moroka Local Municipality*

No change in audit outcome

The municipality maintained its qualified opinion, but there was a noticeable improvement in the findings.

The municipality continued to rely on consultants to assist with the preparation of financial statements, at a cost of R971 986.

Six key risk areas

Some progress was made to address the key risk areas, most notably in the areas of IT controls, the quality of the submitted financial statements and financial health. The services of consultants were again used for financial reporting, including asset management, at a cost of R2 671 986. Consultants were appointed without performing a proper needs assessment, while they also did not transfer skills.

The quality of the annual performance report did not improve. The municipality should focus on the measurability and the consistency of the reported performance information.

The financial health of the municipality did not improve and they materially underspent their conditional grants. The debt-collection rate regressed and the excessive impairment of debt continued.

The status of SCM remained a concern, as there was a limitation on the audit documents due to a fire in 2011-12. The municipality incurred irregular expenditure due to non-compliance with the legislative requirement to make use of the preference point system through a competitive bidding process.

The municipality experienced a high vacancy rate at senior management level, while the position of accounting officer was also vacant.

Key controls and root causes

Key controls did not improve, as management did not have a proper action plan to address the root causes of prior year audit findings. The action plan was implemented late and was not adequately monitored.

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

- The municipality should oversee financial and performance management.
- The municipality should implement effective HR management to ensure that adequate and sufficiently skilled officials are in place and that their performance is monitored.

Role players should address the root causes of poor audit outcomes and inadequate controls as follows:

- The council should urgently fill the municipal manager vacancy. The municipal manager should in turn ensure stability at senior management level.
- Senior management should ensure that an action plan to address the root causes of internal and external audit findings is developed and closely monitored.
- Consultants should transfer skills during their appointment to ensure that staff are empowered to perform their duties and to lessen the over-reliance on consultants.
- The council and mayor should ensure that the municipal manager and staff implement internal controls.
- Daily and monthly internal controls should be strengthened to ensure appropriate accounting throughout the year.

Impact of key role players on audit outcomes

We met with the mayor twice during the financial year. These interactions had only some impact on the audit outcome, due to the vacant accounting officer position as well as the status and impact of the commitments previously made. The assurance levels should be improved by appointing an accounting officer to ensure leadership stability and monitor the action plan.

An MPAC was appointed, but was not effective in its oversight role.

EMAKHAZENI MUNICIPALITY

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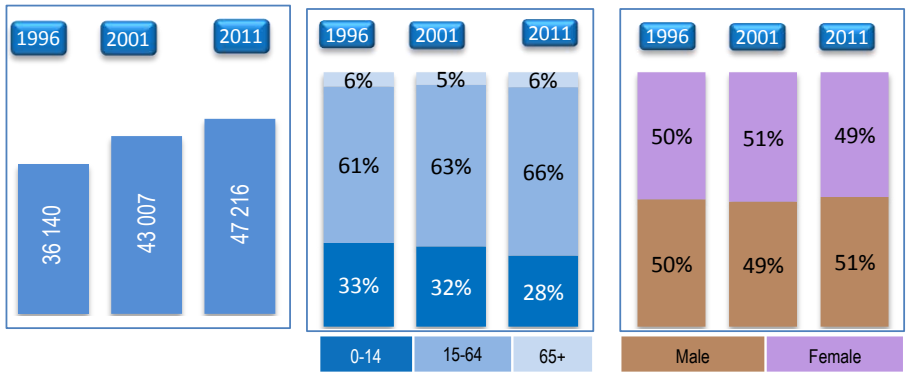
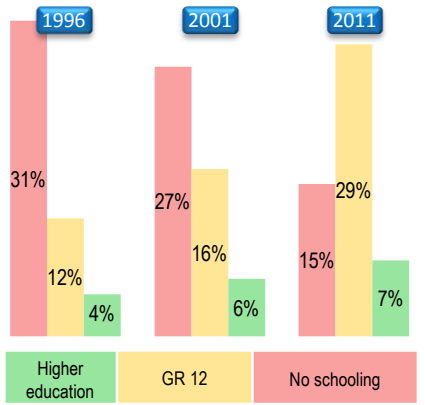
Population



Education



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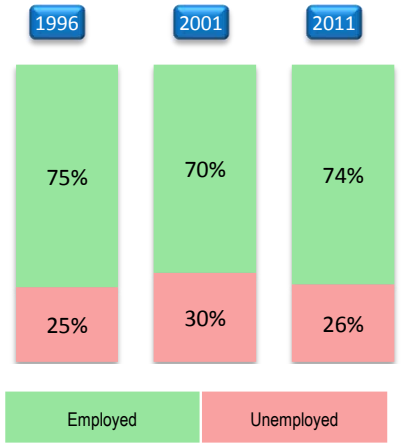
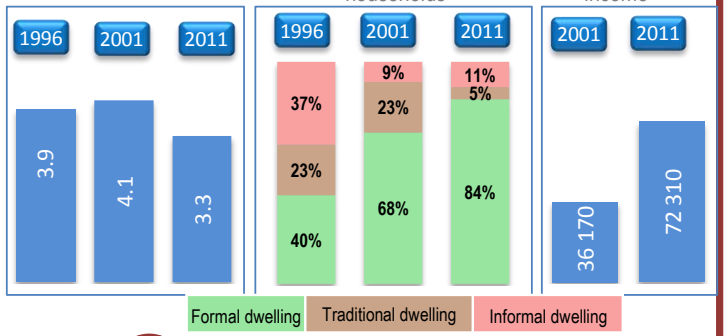
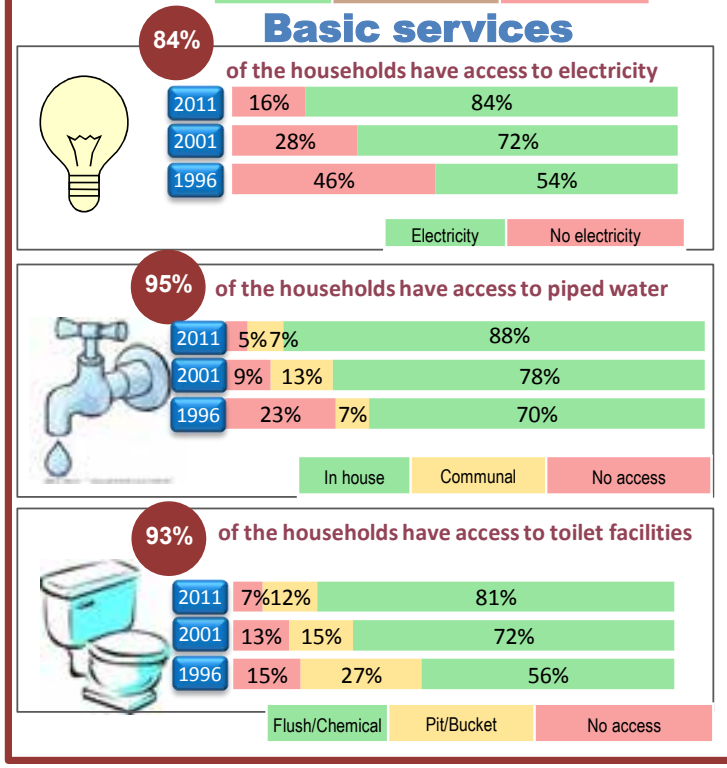
Labour



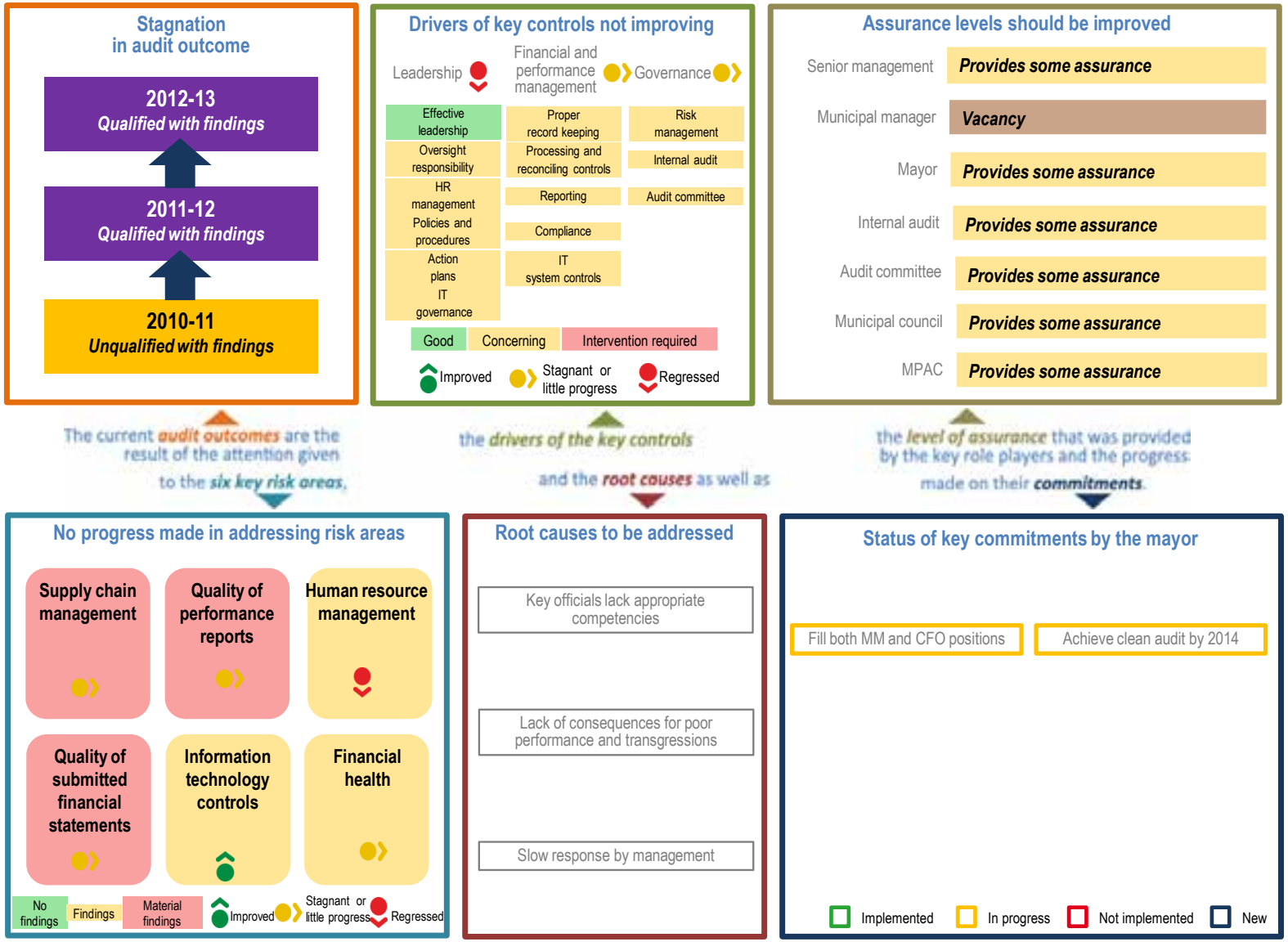
Households



Basic services



Emakhazeni Local Municipality



Current year audit outcome: ■ *Emakhazeni Local Municipality*

No change in audit outcome

The municipality again obtained a qualified opinion. The municipality's efforts to address prior year audit findings were not enough to ensure an improved audit outcome. HR management is preventing the municipality from progressing, as the key positions of municipal manager and chief financial officer remained vacant.

Six key risk areas

The municipality is still haunted by opening balances on fixed assets; a problem created mainly by the municipality's failure to provide appropriate audit evidence to support the valuation of infrastructure assets.

Despite efforts by the municipality to fill vacancies, it still had many vacant key management positions. Officials have been acting in the municipal manager and chief financial officer positions for over a year. Inadequate financial resources contributed to this problem, as the municipality failed to attract the right people with the necessary skills.

The status of SCM remained unsatisfactory, mainly as a result of the municipality not complying with the legislative requirement to obtain three quotations.

The quality of the annual performance report did not improve. Municipal staff need extensive training on predetermined objectives.

Not much progress was made in the area of IT controls, and management needs to pay more attention to this area.

The municipality still faced cash-flow challenges, which made it difficult for them to honour obligations within the agreed-upon periods. This situation requires urgent attention, as it is likely to create going concern challenges if not addressed soon.

Key controls and root causes

The overall deterioration in the key controls was caused by prolonged vacancies in key positions; the incumbents of which should be leading the process of developing and monitoring controls.

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

- The municipality should exercise oversight regarding financial and performance management.
- The municipality should implement effective HR management to ensure that adequate and sufficiently skilled officials are in place and that their performance is monitored.
- The municipality should develop action plans that address the root causes of internal control deficiencies, and monitor the implementation thereof.

Role players should address the root causes of poor audit outcomes and inadequate controls as follows:

- The mayor should urgently fill the vacancies in key positions.
- The council should be actively involved in ensuring that management develops a credible action plan to address audit findings. The council should also continuously monitor the progress of the implementation of such a plan, and hold management accountable for a lack of progress.

Impact of key role players on audit outcomes

To improve the audit outcome, management should strengthen the assurance levels, with the municipal manager taking the lead in this regard.

We met with the mayor three times during the financial year and these interactions had only a minimal impact on the audit outcome.

EMALAHLENI MUNICIPALITY

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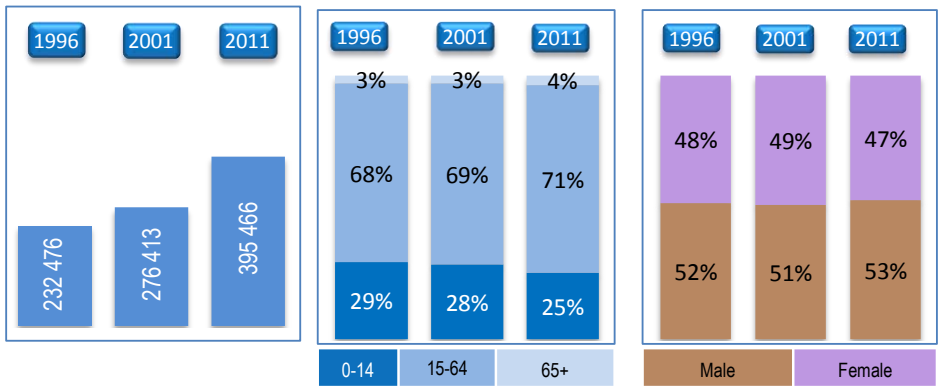
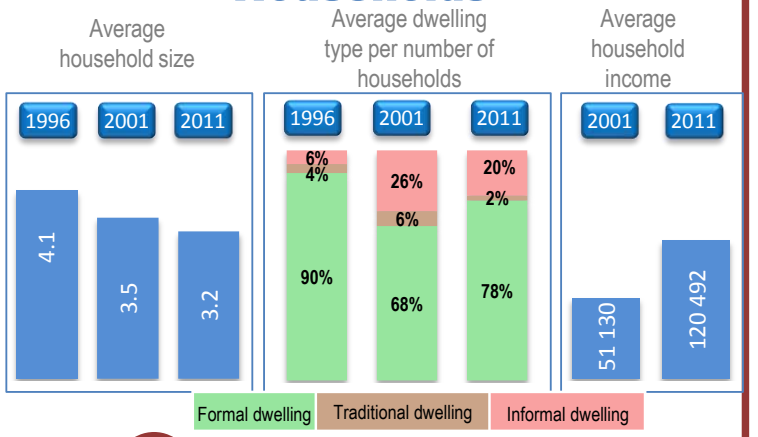
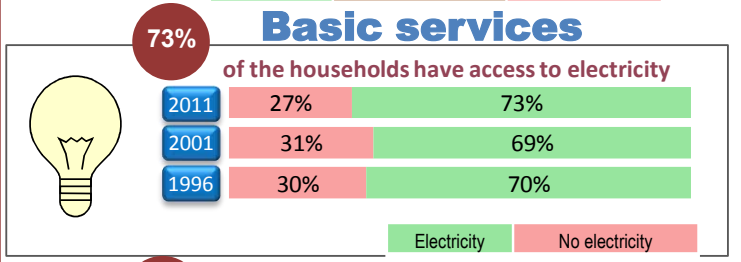
Population

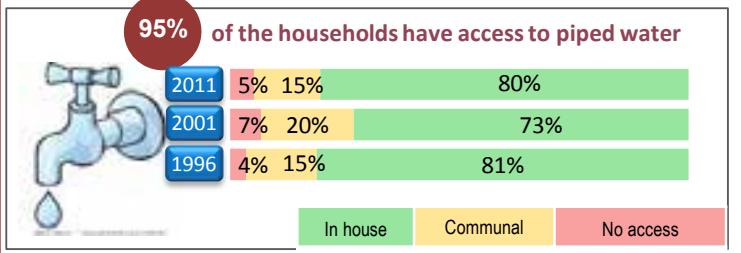


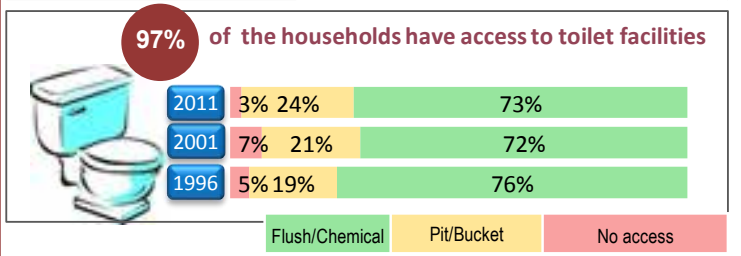
Households



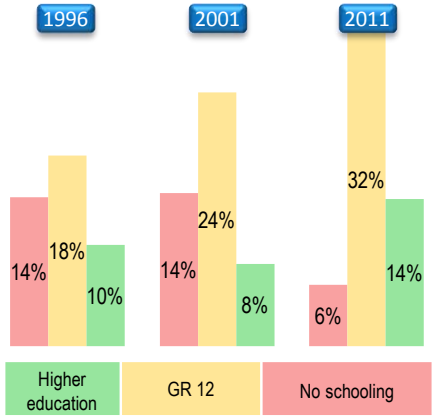
Basic services







Education



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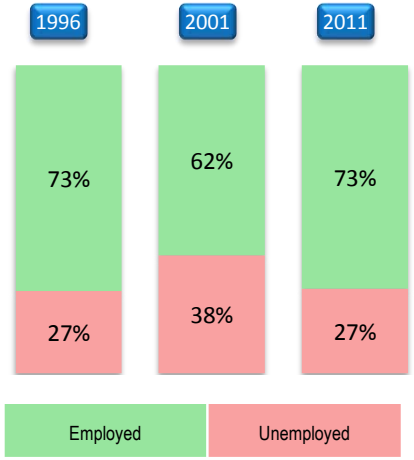
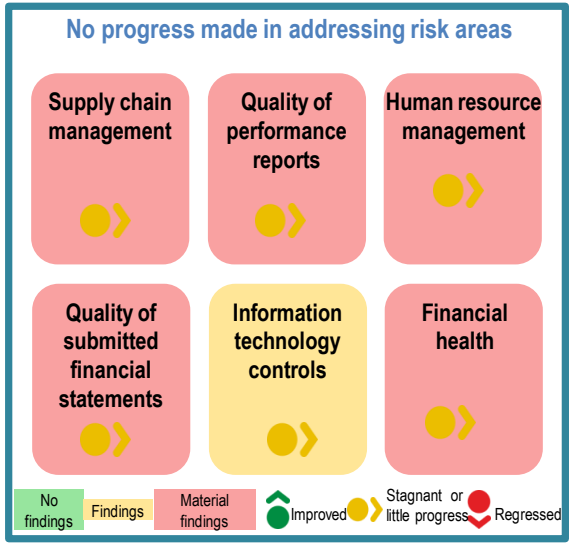
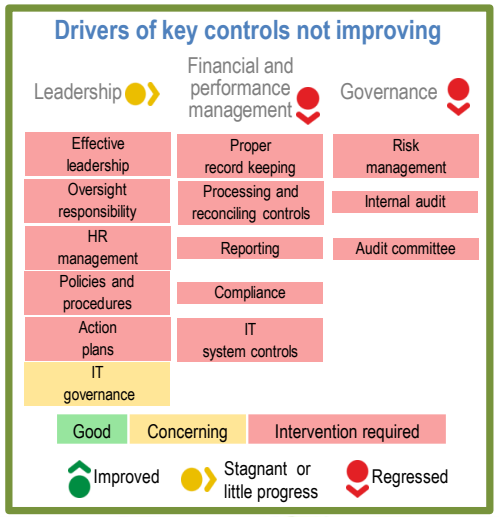
Labour



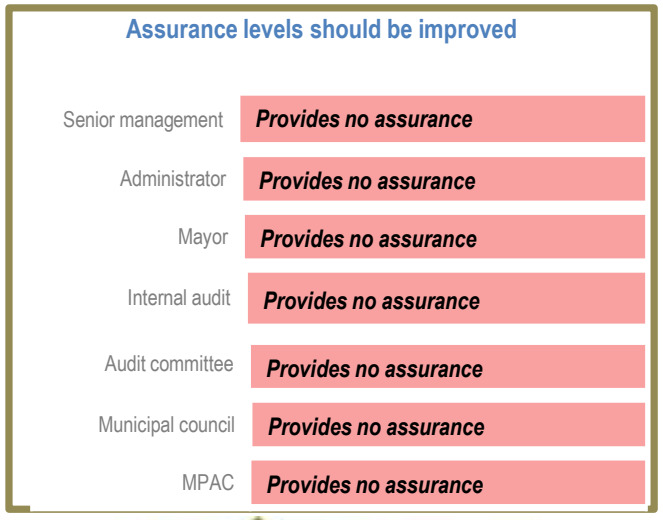
Emalahleni Local Municipality

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

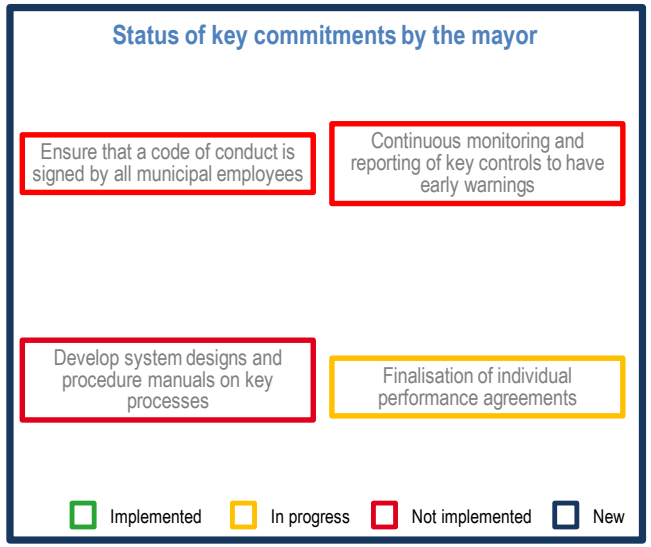




the *drivers of the key controls* and the *root causes* as well as



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



Current year audit outcome: ■ *Emalahleni Local Municipality*

No change in audit outcome

The audit outcome has not changed from the previous year, as the municipality had a weak control environment and officials lacked a work ethic and commitment to internal controls.

An action plan to address prior year findings was developed but was not properly monitored, resulting in repeat findings.

There was no cooperation between the political leadership and the accounting officer, resulting in leadership instability. As a consequence, the municipality's control environment deteriorated further and the municipality was put under administration in April 2013.

Six key risk areas

There were material findings on all key areas, with no improvements since the previous year. The municipality continued to struggle to implement proper financial management and therefore operated in crisis mode.

We again raised significant non-compliance findings relating to SCM, as supporting documents could still not be submitted for audit purposes, indicating the possibility of fraudulent activities.

Material findings relating to HR management persisted, including senior positions not being filled within the required period and some senior officials not timeously signing performance contracts.

The financial statements and performance report were of a poor quality, mainly because the underlying data used to prepare them was not accurate and the officials responsible for preparing them did not have sufficient knowledge and skills. The municipality still struggled to submit supporting documents. Although they continued to use consultants to assist with asset management, we again identified material findings in this regard, while the consultants also did not transfer skills to municipal staff.

The municipality did not have a dedicated unit or person to deal with performance reports. They also did not have documented policies and procedures to properly plan for predetermined objectives and performance reporting.

The municipality was developing IT policies and had finalised the development of some, but these policies did not cover critical IT areas and progress was slow.

Key controls and root causes

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

- HR management policies should be developed and adhered to, as there is a high vacancy rate and officials lack the skills required to execute their responsibilities.
- The audit committee and internal audit unit should become more effective.
- Management should properly monitor action plans.

Role players should address the root causes of poor audit outcomes and inadequate controls as follows:

- The council should ensure that the handover process between the administrator and the accounting officer goes smoothly. The council should oversee the implementation of the turnaround strategy and take action against transgressors.
- Senior management should develop an adequate plan to address the root causes of internal and external audit findings. Performance management should also be implemented at all levels to improve the internal control environment.
- The mayor should assess the effectiveness of the internal audit unit and audit committee, and implement corrective action to improve their effectiveness.

Impact of key role players on audit outcomes

The role players did not provide the expected level of assurance, which had a negative impact on the audit outcome. The mayor and the accounting officer not working well together resulted in the internal audit unit and audit committee not being effective.

The MPAC did not have the required skills to exercise oversight. In addition, the committee was not adequately supported by senior management.

STEVE TSHWETE MUNICIPALITY

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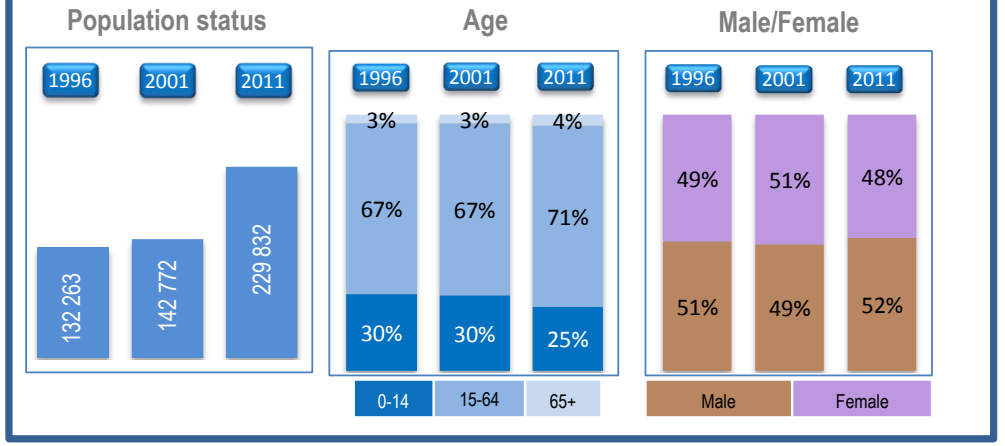
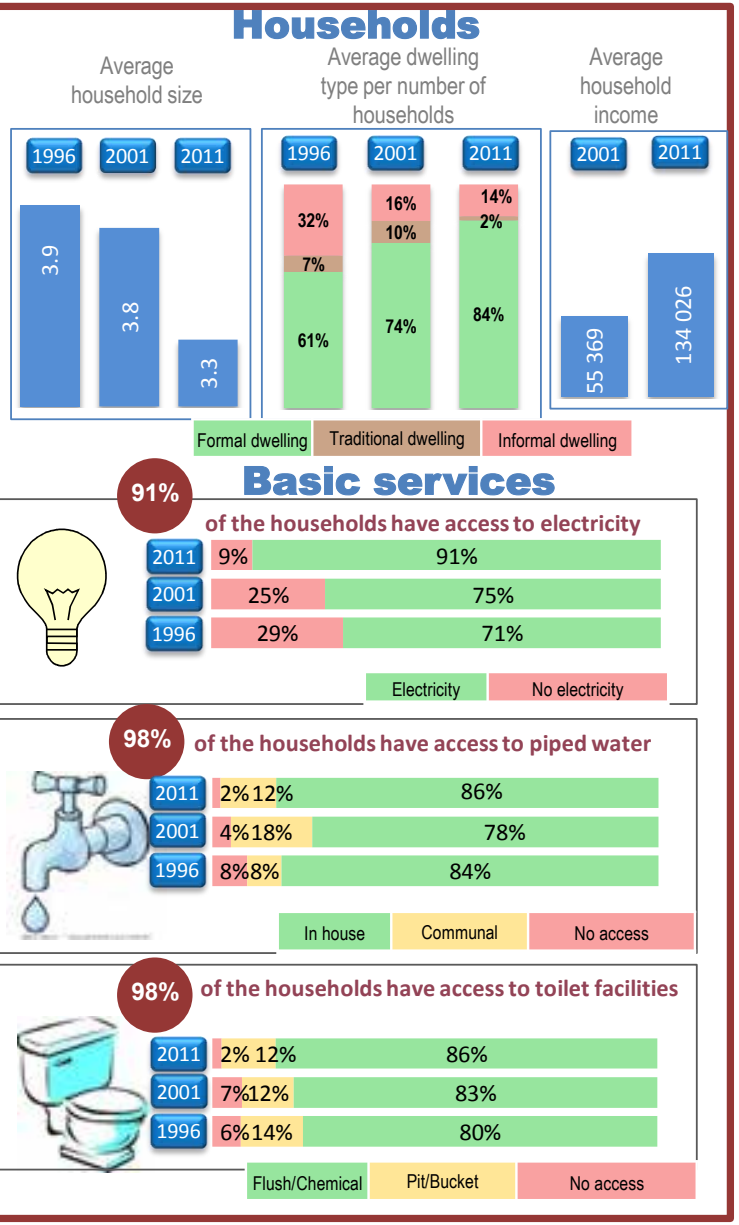
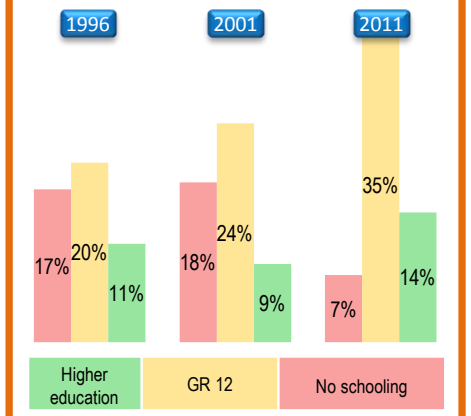
Population



Households



Education



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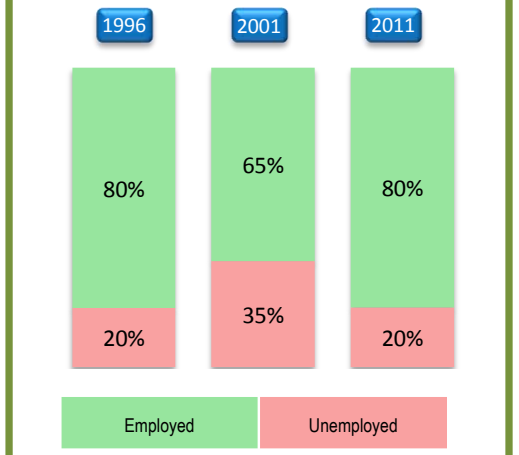
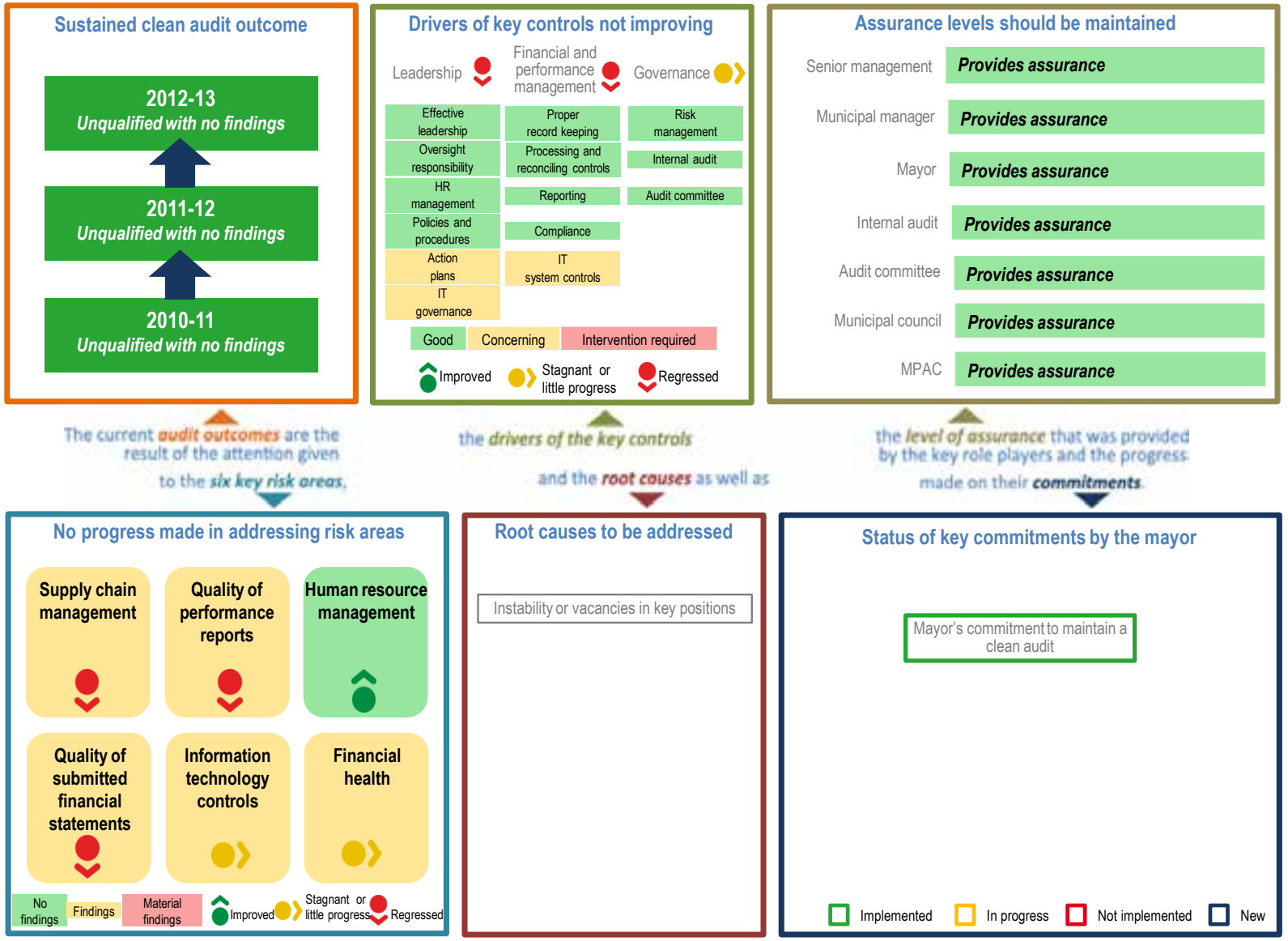
Labour



Steve Tshwete Local Municipality



Current year audit outcome: ■ *Steve Tshwete Local Municipality*

Sustained clean audit outcome

The municipality maintained its clean audit outcome for the third year. Stability and commitment at management level as well as cooperation between the executive and management continued to be the basis for the success of the municipality.

Six key risk areas

Although the municipality maintained its clean audit, some problems are starting to creep in regarding the continuous monitoring and strict control of SCM as well as the quality of the submitted financial statements and performance report. This is evidenced by the increased number of findings in these areas which, although not material enough to be reported, are likely to cause a regression in the near future if not urgently addressed.

Not much progress was made in the area of IT controls, and management needs to pay more attention in this regard.

The municipality overspent its operational expenditure budget, resulting in unauthorised expenditure. Although the municipality had processes to prevent unauthorised expenditure, there was a significant increase in the amount of non-cash items (depreciation) and the municipality could not avoid the expenditure. The municipality should take urgent steps to ensure that this expenditure does not recur, as it might result in a regression in the audit outcome.

Key controls and root causes

Overall, the key controls were stable, but the increased findings referred to above make it necessary for the leadership to focus on financial and performance management if the municipality is to sustain its clean audit status.

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

- The municipality must strengthen oversight of financial and performance management.
- The municipality must develop and rigorously monitor an action plan to address the internal control deficiencies identified during the audit.

Impact of key role players on audit outcomes

We met with the mayor twice during the financial year and these interactions had a significant impact on the audit outcome, as the municipality continued to maintain a clean audit in line with the previous commitment.

THEMBISILE HANI MUNICIPALITY

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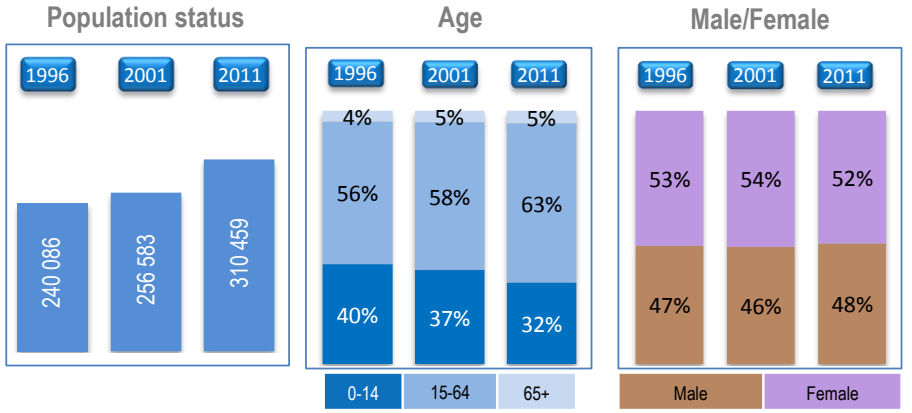
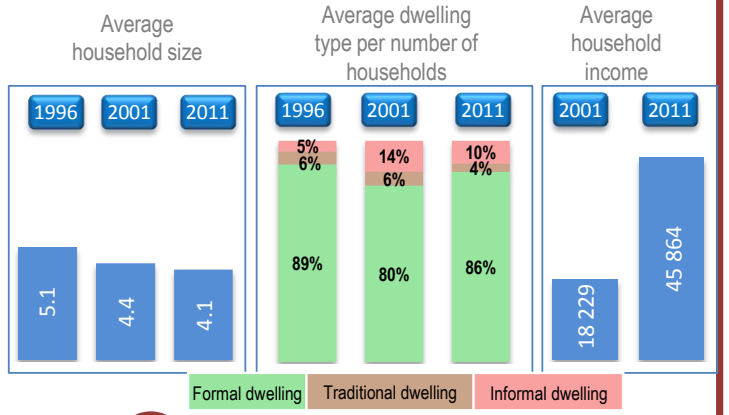
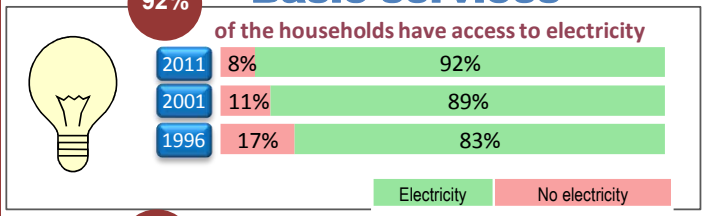
Population

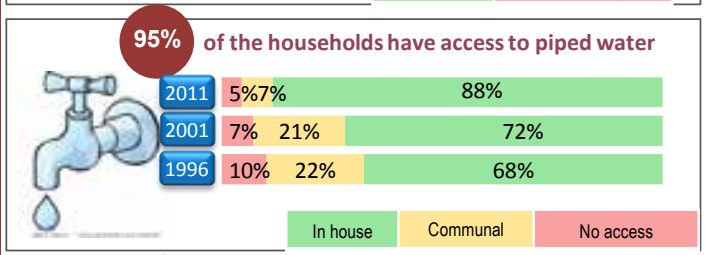


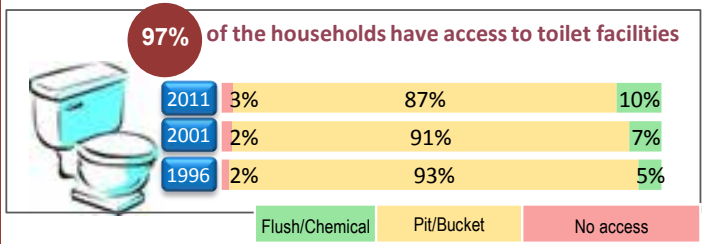
Households



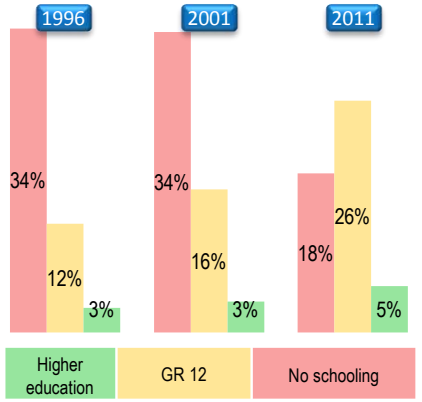
Basic services







Education



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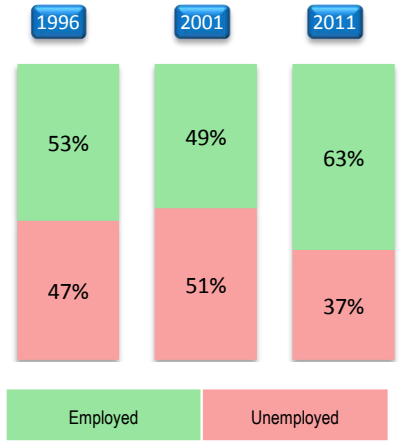
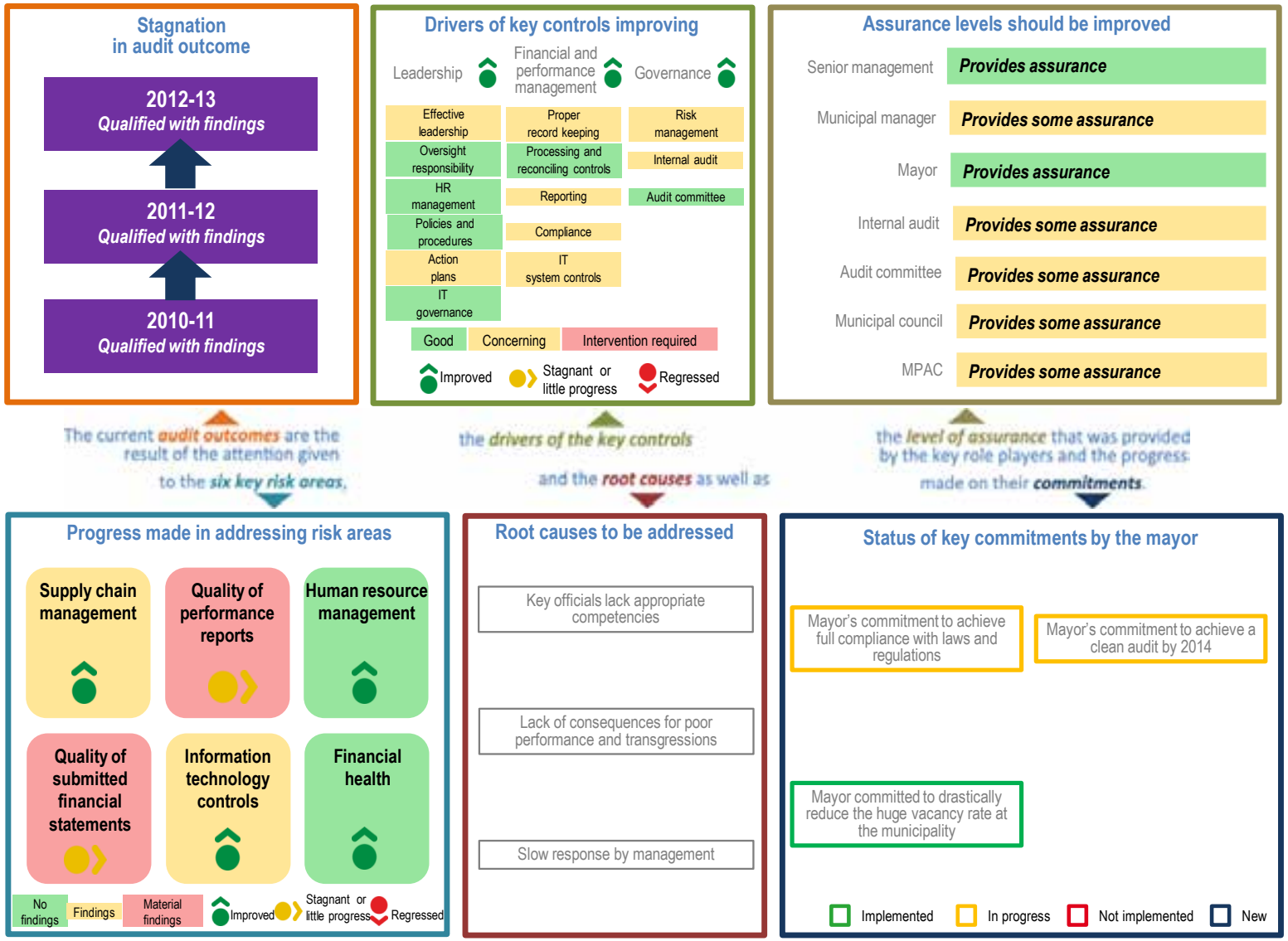
Labour



Thembisile Hani Local Municipality



Current year audit outcome: ■ *Thembisile Hani Local Municipality*

No change in audit outcome

The municipality continued to obtain a qualified opinion. Efforts to address prior year audit findings were not enough to ensure an improved audit outcome, but contributed to reducing the qualification areas.

Six key risk areas

The municipality made progress in addressing the fixed asset register, but valuation issues remained unresolved.

The municipality drastically reduced its vacancy rate in all key positions, but the skills of officials at these levels must be enhanced as a matter of urgency to improve monitoring.

The internal audit unit did still not have enough staff or sufficient skills. Training has been scheduled in the upcoming year to enhance the skills in the unit.

IT controls improved, as all the required policies and procedures were developed. The municipality should now implement them.

The municipality must focus on the measurability and presentation of performance information to address the findings on the usefulness of its performance report.

The status of SCM remained unsatisfactory, mainly because the municipality did not comply with the legislative requirement to obtain three quotations.

Key controls and root causes

The overall improvement in the key controls was due to the executive taking the lead in monitoring these controls.

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

- The municipality should oversee financial and performance management.
- The municipality should develop an action plan that addresses the root causes of internal control deficiencies, and monitor the implementation thereof.
- The municipality should prepare and review a full set of financial statements each month.

Impact of key role players on audit outcomes

For improved audit outcomes, management should strengthen the assurance levels, with the municipal manager taking the lead in this regard.

We met with the mayor three times during the year and these interactions had only a minimal impact on the audit outcome, as the outcome did not improve.

The council should be actively involved in ensuring that management develops a credible action plan to address audit findings. The council should also continuously monitor the progress of the implementation of the action plan, and hold management accountable for a lack of progress in this regard.

VICTOR KHANYE MUNICIPALITY

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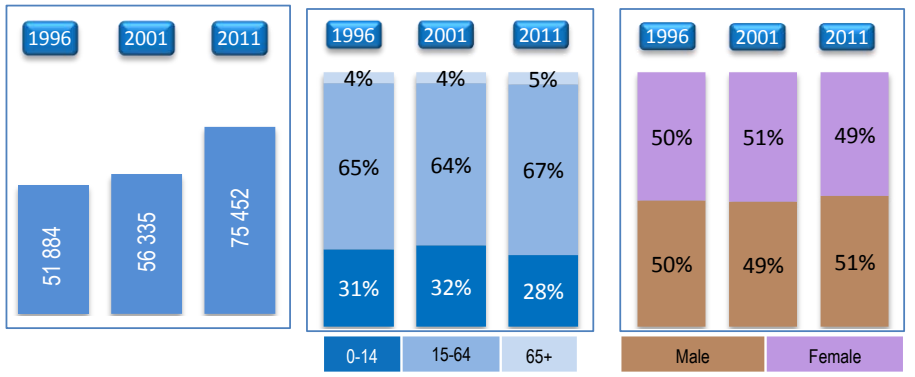
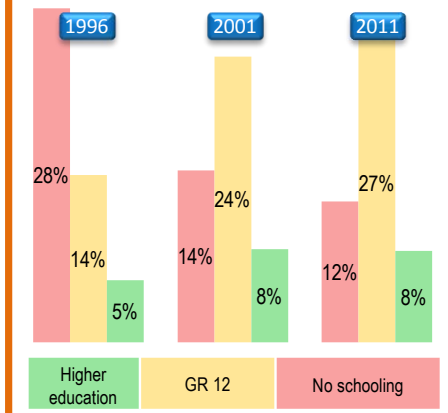
Population



Education



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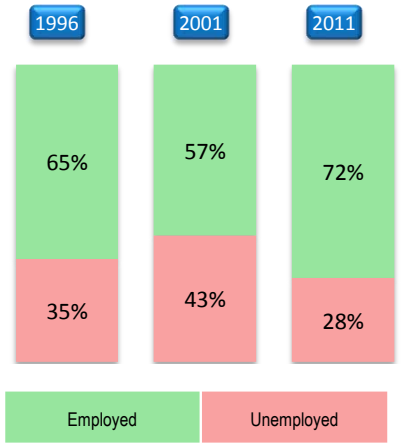
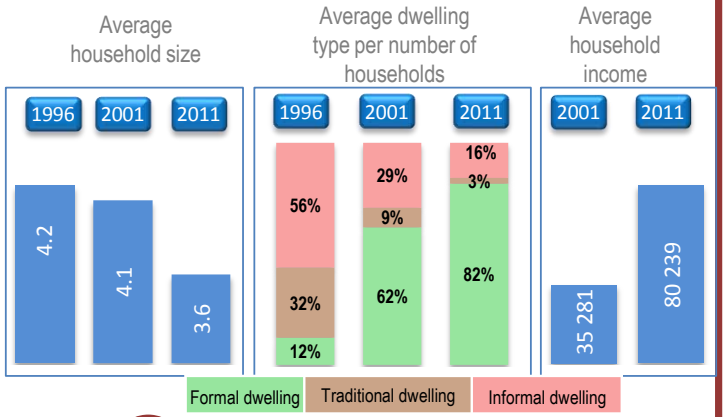
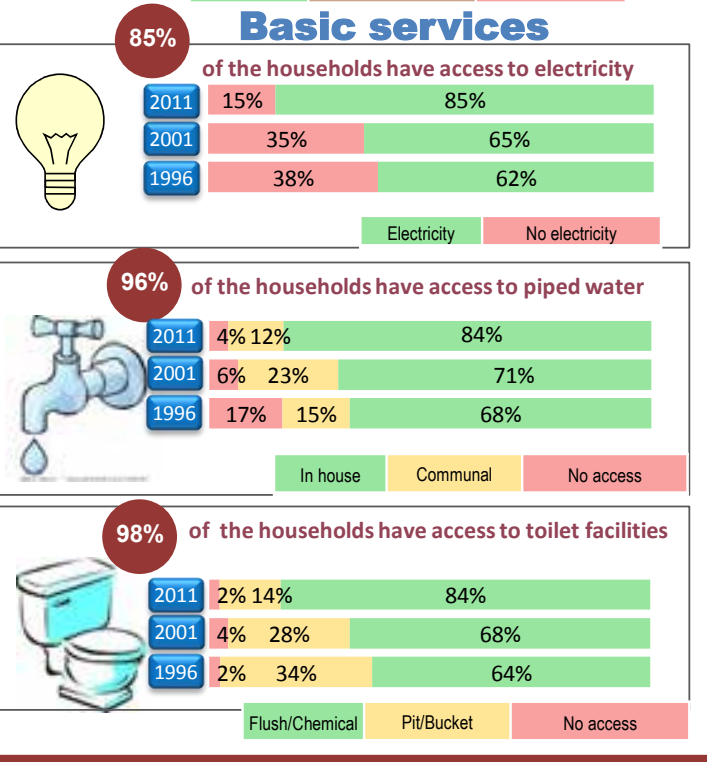
Labour



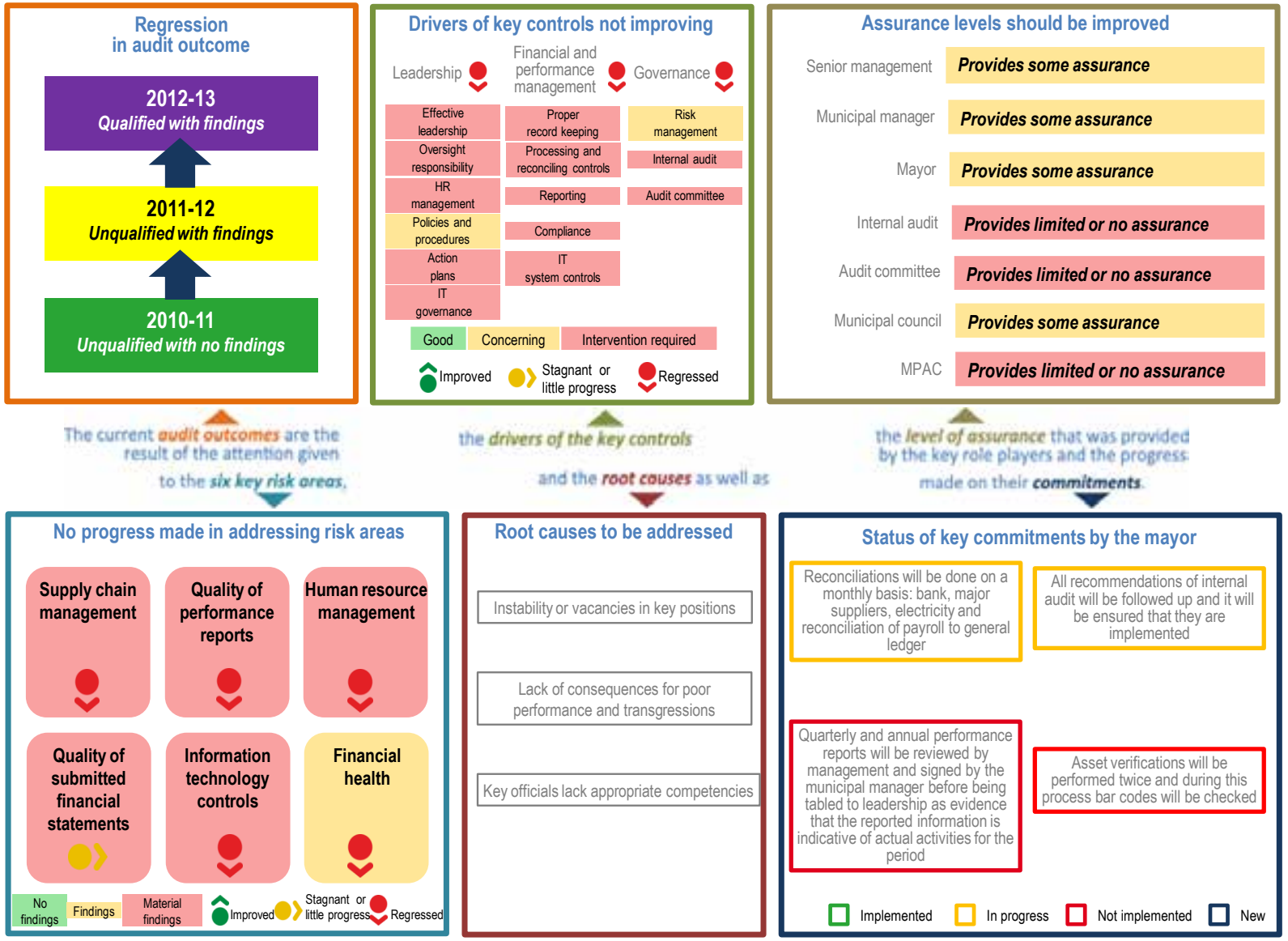
Households



Basic services



Victor Khanye Local Municipality



Significant movement in audit outcome

The regression in the audit outcome was caused by the municipality not keeping accurate and complete records of fixed assets as well as not appointing a chief financial officer to ensure that the financial statements were accurately prepared. The municipality did also not improve the reliability of its performance information, due to a lack of effective reviews throughout the year.

Six key risk areas

The municipality made no progress in addressing the key risk areas, most notably the quality of the submitted financial statements and performance report, IT controls and HR management.

The municipality used consultants for financial reporting, at a cost of R175 000. The municipality depended too much on consultants as a result of unfilled vacancies, and skills were not transferred.

The quality of the annual performance report regressed. The municipality should focus on the measurability of performance information to address the material findings on the usefulness of its performance report.

The status of SCM remained unsatisfactory, mainly because the municipality did not comply with the legislative requirements in this regard.

Key controls and root causes

The overall deterioration in the key controls was caused by the leadership not overseeing internal controls relating to financial and performance reporting and compliance with legislation.

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

- The municipality should oversee financial and performance management.
- The municipality should implement effective HR management to ensure that adequate and sufficiently skilled officials are in place and that their performance is monitored.
- The municipality should review and monitor compliance with legislation.

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

- Ensure that adequately skilled senior staff members are employed, especially with regard to asset management, performance reporting, SCM and the chief financial officer position.
- Ensure the adequate review and monitoring of SCM processes.
- Ensure that there are consequences for poor performance.

Impact of key role players on audit outcomes

For improved audit outcomes, the assurance levels should be strengthened by employing adequately skilled senior managers in critical areas and by monitoring and reviewing compliance with legislation.

We met with the mayor twice during the financial year and these interactions had no impact on the audit outcome. The reason for our assessment is the lack of impact that the mayor had on the controls of the municipality as well as the status and impact of previous commitments.

The council committed to fully implement the previous year's commitments, but did not monitor their implementation. These commitments were therefore not honoured.

ANNEXURES

Annexure 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives,non-compliance and specific focus areas

Auditee	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas									Findings on predetermined objectives				Findings on non-compliance																		Findings on specific focus areas				Unauthorised, irregular as well as fruitless and wasteful expenditure		
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for auditing	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	HR management and compensation	IT controls	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R
Financial audit																																										
District municipalities																																										
Ehlanzeni District																																					R		R	F	0.46m	-	0.01m
Gert Sibande District			R			R														A	A	N					N	N				R	N		A	R	R		-	97.6m	-
Nkangala District		R	N		N	A										R	R					N										N	N		R	R	R	N	-	0.03m	0.07m
Local municipalities																																										
Albert Luthuli		R	R		R	R	R	A	A	A	A					R	N			R	R		N		N	R	N			A	N		R			R	A	R	F	9.1m	16.9m	0.22m
Bushbuckridge		R	R		R	R	R	R	R	R	R	R	R	A	N	R	R			R		R	R	N	R	R	N	N		R	R	R	R	N		R	R	R	M	114.6m	112.4m	-
Dipaliseng		R	R		R	R	N		N	N				N		R	R			R	A		R		N	R	N	R	N	R	N	A	R	R		R	R	R	F	47.1m	8.4m	0.94m
Dr JS Moroka		R	R		R	R	R	N	R	A	R	A	R	N	A	R	R			R		R	R	N			N	A	R	N	R		R	R		R	R	R	F	-	18.6m	-
Emakhazeni		R	R		N	R	R	N			N	A	A			R	R			R	A	N	R			R					N	A	R			R	N	R	F	43.0m	2.1m	1.3m
Emalahleni		R	R		R	R	R	R	R	R	R	R	R	R	A	R	R			R		R	R		R	R	R	R	R	R	R	R	R		R	R	R	M	19.8m	9.3m	11.8m
Govan Mbeki		R	R		R	R	A	N	N		R	N				R	R			R	A		A			R	N	A	A	N	R		R			R	A	R	F	-	17.4m	8.1m
Lekwa		R	R		R	R	A	A	A	R		A	A	A	A	R	N			R	A	R	A	N	N	R	N	R	A		R	N	R	R		R	R	R	F	184.5m	30.8m	13.9m
Mbombela			R		A	R														N						N					N	R			R	A	R	F	0.88m	34.5m	5.5m
Mkhondo		R	R		R	R	R	R	N	R	R	R		N	R	R	R			R		R	R		R	R	R			R	R		R	R		R	R	R	M	43.2m	19.2m	5.8m
Msukaligwa		R	R		R	R	R	R	R	R	R	A	A	N	N	R	R			R	N	R	R		R	N		N		N	R	N	R	N		R	R	R	M	89.1m	33.7m	9.6m
Nkomazi		R	R		R	R	A	A			A		N		A	R	R			R	A	R	A		R	R		A		A	R	R	R	R		R	R	R	F	36.9m	48.3m	2.1m
Pixley Ka Seme		R	R		R	R	R		A	A	A					R	R			R		R	R		R	N	N	R	A		R	N	R			R	A	R	F	-	7.2m	-
Steve Tshwete																																					R		R	F	4.19m	-	0.05m
Thaba Chweu		R	R		R	R	R	R	R		R	R	R	R	R	R	A			R	R	R	R		R	R	N	R	R	R	N	R	R	N		R	R	R	M	42.5m	120.3m	17.8m
Thembisile Hani		R	R		R	R	R	R	R	N	N	R		A	N	R	N			R	A	A	R	N		A		R	R	R	R	R	A			R	A	N	A	-	4.7m	-
Umjindi		R	R		N	R	R		R	R	R			N	R	R	R			R	A		R		N	R	N			A	N		R	N		R	R	R	F	6.7m	18.6m	0.14m
Victor Khanye		R	R		N	N	N	N			N	N	N			R	R			R	R		N			R		R	A		R		R	N		R	N	R	F	-	17.6m	0.83m

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee

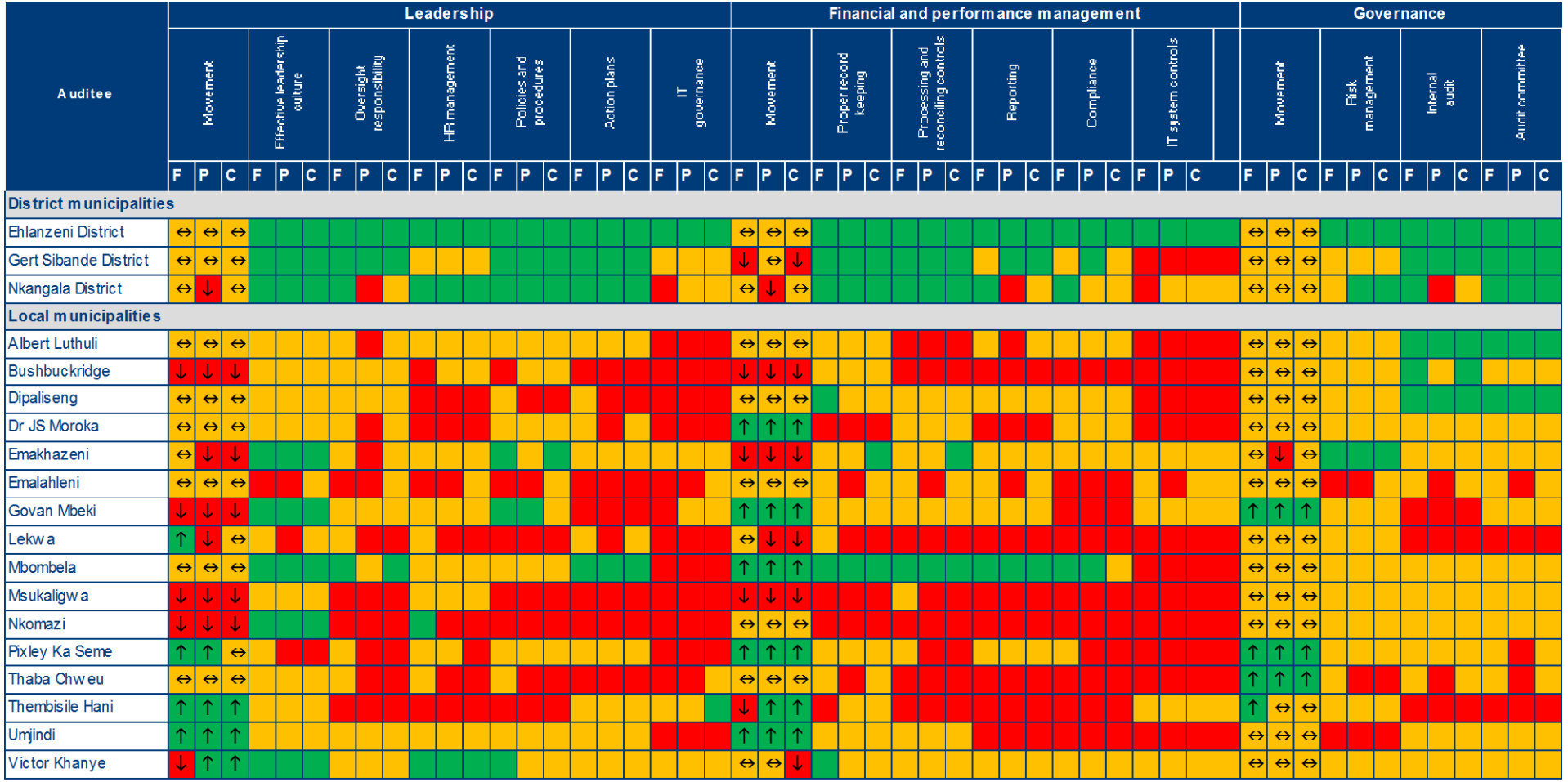
Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Not analysed (X)

Legend (Expenditure)	Improved	Regressed

Annexure 2: Comparison of audit outcomes over five years

Auditee	Audit outcome 2012-13	Audit outcome 2011-12	Audit outcome 2010-11	Audit outcome 2009-10	Audit outcome 2008-09
	Audit opinion	Audit opinion	Audit opinion	Audit opinion	Audit opinion
District municipalities					
Ehlanzeni District	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	Unqualified with findings
Gert Sibande District	Unqualified with findings	Unqualified with findings	Unqualified with no findings	Unqualified with findings	Unqualified with findings
Nkangala District	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
Local municipalities					
Albert Luthuli	Qualified	Qualified	Disclaimer	Qualified	Qualified
Bushbuckridge	Disclaimer	Disclaimer	Unqualified with findings	Unqualified with findings	Unqualified with findings
Dipaliseng	Qualified	Unqualified with findings	Qualified	Disclaimer	Disclaimer
Dr JS Moroka	Qualified	Qualified	Disclaimer	Disclaimer	Qualified
Emakhazeni	Qualified	Qualified	Unqualified with findings	Unqualified with findings	Unqualified with findings
Emalahleni	Disclaimer	Disclaimer	Qualified	Qualified	Unqualified with findings
Govan Mbeki	Qualified	Qualified	Unqualified with findings	Unqualified with findings	Unqualified with findings
Lekwa	Qualified	Disclaimer	Disclaimer	Unqualified with findings	Disclaimer
Mbombela	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Qualified
Mkhondo	Disclaimer	Qualified	Disclaimer	Disclaimer	Disclaimer
Msukaligwa	Disclaimer	Disclaimer	Unqualified with findings	Unqualified with findings	Unqualified with findings
Nkomazi	Qualified	Disclaimer	Unqualified with findings	Qualified	Qualified
Pixley Ka Seme	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
Steve Tshwete	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	Unqualified with findings
Thaba Chweu	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
Thembisile Hani	Qualified	Qualified	Qualified	Disclaimer	Disclaimer
Umjindi	Qualified	Qualified	Disclaimer	Disclaimer	Qualified
Victor Khanye	Qualified	Unqualified with findings	Unqualified with no findings	Unqualified with no findings	Qualified

Annexure 3: Assessment of auditees' key controls at the time of the audit



GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

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.
Governance (as one of the drivers of internal control)	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.
Human resource (HR) management	The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled people as well as the adequate management of their performance and productivity.
Information technology (IT)	The computer systems used for capturing and reporting financial and non-financial transactions.
IT controls	Computer-related controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security.
IT governance	The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its strategies and objectives.
IT security management	The controls preventing unauthorised access to auditee networks, operating systems and application systems that generate financial information.
IT service continuity	The processes managing the availability of hardware, system software, application software and data to enable auditees to recover or re-establish information system services in the event of a disaster.
IT user access management	The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.
Internal control / key controls	The process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable legislation. It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing

	and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.
Irregular expenditure	Expenditure incurred without complying with applicable legislation.
Key drivers of internal control	The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance (which are defined elsewhere in this glossary.)
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.

Acronyms and abbreviations

AFS	annual financial statements
AG	auditor-general (the person)
AGSA	Auditor-General of South Africa (the institution)
APAC	Association of Public Accounts Committees
APP	annual performance plan
BCP	business continuity plan
CEO	chief executive officer
CFO	chief financial officer
CGICTPF	corporate governance of information and communication technology policy framework
CoGTA	Department of Cooperative Governance and Traditional Affairs
CWP	community works programme
DBSA	Development Bank of Southern Africa
DM	district municipality
DoRA	Division of Revenue Act
DPME	Department of Performance Monitoring and Evaluation
DPSA	Department of Public Service and Administration
DRP	disaster recovery plan
FMPPI	framework for managing programme performance information
GITO	government information technology officer
GRAP	Generally Recognised Accounting Practice
HR	human resources

ICT	information and communication technology
IDP	integrated development plan
IGR	inter-governmental relations
IT	information technology
LGTAS	local government turnaround strategy
LM	local municipality
MAT	municipal assessment tool
ME	municipal entity
MEC	member of the executive council
metro	metropolitan municipality
MFMA	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
MIG	municipal infrastructure grant
MIS	management information system
MISA	Municipal Infrastructure Support Agent
MPAC	municipal public accounts committee
MPAT	management performance assessment tool
MSA	Municipal Systems Act, 2000 (Act No. 32 of 2000)
MSIG	municipal systems improvement grant
MTEF	medium-term expenditure framework
MTREF	medium-term revenue and expenditure framework
NCOP	National Council of Provinces
OCA	Operation clean audit
PAC	public accounts committee

PDO	predetermined objective
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)
PMS	performance management system
Rxx b	billions of rand
Rxx k	thousands of rand
Rxx m	millions of rand
SALGA	South African Local Government Association
SCM	supply chain management
SCOA	standard chart of accounts
SDBIP	service delivery and budget implementation plan
SLA	service level agreement

AUDITOR-GENERAL
SOUTH AFRICA

PR202/2014
ISBN: 978-0-621-42878-0

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