

Free State



AUDITOR - GENERAL
SOUTH AFRICA

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

Our reputation promise/mission

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



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

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

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

Kimi Makwetu
Auditor-General



Overview



1 Message from the Auditor-General
Page 7

2 Overall improvement in the audit outcomes as the audit opinions on four auditees improved, while one regressed
Page 14

3 The quality of annual performance reports has improved slightly
Page 14



4 All auditees again had findings on compliance with laws and regulations
Page 15



5 Continued high levels of unauthorised, irregular as well as fruitless and wasteful expenditure
Page 16

6 31% of auditees avoided qualified opinions by correcting material misstatements in financial statements identified during audit process
Page 18

7 Uncompetitive and unfair procurement processes, inadequate contract management and missing tender documentation
Page 18

9 Continued reliance on consultants and ineffective management of this resource
Page 22

12 Limited or no progress made to improve internal controls
Page 26

14 Slow progress made by political and administrative leadership in addressing the root causes for the poor audit outcomes
Page 27



8 Vacancies and instability in municipal manager, chief financial officer and head of SCM positions. Appointed officials lack minimum competencies.
Page 20



10 Confidentiality, integrity and availability of information remain at risk
Page 24

11 Significant risks that affect financial health of local government remain
Page 25



13 Assurances provided by key role players; their initiatives and impact on audit outcomes
Page 26

15 The provision of water and sanitation services and road infrastructure should receive urgent attention
Page 30

Contents

FOREWORD	7	SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROLS AND ROOT CAUSES SHOULD BE ADDRESSED TO IMPROVE AUDIT OUTCOMES	26
SUMMARY OF AUDIT OUTCOMES AND KEY RECOMMENDATIONS FOR IMPROVEMENT	11	THE LEVEL OF ASSURANCE PROVIDED BY KEY ROLE PLAYERS NEEDS TO BE IMPROVED	26
OUR AUDIT AND REPORTING PROCESS	12	THE INITIATIVES AND COMMITMENTS OF ALL ROLE PLAYERS SHOULD HAVE A POSITIVE IMPACT ON FUTURE AUDIT OUTCOMES	29
OVERVIEW OF AUDIT OUTCOMES AND KEY RECOMMENDATIONS FOR IMPROVEMENTS (FIGURE 1)	13	THE PROVISION OF WATER AND SANITATION SERVICES AND ROAD INFRASTRUCTURE SHOULD RECEIVE URGENT ATTENTION	30
STATUS OF THE THREE AREAS THAT WE AUDIT AND REPORT ON	14	AUDIT OUTCOMES OF INDIVIDUAL MUNICIPALITIES	33
SIX RISK AREAS SHOULD CONTINUE TO RECEIVE ATTENTION	18		
INFORMATION TECHNOLOGY CONTROLS	24		

MANGAUNG METRO	37		
Mangaung Metropolitan Municipality and its entity	40	Nketoana Local Municipality	102
		Phumelela Local Municipality	106
		Setsoto Local Municipality	110
FEZILE DABI DISTRICT	43	XHARIEP DISTRICT	111
Fezile Dabi District Municipality and its entity	46	Xhariep District Municipality	114
Mafube Local Municipality	50	Kopanong Local Municipality	118
Metsimaholo Local Municipality and Municipal Trust	54	Letsemeng Local Municipality	122
Moqhaka Local Municipality	58	Mohokare Local Municipality	126
Ngwathe Local Municipality	62	Naledi Local Municipality	130
LEJWELEPUTSWA DISTRICT	63	ANNEXURES	131
Lejweleputswa District Municipality and its entity	66	Annexure 1: Municipalities' audit outcomes, areas qualified and findings on predetermined objectives, non-compliance and specific focus areas	132
Masilonyana Local Municipality	70	Annexure 2: Municipalities' five-year audit opinions	134
Matjhabeng Local Municipality	74	Annexure 3: Assessment of municipalities' key controls at the time of the audit	135
Tokologo Local Municipality	78		
Tswelopele Local Municipality	82		
THABO MOFUTSANYANA DISTRICT	83	GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS	137
Thabo Mofutsanyana District Municipality	86	Glossary of key terminology used in this report	138
Dihlabeng Local Municipality	90	Acronyms and abbreviations	143
Maluti-a-Phofung Local Municipality and its entity	94		
Mantsopa Local Municipality	98		

FREE STATE CLEAN AUDITS 2012-13

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MUNICIPALITY

None



MUNICIPAL ENTITY

None



FOREWORD

FOREWORD

It is with pleasure that I present to the Free State Legislature my 2012-13 general report summarising the audit outcomes of the local government for the financial year ended 30 June 2013.

The province continues on its journey, reflecting a steady but slow year-on-year improvement. The audit outcomes of four auditees improved while the audit results of one auditee regressed. No municipality or municipal entity in the province managed to achieve a clean audit report. Where improvements were noted, the progress could be attributed to the mayors enhancing oversight and management responding timely.

This progress towards better outcomes has been slowed down by the lack of improvement in basic key internal controls in day-to-day operations, which casts doubt upon the sustainability of the progress made. Notwithstanding a commitment made in the previous year to address the skills challenge in municipalities, significant vacancies as well as instability (69%) in key positions (municipal manager, chief financial officer, head of supply chain management and the manager responsible for reporting on predetermined objectives) were noted. Another concern was that the officials appointed in these key positions lacked appropriate competencies (73%).

As a result of the poor control environments, the quality of financial information submitted for audit remained poor, despite an investment in consultants of R115 million (2011-12:

R110 million) made by the auditees and the Department of Cooperative Governance and Traditional Affairs. As in the previous year, the impact of the municipal support group (task team) was insignificant due to the limited number of members and the extent of the challenges experienced in local government. All auditees (100%) had material non-compliance findings, largely as a result of inadequate formal consequence management to deal with contraventions or poor performance. I am encouraged by leadership's recent action following our engagements on the 2012-2013 audit outcomes, including the leadership change at Centlec as well as the action taken in Matjhabeng.

The high occurrence of unauthorised, irregular as well as fruitless and wasteful expenditure, which is seen as an indicator of potential fraud in the province, remains a cause for concern, especially given the continued weaknesses in the performance management of key staff such as the heads of supply chain management, none of whom had performance agreements for the year.

Information technology controls at municipalities have remained stagnant with little improvement in the effective functioning and oversight thereof. Priority should be given to the design and implementation of basic information technology controls as they ensure the confidentiality, integrity and availability of state information, which enables service delivery and promotes national security.



Kimi Makwetu
Auditor-General

In the previous year, the political leadership committed to a number of initiatives that were to be undertaken by the coordinating departments. These included the timely appointment of consultants, arranging a workshop with them to ensure that key controls would be improved and skills transferred, and allocating interns to municipalities in an attempt to address the prevailing skills shortages while the leadership was engaged in developing and implementing a long-term skills development plan. Most commitments were only partially implemented and had limited impact.

Eighty-eight per cent of the municipalities have municipal public accounts committees; however, these committees are not operating effectively as yet as training was given very late during the reported financial year. Council oversight is lacking at 85% of the municipalities. Although the lack of oversight by the legislature and councils was acknowledged in the previous year, no action has since been taken to enhance their effectiveness by monitoring both the immediate and long-term commitments made. The resolutions adopted by the Provincial Public Accounts Committee again came too late and were not continuously followed up to reach the desired outcome (100% of municipalities).

If the barriers inhibiting the achievement of improved audit outcomes are to be breached, political and administrative management should set the tone by ensuring that vacancies are filled with competent officials, basic key internal controls are implemented and stability in municipal leadership is improved. A performance management system should flow from measuring the strategic objectives to measuring the performance of each municipal employee to ensure that staff would be held

accountable for poor performance and/or transgressions. Improved audit outcomes can be achieved through a combined approach by leveraging the assistance that the Department of Cooperative Governance and Traditional Affairs and the National Treasury can provide in aligning individual performance contracts to the Integrated Development Plan and attracting staff to rural areas. Districts should assist the municipalities by providing centralised services, such as information technology support, risk management, financial support, performance management, supply chain management and human resource management.

I wish to thank the audit teams from my office and the audit firms that assisted for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership in 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** and
- **annual performance reports** and on
- 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 ■ financial health ■ information technology controls ■ human resource 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, 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 cooperative governance as well as the provincial legislature, as we are convinced that their involvement and oversight should play a crucial role in the performance of local government in the province. We share our messages on key controls, risk areas and root causes with them and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

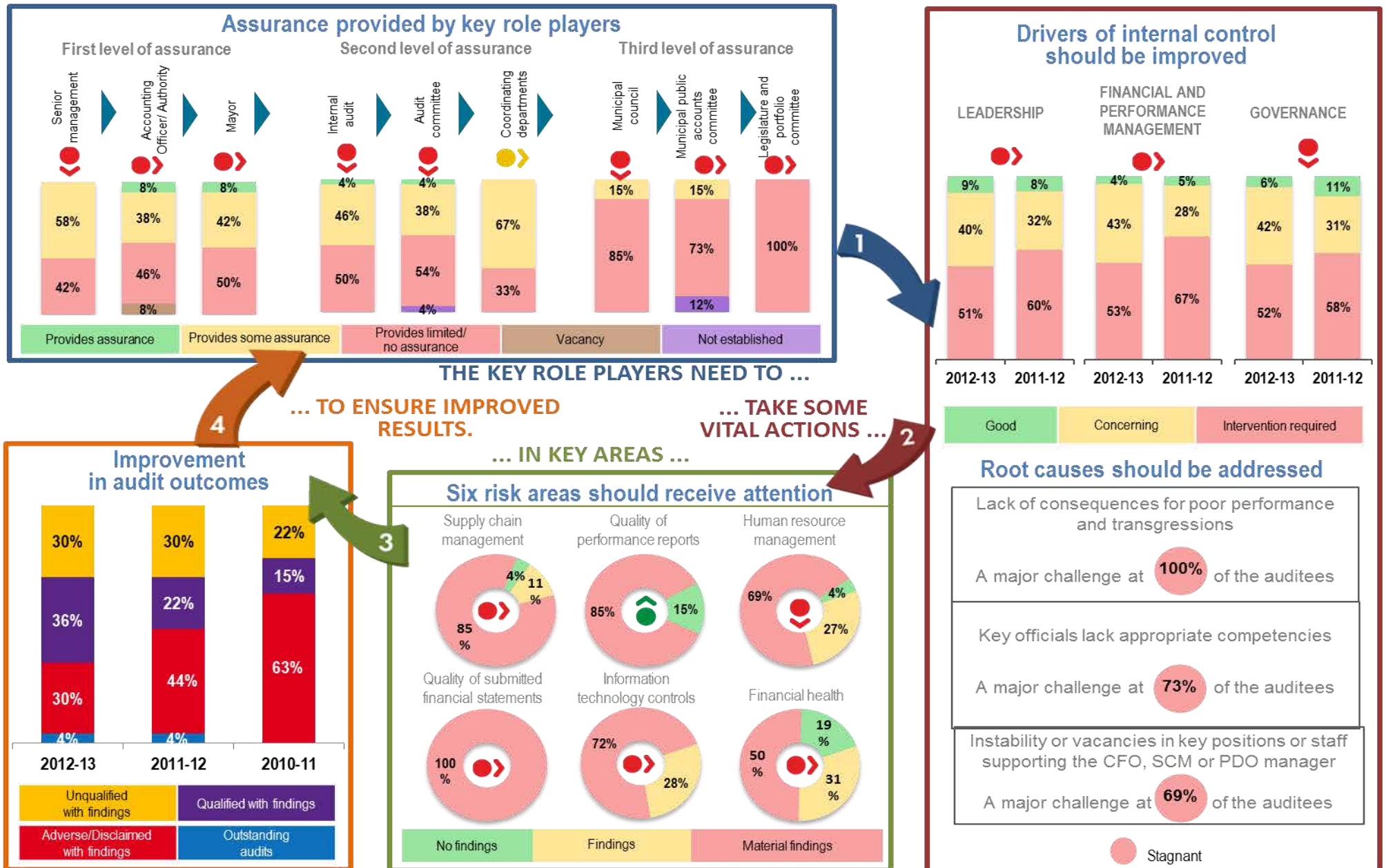
Figure 1 that follows gives an overview of our message on the 2012-13 audit outcomes, which is a continuation of what we had reported and recommended in our last report on the audit outcomes of local government in the province. Please note the following about the figure and when reading the rest of the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

- If municipalities have municipal entities under their control, the audit opinion expressed on their financial statements relates to their consolidated financial statements.
- 'With findings' means findings on either the quality of the annual performance reports or non-compliance with legislation, or findings on both these aspects. Clean audits are achieved when the financial statements are unqualified and there are no findings on the quality of the annual performance reports or non-compliance with legislation.
- Movement of more than 5% is regarded as an improvement or a regression. Movement is depicted as follows:

 Improved  Stagnant or little progress  Stagnant or little progress at an intervention-required level  Regressed

The rest of the section summarises the audit outcomes and our key recommendations for improvement. This summary is followed by the results of our audits per municipality. The report also includes three annexures that detail the audit outcomes and findings per auditee, the status of the drivers of internal controls at the auditees, and a five-year view of the audit outcomes. The glossary of terms included after the annexures defines the terminology used in this report.

Overview of audit outcomes and key recommendations for improvements (Figure 1)



Status of the three areas that we audit and report on

Audit outcomes have improved

There has been an improvement in the audit outcomes of local government as the audit opinions on four auditees have improved, while one has regressed. Three auditees have moved from a disclaimer of opinion to a qualified audit opinion and one has improved to an unqualified opinion with findings. One auditee has regressed from an unqualified opinion with findings to a qualified opinion. Due to the non-submission of financial statements for audit purposes, we had not finalised the audit of the Nala Local Municipality by 15 February 2014, which was the cut-off date for inclusion of audit outcomes in this general report.

Significant aspects of the 2012-13 audit outcomes of the 26 auditees, which include one metropolitan municipality, four district municipalities, 18 local municipalities and three municipal entities, as shown in figure 1, are listed below. The Fezile Dabi District Municipality Trust and the Metsimaholo Mayoral Trust have been excluded from our analysis as they are dormant.

- The audit outcome for Maluti-a-Phofung Water improved from a disclaimer to an unqualified opinion with findings on predetermined objectives and compliance with legislation.
- The audit outcomes for Centlec and the Mohokare and Kopanong municipalities improved from disclaimers to qualified opinions.
- The audit opinion on the Xhariep District Municipality regressed from an unqualified opinion with findings to a qualified opinion as a result of material findings on assets and other disclosure items.
- The 21 remaining auditees had unchanged audit outcomes as the root causes previously communicated had not been addressed.
- Mafube, Maluti-a-Phofung, Matjhabeng, Moqhaka, Naledi, Ngwathe and Phumelela have continuously had disclaimers/ adverse opinions for at least the past five years. Serious intervention is needed at these municipalities.
- Mantsopa has been receiving a disclaimer of opinion for the past two years after regressing from a qualified opinion.

It is of concern that there is no relationship between the decline in the number of disclaimers and the status of key controls, which raises questions regarding the sustainability of audit outcomes.

- Although government committed to clean audits by 2014, there has been a lack of progress in achieving clean audits in the Free State Province.

The quality of annual performance reports has improved slightly

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

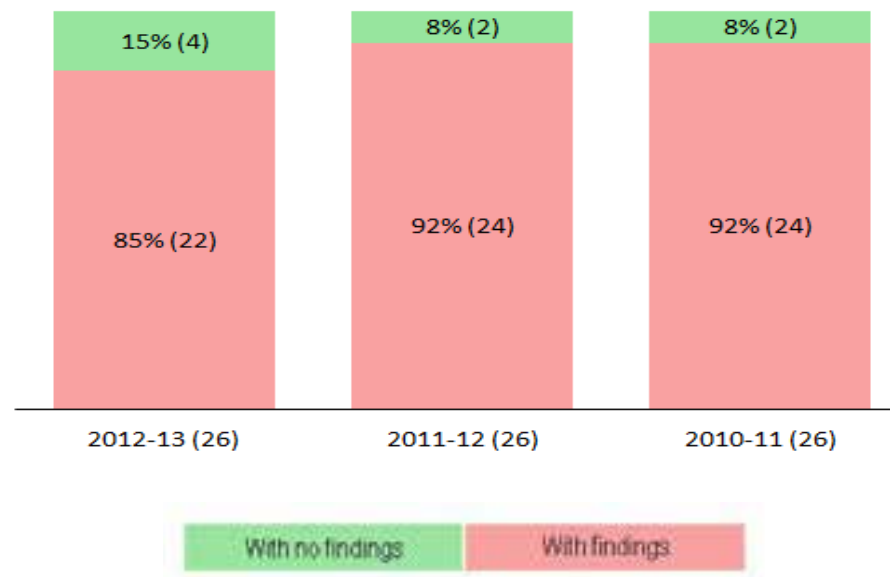


Figure 2 shows the number of auditees in the province with material findings in this regard over the past three years, including those auditees that either did not prepare an annual performance report or submitted the report too late for auditing. The following municipalities have not had any findings on their performance reports for the past three years:

- Thabo Mofutsanyane District Municipality
- Xhariep District Municipality

In addition, the following municipalities did not have any findings on their annual performance reports in the current year:

- Fezile Dabi District Municipality
- Kopanong Local Municipality

Mafube was the only municipality that did not submit a performance report for the current year.

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 increased by 11%, from 19 to 21 auditees, since the previous year. The increase can be attributed to a lack of suitably skilled staff, as well as significant vacancies, which prevented municipalities from dedicating officials to the management of performance information. The most common findings on usefulness were the following:

- Performance targets not measurable
- Indicators/measures not well defined
- Indicators/measures not verifiable

Findings on reliability relate to whether the reported information could be traced back to the source data or documentation and whether the reported information was accurate, complete and valid when compared to the source. The number of auditees with material findings in this regard has increased by 82%, from 11 to 20 auditees, since the previous year. This increase is mainly due to the fact that more municipalities have submitted annual performance reports for auditing in the current year. Unfortunately, the lack of ownership and oversight by senior managers and governance structures has hampered improvement. The most common findings on reliability were the following:

- Reported performance information not accurate
- Reported performance information not valid
- Reported performance information not complete

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

- Eighty-one per cent of the auditees had material findings on non-compliance with the legislation that regulates strategic planning, performance management and reporting. This is further reported under the section on compliance with legislation.
- One hundred per cent of the auditees made amendments to the annual performance report submitted for auditing to correct material misstatements identified during the audit process. Four auditees (15%) had no material findings after the corrections were made.
- Of the four auditees with reliable annual performance reports, three failed to achieve 20% or more of the planned targets they reported on. The only municipality to achieve more than 80% of its planned targets was Fezile Dabi District Municipality.

The material non-compliance findings include a finding that was raised where the integrated development plans were not discussed with the communities. This finding was raised at three municipalities (Moqhaka, Naledi and Tokologo) and at two of them (Moqhaka and Naledi) service delivery protests occurred.

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

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, supply chain management) ■ human resource management and compensation.

In the audit report, we reported findings that were material enough to be brought to the attention of the councils and users of the annual reports of the municipalities.

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. An aggressive approach to compliance needs immediate attention because the implementation of consequence management and the improvement of controls, oversight and processes would be conducive to an improvement in service delivery, a reduction of costly errors and an increase in cash flow whilst enhancing the reputation of local government.

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

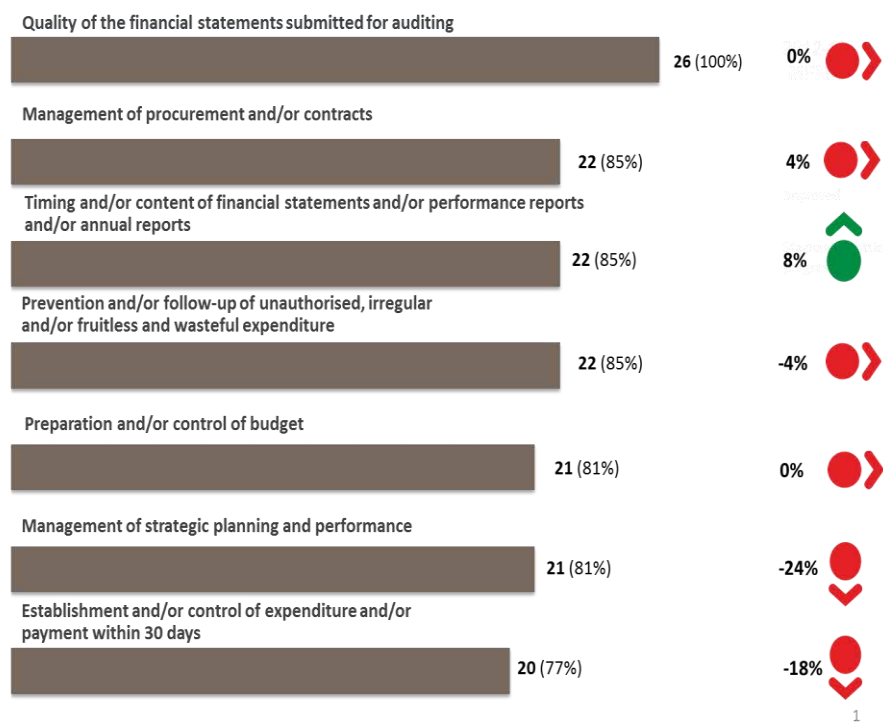


Figure 4 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings.

Also, of the 21 municipalities that had material non-compliance findings relating to the preparation and/ or control of their budgets, 18 (86%) also had financial health concerns.

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

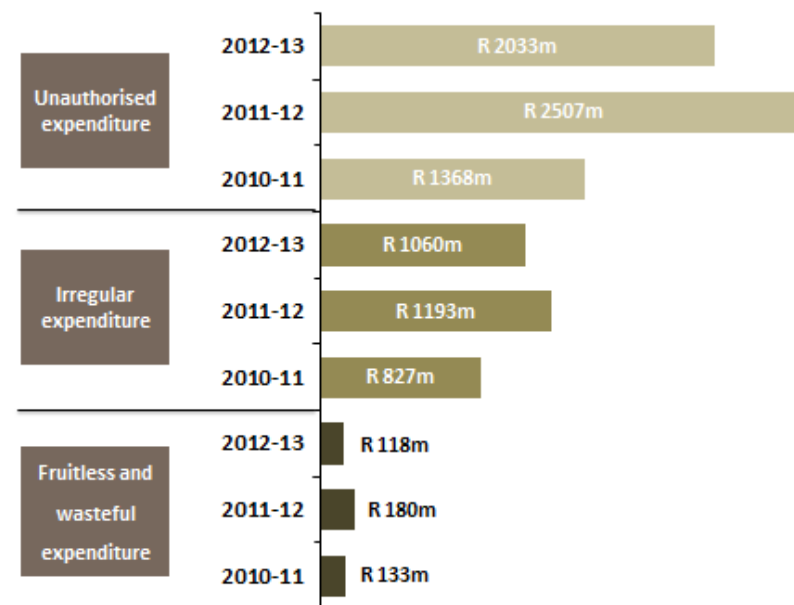


Figure 5 reflects the three-year trend in unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees.

Unauthorised expenditure is expenditure that was not spent in accordance with the approved budget. Over the past three years unauthorised expenditure has increased by 49% from R1,368 billion in 2010-11 to R2,033 billion in 2012-13. The major contributors to unauthorised expenditure have been Matjhabeng (R830 million), Ngwathe (R187 million) and Mafube (R181 million). Of the R2,033 billion unauthorised expenditure incurred in 2012-13, most (99,6%) was the result of overspending of the municipalities' approved budgets. The most common reason for unauthorised expenditure being incurred by municipalities has been poor budget processes. Sixty-six per cent (2011-12: 28%) of the expenditure was identified by the auditees. The improvement in identifying unauthorised expenditure resulted from a greater awareness of the budget requirements for non-cash items.

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money has been wasted or that fraud has been committed, but indicates that legislation is not being adhered to and that there is a lack of controls to prevent non-compliance. This legislation is aimed at ensuring that procurement processes are competitive and fair. It is the role of councils to investigate all irregular expenditure to determine whether it constitutes misconduct, fraud or losses that

should be recovered. Over the past three years irregular expenditure has increased by 28% from R827 million in 2010-11 to R1,060 billion in 2012-13.

Of the R1,060 billion irregular expenditure incurred in 2012-13, most (98%) was the result of non-compliance with supply chain management requirements. Seventy-eight per cent of the expenditure was the result of acts of non-compliance in 2012-13; the remainder was expenditure resulting from transgressions in previous years. Fifty per cent (2011-12: 41%) was identified by the auditees. The improvement in identifying irregular expenditure can be attributed to better detection processes being implemented by municipalities; however, of concern is that there has been no improvement in the prevention of irregular expenditure.

Although there has been an 11% decrease from R1,193 billion to R1,060 billion in irregular expenditure from 2011-12 to 2012-13, the full extent of irregular expenditure is still under investigation at several municipalities and 13 (50%) auditees have received a qualified opinion on the completeness of irregular expenditure. This figure might therefore increase significantly in the next financial year, which is indicative of a persistent lack of controls to prevent irregular expenditure. Furthermore, awards totalling R287 million were not provided for audit purposes (refer to the supply chain management section), which could lead to a further increase once the documentation has been provided for audit purposes in the next financial year. The major contributors to irregular expenditure are Centlec (by R281 million), Mafube (by R120 million) and Metsimaholo (by R103 million).

A number of municipalities were able to reduce their level of irregular expenditure significantly. These were Matjhabeng (by R64 million), Moqhaka (by R64 million) and Mangaung (by R48 million).

Fruitless and wasteful expenditure is expenditure that was made in vain and that would have been avoided had reasonable care been taken. Over the past three years fruitless and wasteful expenditure has decreased by 12% from R133 million in 2010-11 to R118 million in 2012-13. Additionally, there has been a 35% decrease, from R180 million to R118 million, in fruitless and wasteful expenditure from 2011-12 to 2012-13. Most of the fruitless and wasteful expenditure for the current year relates to interest payable to Eskom and interest and penalties levied by the South African Revenue Service. The major contributors to fruitless and wasteful expenditure were Matjhabeng (by R24 million), Ngwathe (by R21 million) and Centlec (by R19 million). Of the R118 million fruitless and wasteful expenditure, 98% (2011-12: 80%) was identified by the auditees. The improvement in identifying fruitless and wasteful expenditure can be attributed to more effective detection processes being implemented by municipalities.

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

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 human resource management risk area included below.

Quality of submitted financial statements

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

18 While most auditees submitted their financial statements for auditing on time, figure 1 shows that none of the auditees (0%) submitted financial statements that did not contain material misstatements. Therefore, there has been no improvement from the 2011-12 financial year in the quality of the financials submitted.

Figure 6: Quality of submitted financial statements

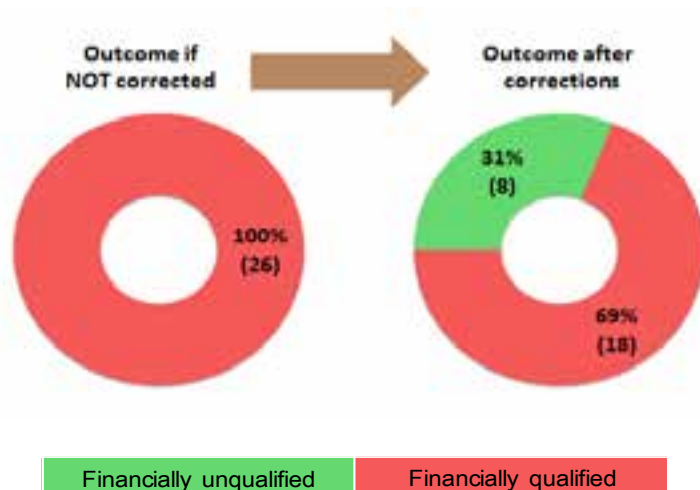


Figure 6 shows that the eight auditees (31%) that received a financially unqualified audit opinion only did so because they corrected all the misstatements we had identified during the audit. The continued reliance on the external auditors to identify the corrections that have to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it adds undue pressure in terms of legislated deadlines and increases the cost of audits.

Even though we reported the material misstatements to management for correction, 18 auditees (2011-12: 18) could not make the necessary corrections to the financial statements, which resulted in qualified and disclaimed audit opinions. The following were the three most common financial statement qualification areas:

- Fifteen (2012: 12) auditees had qualifications on unauthorised, irregular, as well as fruitless and wasteful expenditure. This is an increase of 25% from the previous year.
- Fourteen (2012: 16) auditees had qualifications on non-current assets. This is a decrease of 13% from the previous year.
- Thirteen auditees had qualifications on other disclosure notes, current assets and revenue. This is a decrease of 19%, 13% and 7%, respectively, from the previous year.

Twenty-three (88%) of the auditees appointed consultants to assist with financial reporting. More information in this regard is included in the section on the effective use of consultants.

Supply chain management

As part of our audits of supply chain management, we tested 568 contracts with an approximate value of R1,8 billion and 1 150 quotations with an approximate value of R67 million, also referred to as *awards* in this report. Of concern is that we could not audit additional contracts and quotations to the amount of R283 million (136 contracts) and R4 million (46 quotations), respectively, as the auditees were not able to provide us with the necessary documentation for these procurements. This equates to 13% of the awards requested for audit purposes.

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 supply chain management 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 improvement in the number of auditees that had audit findings on supply chain management since the previous year.

Figure 7: Auditees with findings on supply chain management

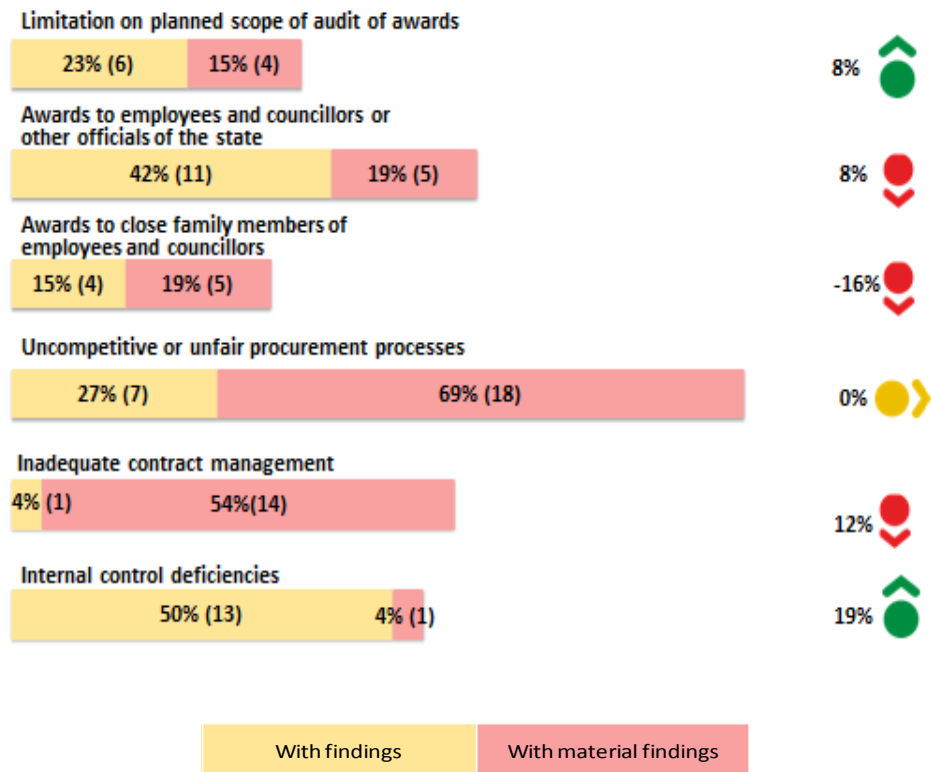


Figure 7 indicates the extent of findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- It is very concerning that this year we again experienced limitations in the auditing of supply chain management. We could not audit awards to the value of R287 million at 13 auditees, as they could not provide us with evidence that awards had been made in accordance with the requirements of supply chain management legislation due to the

unavailability of sufficient and appropriate supporting documentation. We could also not perform any alternative audit procedures to obtain assurance that the expenditure incurred in this regard was not irregular.

- There were nine instances of awards with an overall value of R6,8 million being made to suppliers in which employees and councillors of the auditees had an interest. In 22% of these instances, the supplier did not declare the interest, while the employee or councillor did not declare the interest in 44% of the cases.
- There were four instances of awards with an overall value of R37 million being made to suppliers in which close family members of employees and councillors of the auditees had an interest. In 25% (1) of these instances, the auditee did not report the interest in the financial statements, as required by the Municipal Finance Management Act. In 50% (2) of these instances, the supplier did not declare the interest, while the employee or councillor did not declare the interest in 25% (1) of the cases.
- There were 95 instances of awards with an overall value of R17 million being made to suppliers in which other state officials had an interest. In 63% of these instances (15 of the 24 auditees with this finding), the supplier did not declare the interest or made a false declaration.

The most common findings on uncompetitive and unfair procurement processes were:

- Procurement from suppliers without South African Revenue Service tax clearance: 69% (18)
- Three written quotations not invited – deviation not approved: 69% (18)
- No declaration of interest submitted by provider: 46% (12)

The most common findings on contract management were:

- Construction – project not registered with Construction Industry Development Board within 21 working days: 31% (8)
- Performance of contractors not monitored monthly: 31% (8)
- No/ inadequate contract performance measures and monitoring: 19% (5)

The most common findings on internal control deficiencies were:

- Register of bids received on time not published on website: 31% (8)
- No controls to monitor performance of contractors: 19% (5)
- Accounting officer did not submit quarterly reports to mayor/ board on supply chain management policy implementation: 19% (5)

Human resource management

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

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

Our audits furthermore specifically looked at the management of vacancies and stability in key positions, competencies of key officials, performance management, and consequences for transgressions.

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

Figure 1 shows that there has been an increase in the number of auditees that had audit findings on human resource management since the previous year.

The most pervasive challenge faced by municipalities was vacancies not being filled timeously. Forty-six per cent (12) of all auditees had senior management positions that had been vacant for more than 12 months. Contract end dates and the subsequent renewal of such contracts have an impact on the filling of positions. If not managed properly, these could have a negative impact on the municipalities' performance, the audit process and, ultimately, the audit outcome as well.

Figure 8: Vacancies in key positions



Figure 8 shows the number of auditees where the positions of the municipal manager or chief executive officer, chief financial officer and head of the supply chain management unit were vacant at year-end and also indicates the period that the positions had been vacant.

Only 8% (2) of the positions of accounting officers (both of whom were chief executive officers at municipal entities) were vacant at year-end. However, 58% (15) of the head of supply chain management positions, 48% (12) of the information technology manager positions, 42% (11) of the chief financial officer positions, 38% (10) of the asset manager positions and 31% (8) of the predetermined objectives manager positions were vacant at year-end. A matter of concern is that there has been an increase in the number of vacancies of chief financial officers from four in the previous year to 11 in the current year. Even where positions had been filled, adequate support staff was often not available to assist key management in the performance of their duties. The initiative of Provincial Treasury to employ interns has assisted in improving the financial unit capacity at various municipalities. This initiative needs to be built on and improved through the monitoring of the interns, which would ensure sustainable results. A challenge to the success of this initiative is the mobility of the interns as, in many instances, they pursue opportunities elsewhere.

Given the significant value of infrastructure assets under the control of municipalities, the costs amounting to R207 million (2011-12: R74 million) incurred in contracting in engineers for reporting requirements relating to infrastructure assets and the service delivery challenges municipalities are facing, it is a matter of concern that only 23% (6) of the municipalities have appointed professional engineers. This is contrary to section 79 of the Municipal Structures Act, Act No. 32 of 2000, which requires that where services are provided by municipalities through internal mechanisms, sufficient human, financial and other resources necessary for the proper provision of the service be allocated.

More information in this regard is included in the section on the effective use of consultants.

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

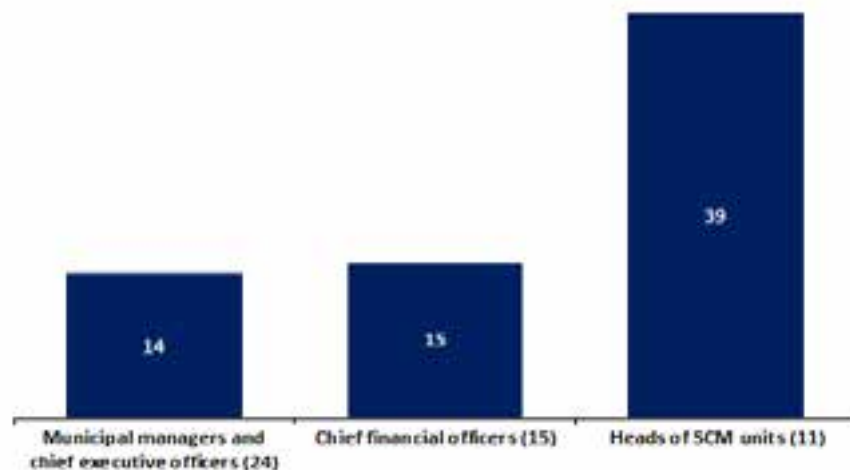


Figure 9 shows the average number of months key officials remained in their positions and indicates the lack of stability in these key positions, which also impacted negatively on the audit outcomes.

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

Figure 10: Key officials who had the minimum competencies at year-end

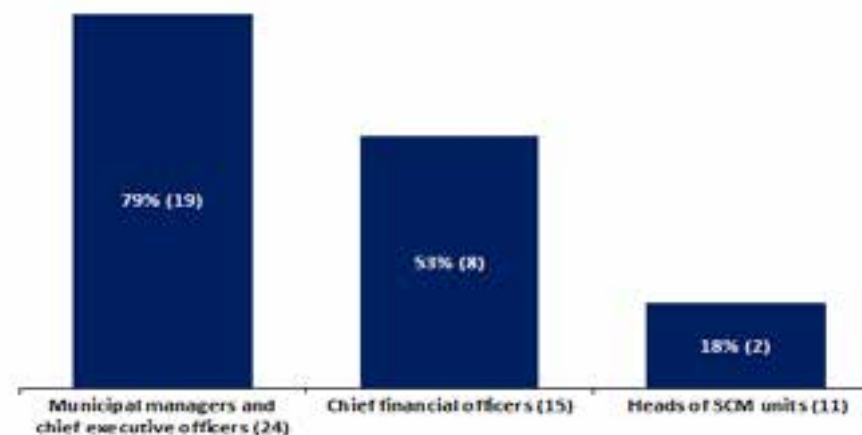


Figure 10 shows the percentage and number of auditees where key officials met the competency levels defined in the regulations in terms of the posts filled at year-end. The remainder of the officials were either not competent or had not been assessed.

To improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences.

At 92% (22) of the 24 municipalities where a municipal manager had been appointed by year-end, the municipal managers had performance agreements. Of these performance contracts 77% (17) were linked to audit outcomes. Of concern, however, is that these performance contracts were not monitored and accountability was not enforced by council. Eighty per cent (12) of the chief financial officers who had been appointed by year-end had performance contracts. Ten of these (83%) were linked to audit outcomes. None of the heads of supply chain management appointed had performance contracts.

Furthermore, at 69% (18) of the municipalities no performance management system was in place for employees other than senior managers as leadership was of the opinion that as there was no legislative requirement, there was no need for it.

Legislation prescribes how financial misconduct, improper conduct in the supply chain management processes as well as unauthorised, irregular or fruitless and wasteful expenditure should be dealt with through an investigative and disciplinary process, with possible sanctions and criminal proceedings. The

following data indicates that there continues to be a lack of consequences at some auditees:

- At 65% (17) of the municipalities irregular expenditure was not investigated to determine if any person was liable for the expenditure.
- At 54% (14) of the municipalities fruitless and wasteful expenditure was not investigated to determine if any person was liable for the expenditure.
- At 50% (13) of the municipalities unauthorised expenditure was not investigated to determine if any person was liable for the expenditure.

Effective use of consultants

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

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

Reasons for the use of consultants	Financial reporting (23)	Performance information (5)
Municipal officials lacked the required skills	22% (5)	40% (2)
Positions were vacant	4% (1)	0% (0)
Combination of lack of skills and vacancies	74% (17)	60% (3)

The total cost of consultants amounted to R325 million (2011-12: R188 million). The cost of consultants assisting with financial reporting was R114 million (2011-12: R110 million). This includes amounts, as far as could be determined from available information, spent by the provincial Department of Cooperative Governance and Traditional Affairs on consultants assigned to assist municipalities in both the current and previous year. The cost of consultants assisting with performance information was R3,8 million (2011-12: R4,3 million). Costs were also incurred in contracting engineers for reporting requirements relating to infrastructure assets to the amount of R207 million (2011-12: R74 million).

Figure 11: Audit outcomes of auditees assisted by consultants

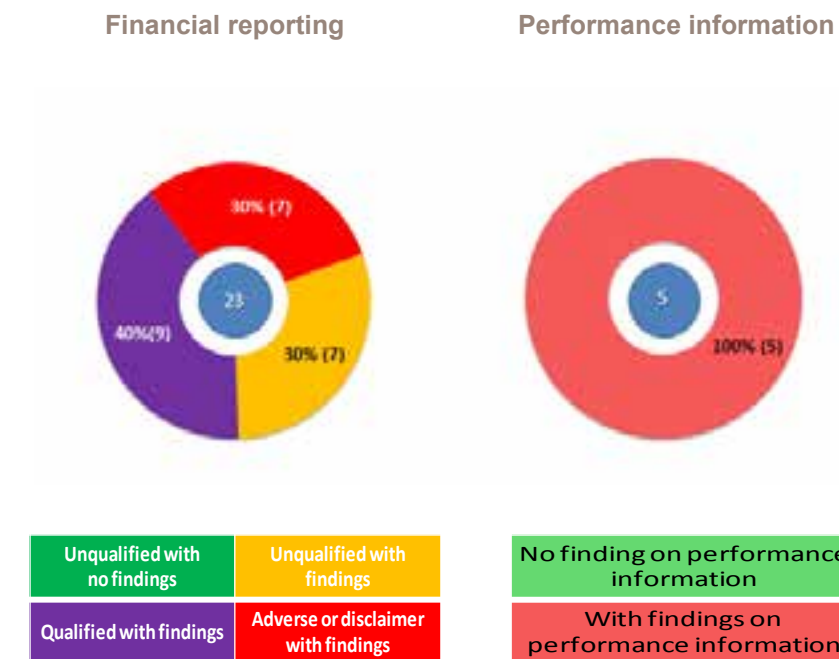
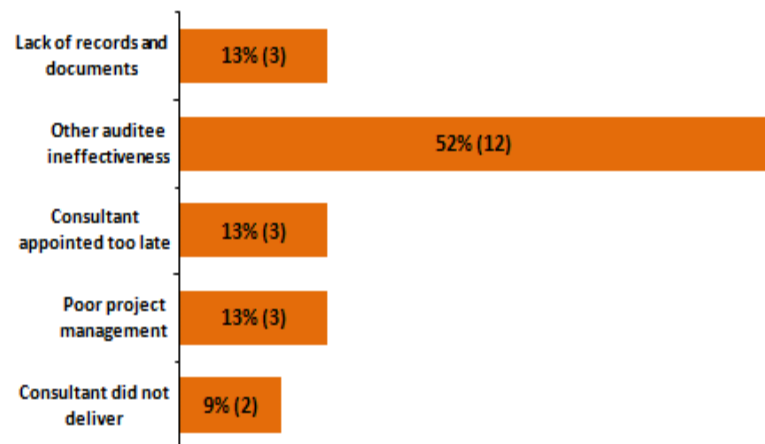


Figure 11 shows the audit outcomes of 23 auditees (88%) that had been assisted by consultants, as well as the occurrence of findings on performance information at those auditees assisted by consultants. The Mantsopa, Dihlabeng and Setsoto municipalities did not appoint consultants for financial reporting in the 2012-13 financial year. The Lejweleputswa District Municipality and the Metsimaholo, Mohokare, Nketoana and Tokologo local municipalities appointed consultants to assist with performance reporting. Consultants were appointed at the Lejweleputswa Development Agency to assist with financial reporting as the organisational structure of the entity did not make provision for the position of a chief financial officer.

The reasons why consultants did not have a positive impact on the audit outcomes of some auditees are shown below.

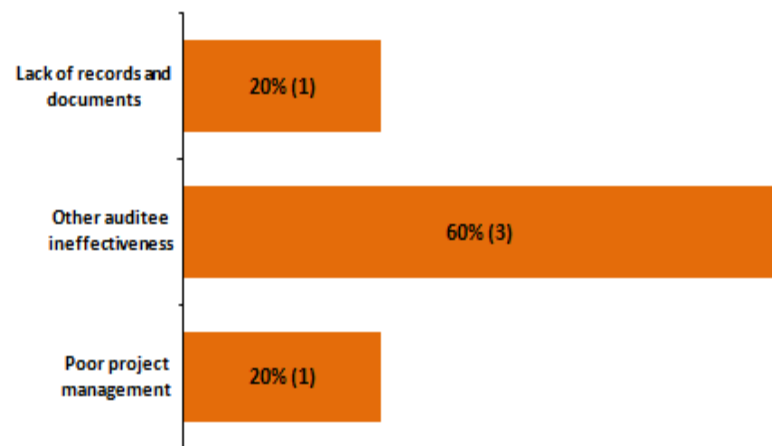
Figure 12: Reasons for material misstatements – financial reporting



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

- Measures for monitoring contract performance and delivery not defined and/or implemented at 73% (19) of the auditees
- Conditions or clauses relating to transfer of skills not included in contracts at 54% (14) of the auditees
- Lack of transfer of skills at 54% (14) of the auditees

Figure 13: Reasons for material findings – performance information



The material findings on the work of consultants could, for both financial and performance reporting, to a large extent be attributed to auditee ineffectiveness. Basic internal controls had not been established at municipalities. Adequate day-to-day supervision and basic reconciliations were consequently not performed. As a result, the information that consultants had to use to compile annual financial statements was not credible. Furthermore, the appointment of consultants was often left until it was too late, sometimes even until after the end of the financial year, and adequate supporting documentation was often not provided to them to enable them to execute their duties effectively.

Information technology controls

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

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

Figure 1 shows that little improvement had been made since the previous year in the number of auditees that had audit findings on information technology controls. Limited improvement was noted in the status of information technology controls in general as most of the municipalities and entities still had not designed adequate controls.

Figure 14: Status of information technology controls

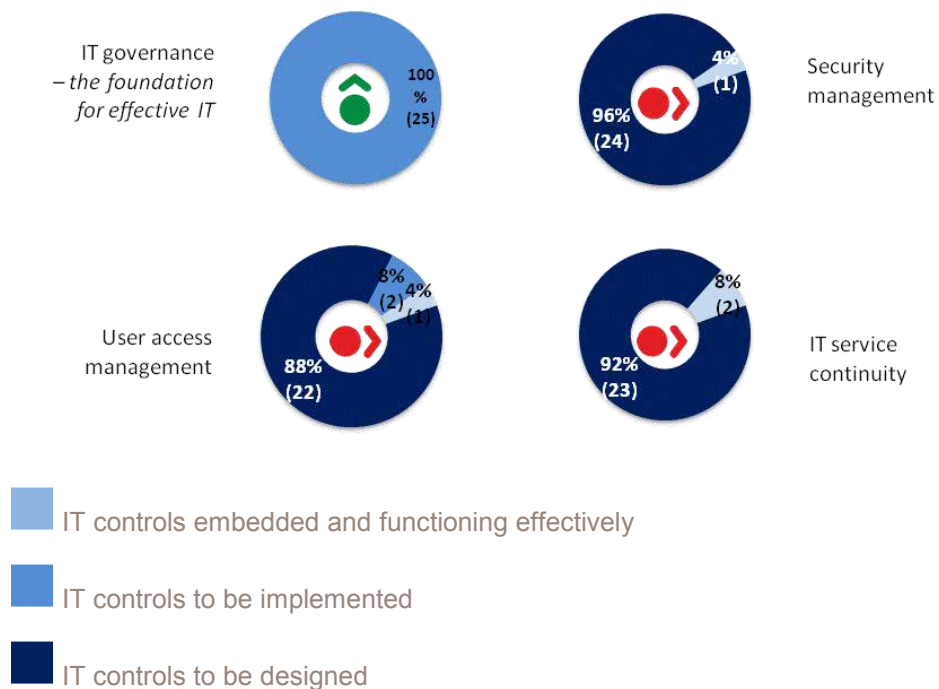


Figure 14 above indicates the status of the controls in the areas we audited and the movement since the previous year. It shows the number of auditees where the information technology controls are either not in place (not designed) or not

implemented, as well as those where information technology controls are functioning effectively.

Effective **information technology governance** ensures that the organisation's information technology control environment functions well and enables service delivery. The information technology governance framework developed for government has not yet been implemented. All auditees are, however, required to adopt and implement the information technology governance framework and guidelines for local government in phases over the next three financial years. In 2013-14 the implementation of phase 1 should be prioritised. A task team was established by the Minister of Cooperative Governance and Traditional Affairs to guide municipalities, amongst others, in the implementation of the governance framework.

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

- **Security management**

There was a lack of formally documented and approved security management policies and procedures. As a result, access controls in the form of passwords and other security parameters were not adequately configured to prevent unauthorised access to the environment and, ultimately, to the confidential data of the municipalities. In cases where the firewalls (systems used to prevent or defend against unauthorised access to or from the network) protecting the information technology environments of the municipalities were outsourced to third parties, municipalities did not play an active role in ensuring that the firewalls were managed in accordance with the security requirements of the municipalities.

- **User access management**

A significant number of municipalities still experienced challenges with the design of their policies and procedures. The segregation-of-duties principles were not adhered to as users had access to both initiate and approve transactions. This deviation from best practices was exacerbated by the lack of periodic monitoring to ensure that users' access rights remained in line with their job functions. Furthermore, the activities of individuals with administrator rights were not monitored to detect unauthorised activities performed using these accounts.

- **Information technology service continuity**

The majority of the municipalities' disaster recovery plans were not ready for activation should a disaster or major disruption occur. This lack of readiness was mainly due to the fact that disaster recovery plans were not tested and backups were not managed effectively to ensure the availability of data in the event of a disaster or disruption.

Management should prioritise the design and implementation of the security management, user access management and information technology service

continuity controls. This will mitigate the risk of unauthorised access to, and unavailability of information technology systems, as well as incompleteness of data in the event of major system disruptions or data loss.

Financial health

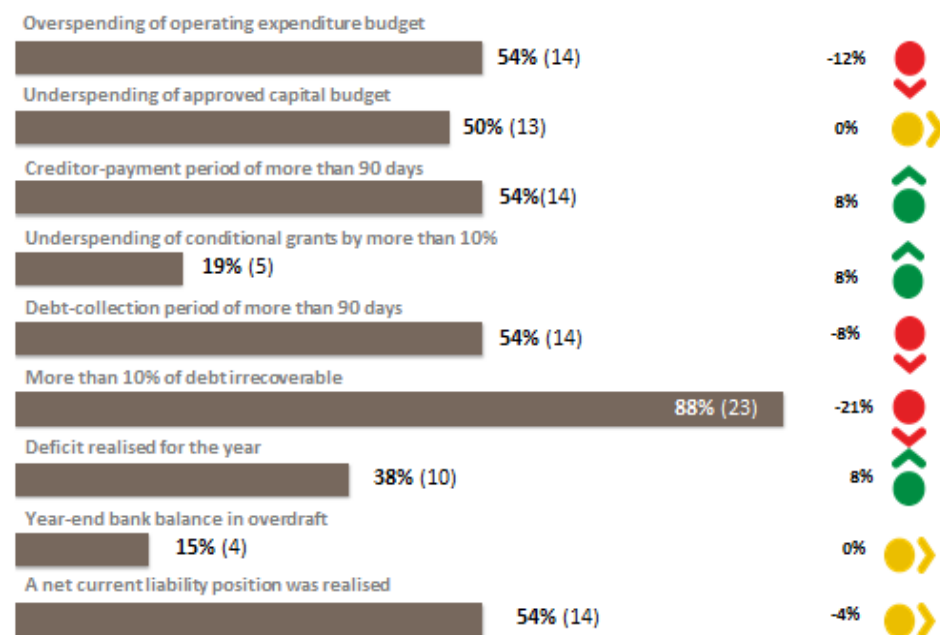
Our audits included a high-level analysis of auditees' financial health indicators to provide management with an overview of selected aspects of their current financial management and to enable timely corrective action where the auditees' operations and service delivery may be at risk. We also performed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

Figure 1 indicates the number of auditees that had more than two of the indicators shown in figure 15 below (with findings) and auditees with material going-concern uncertainties or adverse or disclaimed audit opinions (with material findings). There has been little improvement in the number of auditees that had findings on financial health since the previous year. The following areas of concern have been identified in terms of the financial health and service delivery of municipalities:

- The local government in the province has a net current liability position of R543 million.
- The net current liability position of the local municipalities (excluding the districts municipalities and entities), who are primarily responsible for service delivery, is R2 billion.
- In total, local municipalities are owed R6,9 billion by consumers for services. However, of this amount, 79% has been provided for as irrecoverable. Thus only R1,4 billion of this amount is expected to be recovered.
- Financial pressure is created by the fact that it takes local municipalities an average of 583 days to collect amounts owed to them, but payments are made to creditors within an average of 190 days, a period that is almost three times shorter.
- To compensate for this negative cash flow some municipalities have resorted to using conditional grants to fund operating activities.
- Unspent conditional grants exceeded cash and cash equivalents at Dihlabeng, Kopanong, Mafube, Maluti-a-Phofung, Mantsopa, Masilonyana, Matjhabeng, Mohokare, Nketoana, Phumelela and Xhariep by R135 million.
- Additionally, local municipalities have contractual commitments of R1,6 billion that have not been included in the determination of the net current liability position of R2 billion.

- Thirteen auditees (2011-12: 13) underspent their capital budget by more than 10%. This factor has contributed to the communities' lack of confidence in their municipalities to deliver basic services, such as water and sanitation. The main reason for the underspending of capital budgets is the poor financial health and a shortage of skills in compiling tender specifications for capital projects as municipalities have a limited complement of engineers.
- During the current year municipalities have suffered enormous losses with regard to the water and electricity provided to communities.
- Water losses suffered are due to, inter alia, burst water pipes, leaks and unmetered water sites.
- Electricity losses are due to, inter alia, line losses, tampering, theft and illegal connections.
- Reported water and electricity losses amounted to R680 million (2012: R704 million). It should be noted that some municipalities were not in a position to report on their losses and these losses are therefore likely to be understated.

Figure 15: Areas of financial health concerns



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 16: Status of drivers of key controls

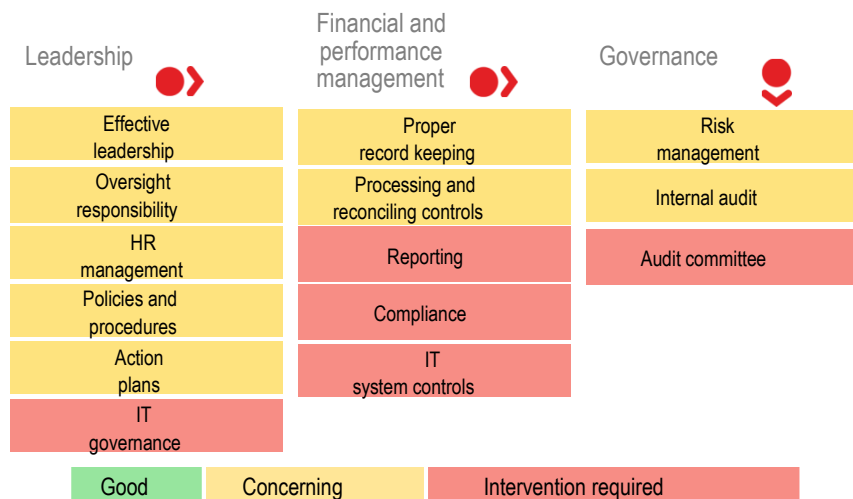


Figure 1 and figure 16 above show the status of the different areas of control and the overall movement since the previous year. Overall, there has been stagnation in the control environment at municipalities relating to leadership and financial performance management and regression in terms of governance compared to the previous year.

One of the most important control areas to be focused on is the absence of documentation due to a lack of proper record keeping to ensure that complete, relevant and accurate information is available. This was addressed by Centlec, Kopanong and Mohokare and their audit outcomes moved from disclaimers to qualified opinions. At Maluti-a-Phofung Water it resulted in the audit outcome moving from a disclaimer to an unqualified opinion with findings. The other control areas to be focused on are internal audit and the audit committee. Municipalities should ensure that an adequately resourced internal audit unit is in place to identify internal control deficiencies. More importantly, management should take

General report on the audit outcomes of Free State local government for 2012-13

note of their recommendations and implement them effectively. Municipalities should also ensure that audit committees promote accountability and service delivery by evaluating and monitoring responses to risks and by providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Many auditees did not achieve an unqualified opinion with no findings as their financial and performance reports were of poor quality and they had high levels of non-compliance with legislation. The most common root causes of the audit outcomes that need to be addressed, as shown in figure 1, are listed below:

- Lack of consequences for poor performance and transgressions, which remained stagnant from the previous year
- Key officials lacking appropriate competencies, which remained stagnant from the previous year
- Instability or vacancies in key positions or positions supporting the chief financial officer, head of the supply chain management unit or the predetermined objectives manager, which remained stagnant from the previous year.

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

The management and the leadership of the auditee and those who 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, in order to provide assurance on the quality of the financial statements and performance reports and to ensure 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 supply chain management unit, should provide assurance by implementing basic financial and performance controls.

Senior management mostly only provided some assurance and there has been a regression in the assurance provided since the previous year. The stability of leadership at municipalities is of concern as the average tenure of chief financial officers is 15 months. This mobility in the province contributes to the lack of improvement in key controls and also to the poor level of assurance provided.

It highlights the risk that decisions taken by mayors and accounting officers / authorities might be based on incomplete and incorrect information provided by senior management. Mayors and accounting officers / authorities are therefore unable to rely on senior management for implementing basic financial and performance management controls.

Vacancies need to be filled, stability has to be improved and senior management should be held accountable for the execution of their responsibilities through a strict and proper system of performance and consequence management.

Accounting officer or accounting authority

Accounting officers and authorities are responsible for auditees' internal controls, including leadership, planning, risk management, as well as oversight and monitoring. While accounting officers and authorities 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 accounting officers need to ensure that positions are filled and that there is an adequate performance management system. Due to shortcomings in this respect they were not able to provide the required assurance. The level of assurance provided by the accounting officers / authorities was lower than that of senior management and at most auditees their impact on creating an effective control environment was not evident, as was also the case in the previous year. The stability of leadership at municipalities is of concern as the average tenure of municipal managers at a specific municipality is 14 months. To achieve sustainable improvements in audit outcomes, it is imperative that accounting officers and authorities improve their oversight and monitoring effectiveness by being more persuasive in requesting credible and reliable reports from senior management.

Mayor

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

As in the previous year, most mayors did not provide the required level of assurance. This can be attributed to the poor status of the leadership controls, which resulted in the mayors having no impact on the audit outcomes.

In the past three years, we have increasingly engaged with mayors on how they can bring about improvements. At these oversight interactions the status of key controls and the mayors' commitment to improving audit outcomes were discussed and the identified risks were shared.

As shown in figure 17, most of the mayors met with us, as they committed to do. The engagements were well received, but the oversight interactions have not yet had a significant impact on the audit outcomes due to a lack of improvement in key internal controls. As demonstrated by Kopanong and Mohokare, mayors can bring about improvements in the audit outcomes of their municipalities by being actively involved in key governance matters and by managing the performance of their accounting officers.

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.

Internal audit units were in place at all auditees at an estimated cost of R33,7 million. However, these units were not yet providing the extensive assurance required and there had been a regression since the previous year. The operations of 66% of the internal audit units were not fully compliant with the requirements of the Municipal Finance Management Act and the work of most of the units did not cover all the required aspects.

The impact of these units on audit outcomes was fairly limited. Only 15% had a positive impact on audit outcomes, while the lack of impact of 62% of the units was the result of these units not working adequately and/or effectively. Furthermore, at 23% of the auditees management did not implement the recommendations made by the internal audits units.

Internal audit units can only be effective if they are adequately resourced, audit committees oversee and support their operations and accounting officers and senior management cooperate with them and respond to their advice and recommendations.

Audit committee

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

Audit committees were in place at all auditees, except at Maluti-a-Phofung. The operations of 80% of the audit committees were not fully compliant with the requirements of the Municipal Finance Management Act and the work of most audit committees did not cover all the required aspects. Only 12% of the audit committees had a positive impact on the audit outcomes and the assurance provided by the audit committees was once again assessed as limited.

As second-level assurance providers audit committees have to depend to a large degree on the reliability of the assurance provided by senior management and the internal audit units. The lower the assurance level provided by these two role players, the more difficult it is for audit committees to accurately assess the control environment of the auditee and to provide assurance that all significant risks are being reduced. For audit committees to be able to add value, municipalities need to provide the necessary support that would allow them to execute their functions effectively.

Provincial treasury, premier 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 Municipal Finance Management Act further requires provincial government to assist municipalities in building capacity to support efficient, effective and transparent financial management. Both the Municipal Finance Management Act and the Municipal Systems Act define responsibilities for monitoring financial and performance management in compliance with these acts.

The Free State Treasury, Department of Cooperative Governance and Traditional Affairs and Human Settlement and Office of the Premier are provincial departments that have a direct role to play in supporting and monitoring local government and thereby providing a level of assurance. 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.

Overall, the level of assurance provided by these coordinating ministries has stagnated since 2011-12 and the role of oversight has to be strengthened if the level of assurance provided by them is to be elevated and audit outcomes are to be improved.

The provincial treasury carries out a number of interventions in the province, ranging from budgetary control to the monitoring of monthly reports and principles of financial management. The office of the premier mainly uses the provincial treasury to coordinate and monitor provincial oversight and the progress made towards clean administration.

Responding to the nature and depth of the challenges experienced at municipalities, the provincial treasury and the department of cooperative governance provided hands-on assistance by deploying staff to municipalities to improve skills and internal controls. Of concern is the lack of impact these initiatives have had on the overall outcomes of municipalities and entities.

The coordinating ministries should improve the effectiveness of their oversight role by ensuring that control measures are implemented that promote sustainable

good administration. Performance measures and criteria that incorporate consequences for poor performance and transgressions should also be instituted.

We undertake to continue with our engagements with leadership, as well as with important technical engagements in support of the provincial treasury's efforts.

Municipal council and municipal public accounts committee

In most instances, the level of assurance provided by the municipal councils regressed and as municipal public accounts committees only started operating late in the financial year, their impact on audit outcomes was negligible.

The municipal council is required to provide assurance through monitoring and oversight. This includes approving or overseeing certain transactions and events as well as investigating and acting on poor performance and transgressions, such as financial misconduct and unauthorised, irregular as well as fruitless and wasteful expenditure. The lack of basic financial knowledge in municipal councils impacted negatively on their ability to provide the required level of assurance. Meetings were held with councils to discuss their roles and responsibilities and to provide insights into the overall audit outcomes. Councils should monitor the effective functioning of their municipal public accounts committees and should execute oversight by reviewing reports and holding management to account.

The municipal public accounts committees were introduced as a committee of the council to deal specifically with the municipality's annual report, financial statements and audit outcomes, and to improve governance, transparency and accountability. The committee is an important provider of assurance, as it needs to give assurance to the council on the credibility and reliability of financial and performance reports, compliance with legislation as well as internal controls. Municipalities started with the establishment of municipal public accounts committees towards the end of 2012. Formal training was only provided to the members of these committees during the second half of 2013 and the committees therefore did not provide the required level of assurance and oversight for the year under review.

Our initiatives will be intensified by interacting with municipal public accounts committees to provide insights on their role, the audit findings and their causes and effects.

Provincial legislature and portfolio committee on local government

In terms of the Constitution, the provincial legislature must maintain oversight of the executive authority responsible for local government. This executive authority includes the member of the executive committee for cooperative governance and other executives involved in local government, such as the member of the

executive committee for finance. The portfolio committee on local government is the mechanism used to conduct oversight.

The provincial legislature and portfolio committees were again assessed as providing no/limited assurance, with the result that they continue to have a low impact on audit outcomes.

The Speaker's forum was revived by the provincial legislature, but did not subsequently have regular interactions. The Speaker of the Legislature should continue to drive this initiative.

Since three municipalities had not established municipal public accounts committees and the municipal public accounts committees that had been established did not function at the required level to provide the necessary assurance, the public accounts committee conducted hearings on the audit reports of municipalities. However, public accounts committee resolutions were again tabled and distributed too late to have an impact on the 2012-13 audit outcomes.

The portfolio committee on local governments did not meet regularly to fulfil their mandated role of monitoring, investigating and making recommendations.

The public accounts committee should assist municipal public accounts committees with their oversight role, which includes examining audit reports and developing recommendations.

District municipalities

The division of functions and powers between district and local municipalities is set out in the Municipal Structures Act. The role of district municipalities is to provide district-wide bulk services, build the capacity of local municipalities and promote the equitable distribution of resources between local municipalities. Currently, the district municipalities are not fulfilling this role.

Three of the four district municipalities have sustained their audit outcomes as financially unqualified with findings. These district municipalities have successfully implemented fair controls and we are convinced that the support provided by these municipalities can assist in improving the audit outcomes of municipalities in their districts.

The members of the executive committee for cooperative governance should facilitate the creation of effective mechanisms by district municipalities to assist and share good practices in the district. To assist local municipalities, the district municipalities should, with the assistance of the department of cooperative governance and traditional affairs and the provincial treasury, play a role in attracting engineers and information technology managers and in giving guidance on processes, the monitoring of performance information and the building of capacity that would empower finance staff. Until these matters have been dealt with, the assurance that district municipalities will be able to provide will remain at the level of low to no assurance.

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

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

Figure 17: Interactions with mayors

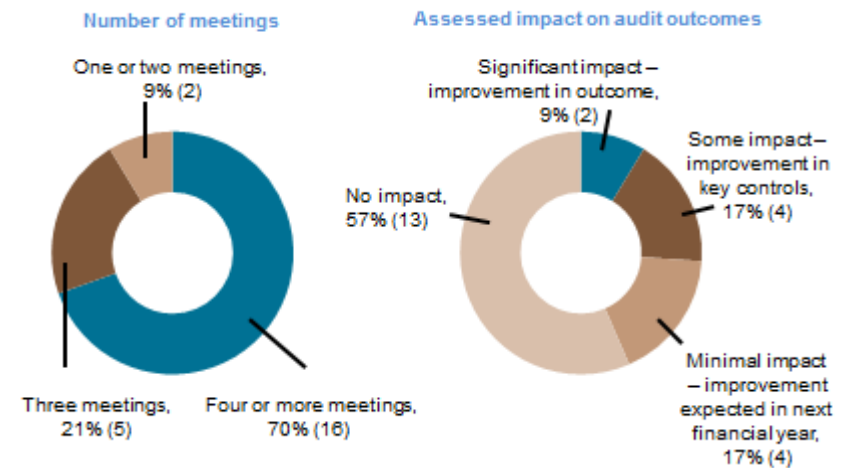


Figure 17 shows the number of meetings we had with mayors during 2012-13 and our assessment of the impact of these interactions. Only 23 auditees were assessed as Centlec, Maluti-a-Phofung Water and Lejweleputswa Development Agency were included with their parent municipalities. The mayors of seven municipalities (30%), namely Letsemeng, Lejweleputswa District Municipality, Mantsopa, Masilonyana, Moqhaka, Phumelela and Tokologo, did not have the four oversight meetings with the Auditor-General they committed to in the previous year as they did not regard these meetings as a priority. However, despite these interactions with most of the mayors, only Mohokare and Kopanong had improved audit outcomes as their mayors took our message seriously and accepted ownership. The reasons for the mayors' lack of impact are their failure to commit, to implement actions to address the root causes of poor audit outcomes and to improve the financial administration of their municipality by monitoring the action plans.

The member of the executive committee: finance also dedicated time to personally interact with all mayors and to give them clarity and guidance on their roles and responsibilities and specific financial administration matters that require their attention.

Throughout the year, we obtain and monitor the commitments of mayors, councils and municipal public accounts committees to implement initiatives that can improve audit outcomes. The progress of such commitments in response to the previous year's audit outcomes and new commitments are included in the section on the results of municipalities. Overall, the implementation and finalisation of commitments made by role players have been slow and the impact thereof limited.

During our road show on audit outcomes we also shared this message with the premier, the provincial treasury and the provincial department of cooperative governance. We confirmed the progress made by these role players in executing the commitments made in response to the previous year's audit outcomes. In the previous year, the political leadership committed to a wide range of initiatives to be undertaken by the coordinating departments. These included:

- Immediate commitments to ensure that consultants were appointed timeously
- To arrange a workshop with consultants to develop a sustainable solution to the poor status of key controls at municipalities
- To allocate interns to municipalities in an attempt to address skills shortages in finance units while the leadership develops and implements a long-term skills development plan
- An undertaking by leadership to investigate and regularise unauthorised and irregular expenditure in the province and to maintain a zero-tolerance stance on these expenditures.

Most of these commitments were only partially implemented and had a limited impact on the audit outcomes.

Our messages continue to emphasise the importance of obtaining commitments from all role players that would have a real impact and that these commitments have to be fully implemented if they are to give rise to improved audit outcomes.

The following is a summary of the most common and important commitments and recommendations made in this report to improve audit outcomes in the coming years:

Recommendations made:

- Leadership to ensure that vacancies are filled with skilled employees
- Stability to be improved and maintained

- Senior management to be held accountable for the execution of their responsibilities through a strict and proper system of performance and consequence management
- Daily and monthly basic accounting functions to be performed and monitored continuously

Commitments received:

- A commitment was again given to allocate interns to municipalities in an attempt to address skills shortages in finance units while the leadership develops and implements a long-term skills development plan.
- The leadership also undertook to investigate and regularise unauthorised and irregular expenditure in the province and expressed a zero-tolerance stance on these expenditures.
- The member of the executive committee: finance identified four municipalities, namely Dihlabeng, Fezile Dabi District, Lejweleputswa District Municipality and Thabo Mofutsanyana District Municipality, for clean audit status during 2013-14 and committed to providing additional guidance to the targeted municipalities.
- The premier and executive committee committed to staging interventions at municipalities with disclaimers and reconfirmed the commitment made in the previous year to give attention to skills development.
- The premier made a commitment to holding all mayors and municipal managers accountable for repeat disclaimers and poor service delivery. The premier also committed to strengthening the governance structures by appointing competent audit committees to assist in improving the control environment.
- Provincial treasury in conjunction with the department of cooperative governance committed to finalising their project on an ideal structure for municipal finance units.

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

The state of municipal infrastructure in South Africa is a crucial element in ensuring service delivery to all communities. Key aspects of the provision of water and sanitation services and roads infrastructure by municipalities were therefore reviewed and reported on in the management reports.

Water and sanitation

According to the Constitution of the Republic of South Africa every person has the right to clean water. Government thus set a target to provide access to clean water and basic 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 has to be undertaken by municipalities that have been classified as water services authorities. There are 20 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.

At all of these services authorities we identified 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 three most serious findings identified in terms of the provision of water are listed below and require leadership's urgent attention to ensure that government's objectives relating to the delivery of water and sanitation services are achieved:

- Fifty-five per cent (11) of municipalities have not adopted a water services development plan.
- The backlog in the provision of basic water will not be eradicated in 2014 at 50% (10) of the municipalities.
- Access to basic water is not reported as a key performance indicator at 45% (9) of the municipalities.

Roads infrastructure

In terms of the Constitution, the functions and powers concerning roads have been allocated to those municipalities classified as roads authorities. There are 21 roads authorities in the province.

The condition of roads impacts on all citizens. Poor road conditions create challenges for many with unnecessary time delays, increased transportation costs, and reduced access to education, health care and social services.

At all of these roads authorities we identified warning signs that could have a serious impact on municipalities' ability to provide a large portion of the province's population with proper roads. The three most serious findings identified in terms of the provision of roads are listed below and require leadership's urgent attention to ensure that government's objectives relating to roads are achieved:

- Sixty-seven per cent (14) of municipalities do not have an approved policy on roads infrastructure.
- Fifty-two per cent (11) of municipalities do not have a road asset management system.
- At 48% (10) of the municipalities no road maintenance plan has been compiled to provide the strategy to be followed.

AUDIT OUTCOMES OF INDIVIDUAL MUNICIPALITIES

Audit outcomes and demographics of mayoral portfolios

The following section of the report deals with the municipalities individually. For each municipality there are two sections, one on demographic matters and one providing a narrative overview of the status of the municipality.

- Municipal demographics provide context and an understanding of the environment in which the municipality operates. This includes a graphical illustration of general statistics relating to the population and basic services applicable to the specific municipality. Please note that the statistics used to populate these graphical illustrations were obtained from the 2011 census report prepared by Statistics South Africa and have not been audited by the Auditor-General.
- The demographics for the four district municipalities are an aggregation of the municipalities making up the district. The local municipalities are combined in districts as follows:
 - Mangaung Metropolitan Municipality and its entity
 - Fezile Dabi District Municipality
 - Mafube Local Municipality
 - Metsimaholo Local Municipality
 - Moqhaka Local Municipality
 - Ngwathe Local Municipality
 - Lejweleputswa District Municipality
 - Masilonyana Local Municipality
 - Matjhabeng Local Municipality
 - Nala Local Municipality
 - Tokologo Local Municipality
 - Tswelopele Local Municipality

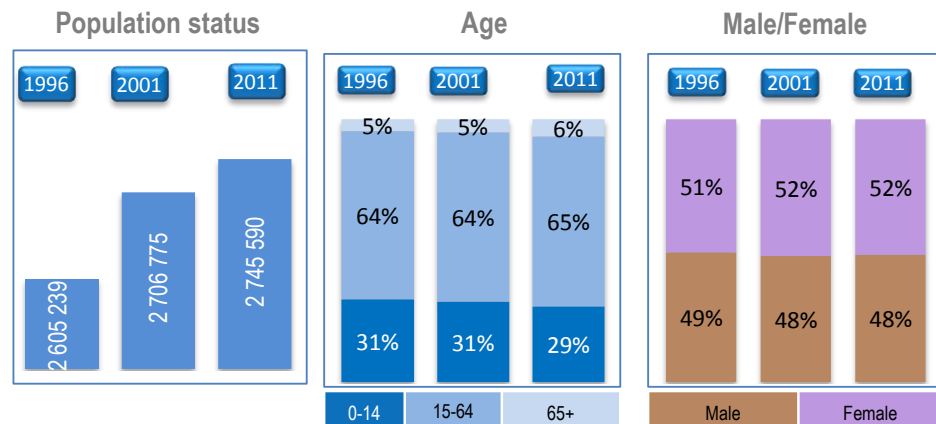
- Thabo Mofutsanyane District Municipality
 - Dihlabeng Local Municipality
 - Maluti-a-Phofung Local Municipality
 - Mantsopa Local Municipality
 - Nketoana Local Municipality
 - Phumelela Local Municipality
 - Setsoto Local Municipality
- Xhariep District Municipality
 - Kopanong Local Municipality
 - Letsemeng Local Municipality
 - Mohokare Local Municipality
 - Naledi Local Municipality

- The graphically illustrated overview and the one-page narrative overview of the status of each municipality provide a snapshot from an audit perspective and include the following:
 - Audit outcomes over a three-year period
 - Drivers of key controls
 - Assurance provided by key players on accountability
 - A reflection of progress made in a number of critical risk areas
 - Root causes that underpin the audit outcomes and internal control weaknesses

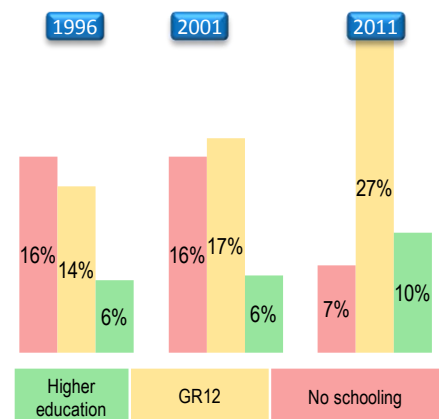
PROVINCIAL OVERVIEW FREE STATE

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

Population

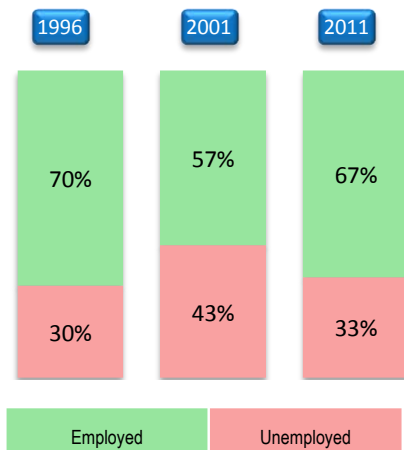


Education

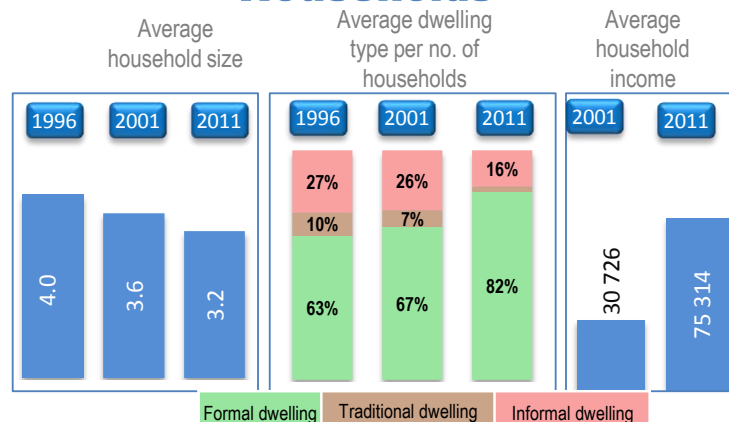


The statistics depicted above do not reflect persons who only have partial primary or secondary schooling. The graphic therefore does not add up to 100%

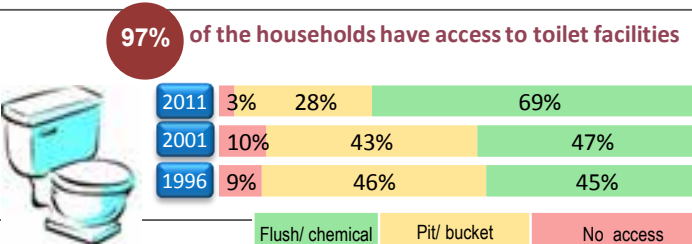
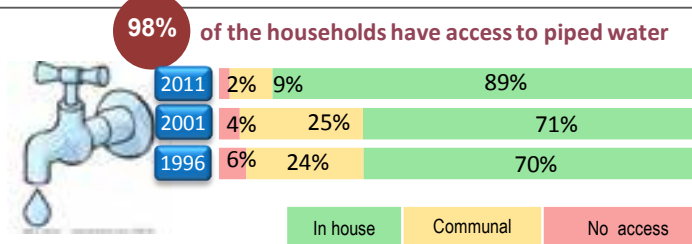
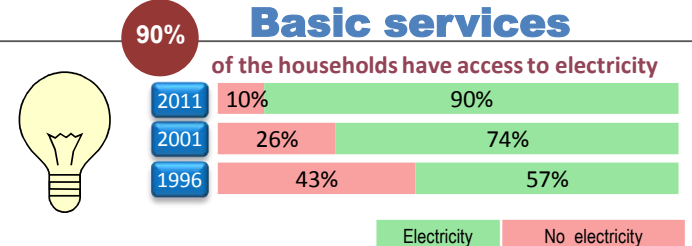
Labour



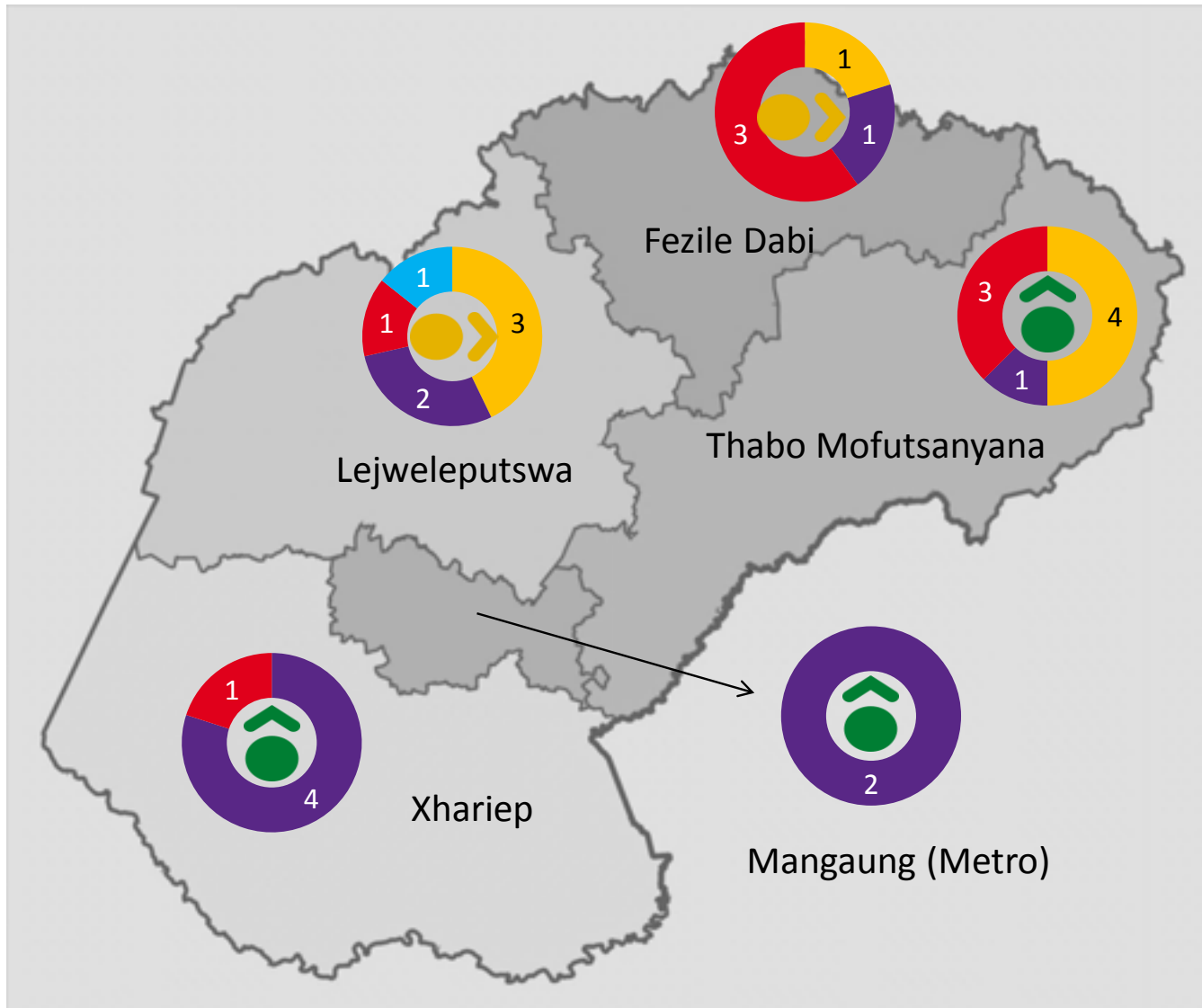
Households



Basic services



Municipal audit outcomes per district



2012-13
MFMA

- Unqualified with findings
- Qualified with findings
- Disclaimer with findings
- Audits outstanding
- Improved
- Stagnant or little progress

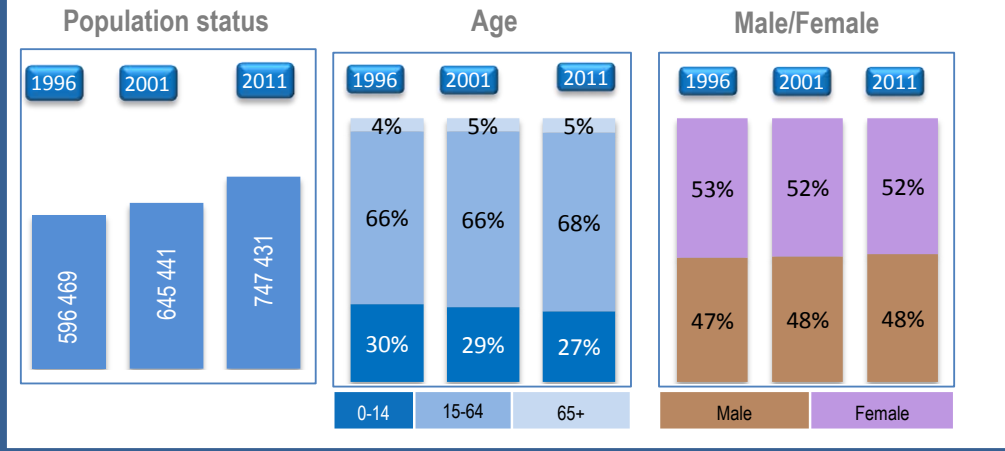
Mangaung Metro

37

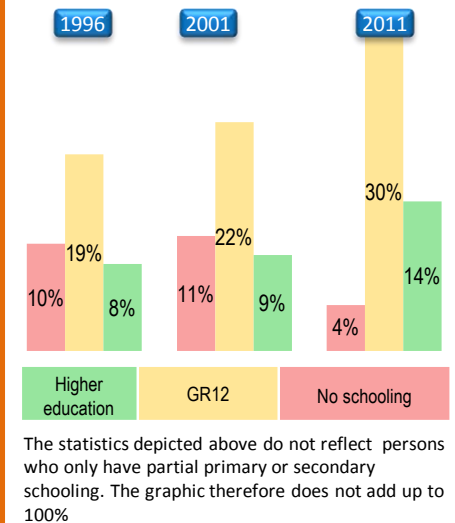
MANGAUNG METROPOLITAN MUNICIPALITY

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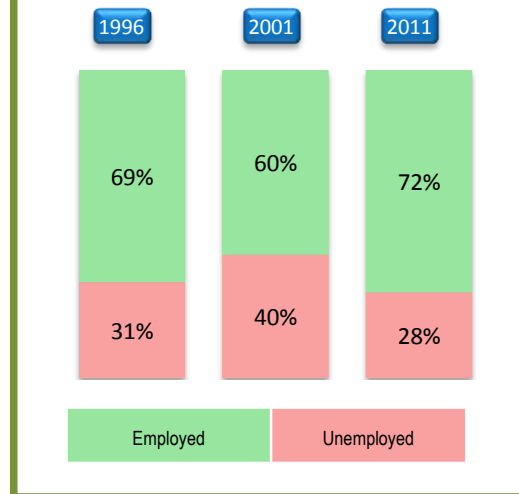
Population



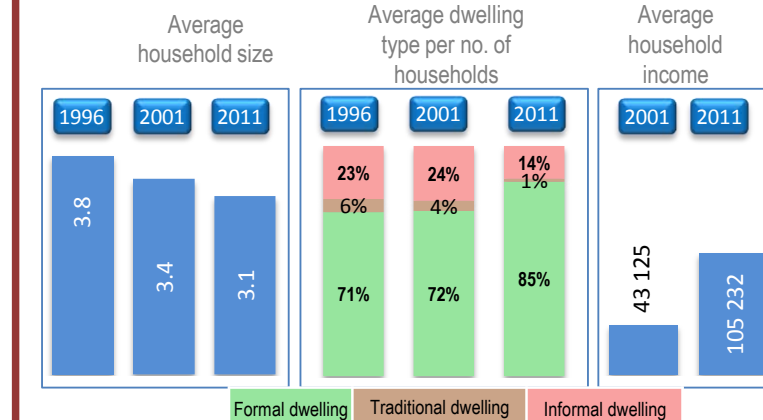
Education



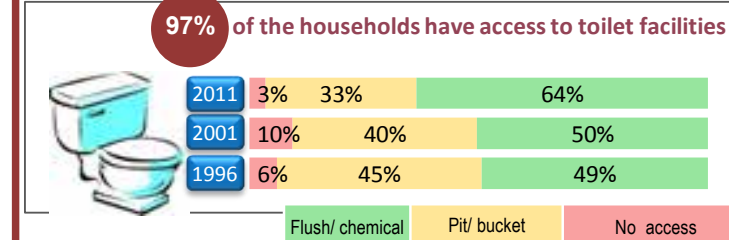
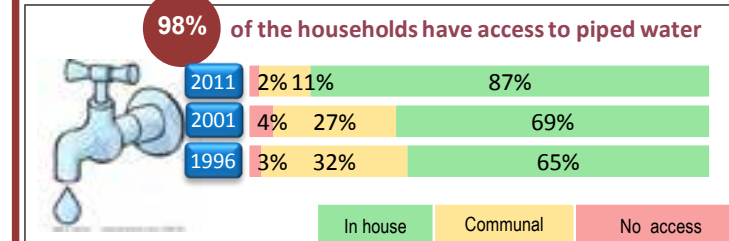
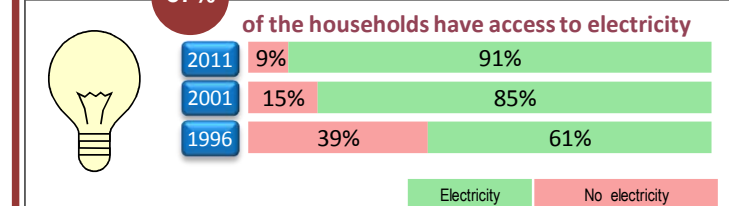
Labour

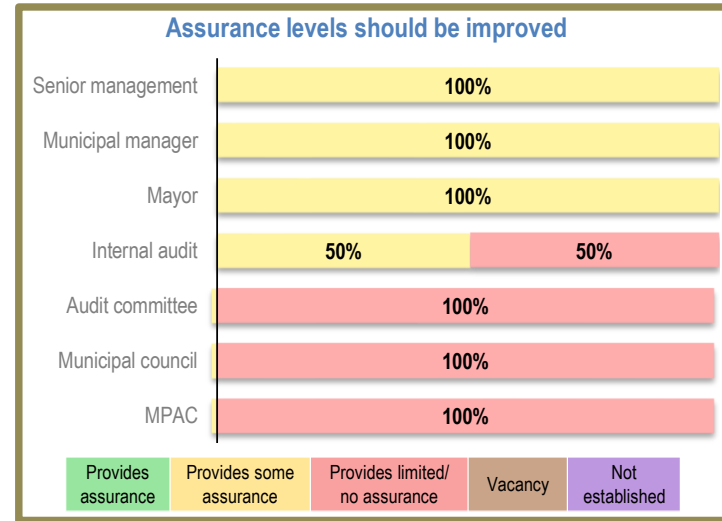
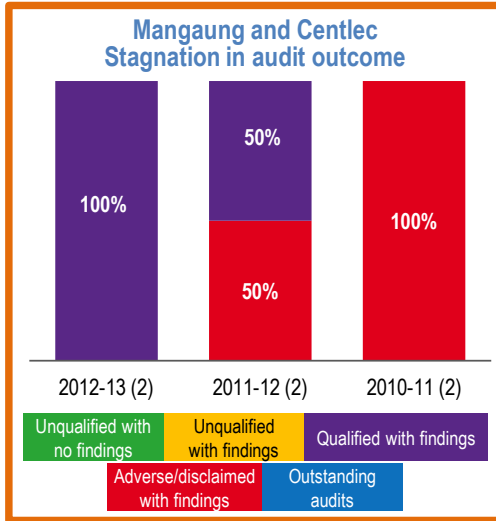


Households



Basic services

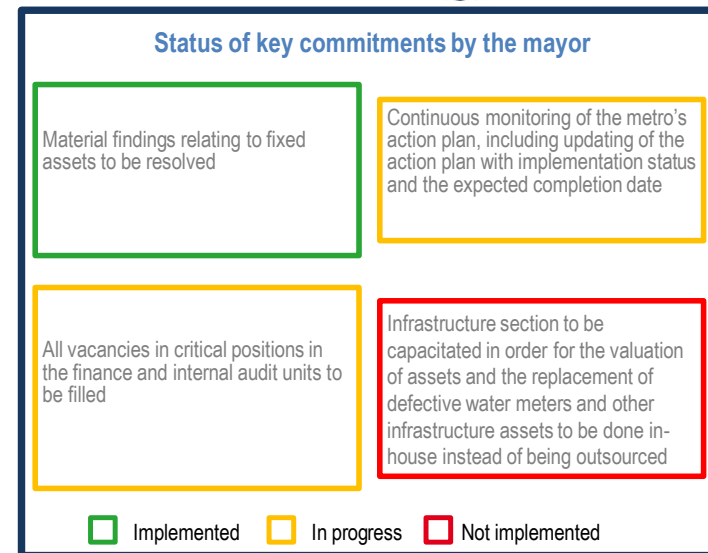
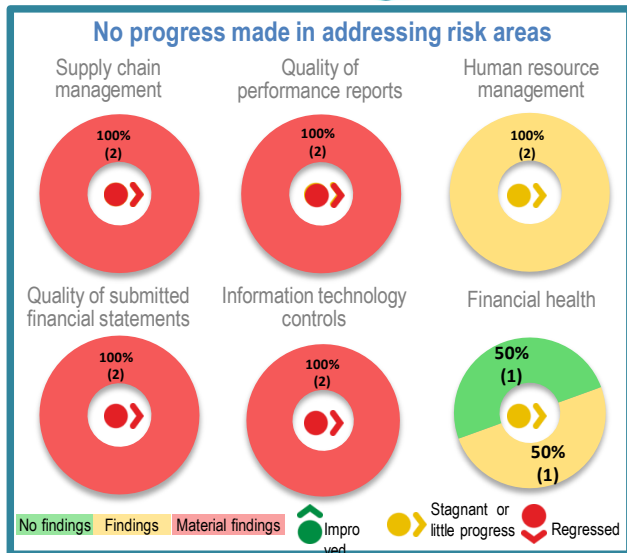




The current **audit outcomes** are the result of the attention given to the **six key risk areas**.

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**.



Mangaung Metropolitan Municipality and its entity

Current year audit outcome:

- Mangaung Metropolitan Municipality – *Qualified*
- Centlec (SOC) Limited – *Qualified*

Significant movement in audit outcome

The stagnation in the audit outcome of the metropolitan municipality (metro) was caused by the findings on various audit matters reported in previous years not being adequately addressed. Management acknowledged that it would take more than one year to resolve these matters. However, the entity's audit outcome improved due to management's increased involvement and commitment in addressing the findings of the previous year, which related mainly to the availability of documentation.

Six key risk areas

The metro's audit outcome reflected a lack of progress in addressing the findings in the six key risk areas reported in the previous year. The financial statements submitted for audit purposes remained of poor quality, even though consultants were reappointed due to a lack of skills within the municipality.

Although there was an improvement in the audit outcome of Centlec, the sustainability thereof is questionable as no progress has been made in addressing the findings in the six key risk areas reported in the previous year. The financial statements submitted for audit purposes were of poor quality as the financial official who prepared the financial statements lacked a comprehensive understanding of the accounting standards. Consequently, both auditees made material corrections to their financial statements based on misstatements identified by the auditors.

Consultants were again engaged to provide financial reporting assistance at a cost of R32 235 687 (2012: R9 195 257) for the metro and R6 453 227 (2012: R1 930 932) for the entity.

The controls and structures required for reporting on performance information were lacking at both auditees. As a result, performance indicators were still not well defined or verifiable. Supporting documentation was, moreover, not provided due to a lack of supervision.

The status of SCM at the metro has improved, mainly due to the implementation of internal controls for identifying and reporting irregular expenditure incurred. At the metro the irregular expenditure incurred for the year was ultimately reduced to

General report on the audit outcomes of Free State local government for 2012-13

R10 279 666 (2012: R58 324 226). However, in the case of the entity irregular expenditure increased to R281 933 191 (2012: R9 437 1548) as information previously not submitted for audit purposes has since been submitted. The entity was one of the major contributors to irregular expenditure.

The entity incurred fruitless and wasteful expenditure amounting to R18 837 578 (2011-12: R32 080 187) during the year owing to interest on late payments.

Notwithstanding some progress made in strengthening the IT governance framework and the controls that ensure its effective functioning, ineffective oversight contributed to the lack of adequate progress in the area of IT management.

The metro also still faces significant difficulties in the collection of debts, along with excessive distribution losses as a result of the deterioration in the water reticulation system and unmetered water and electricity connections.

Key controls and root causes

There has been no improvement in the key controls of either the metro or the entity to sustain management's efforts in addressing the remaining qualification areas and certain governance weaknesses.

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

- Effective HR management should be established to ensure that competent and sufficiently skilled officials are appointed and retained and performance is monitored.
- The asset registers should be thoroughly reviewed in terms of completeness, ownership and the correct valuation thereof to inform the need for regular maintenance of old infrastructure and to avoid service delivery disruptions.
- The establishment of documented processes for financial and performance information reporting should be prioritised to ensure the completeness and accuracy of information, backed by adequate supporting documentation that confirms the reported information.
- A compliance checklist that includes all the relevant laws and regulations, especially those that relate to procurement and financial and performance reporting, should be developed and implemented.

The accounting officer, senior management and the audit committee should address the root causes of the poor audit outcome and inadequate controls as follows:

- Oversight should be enhanced by regularly monitoring and evaluating the supporting evidence for financial and performance reporting throughout the financial year and by promptly intervening where shortcomings are noted.
- Measures should be instituted to ensure that there are consequences for poor performance and transgressions of laws and regulations, especially those that relate to SCM.
- Stability should be created in key positions and it should be ensured that competent staff are appointed to fill vacancies and that performance is monitored.

Impact of key role players on audit outcomes

To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as

indicated above. Senior management should ensure that the recommendations of the Auditor-General and internal audit are timeously implemented and that the work of the audit committee is directed towards evaluating significant risks.

We had five meetings with the mayor during the year and these oversight interactions had limited impact on the audit outcome. The reason for our assessment is that the previous commitments relating to the monitoring of the action plan are still in the process of being actioned and the infrastructure section still needs to be capacitated.

We attended MPAC meetings during the year where the implementation of action plans for both the metro and the entity were monitored. MPAC should continue with this action to assist the metro in improving the audit outcome.

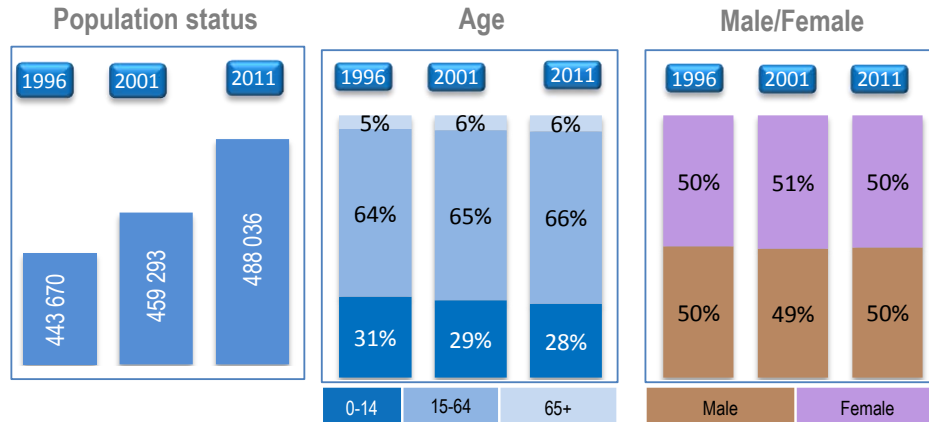
Fezile Dabi District

43

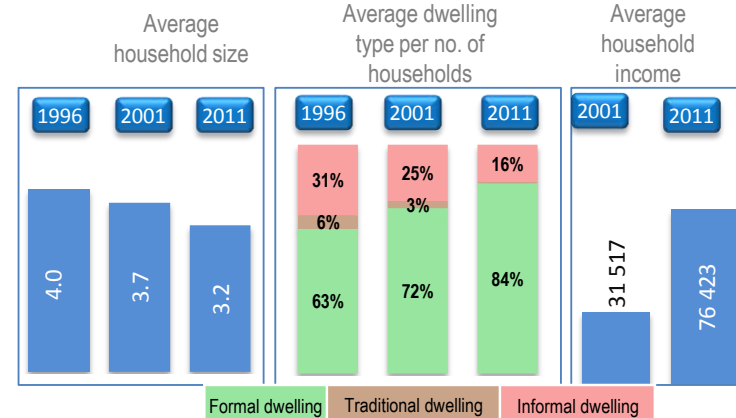
FEZILE DABI DISTRICT MUNICIPALITY

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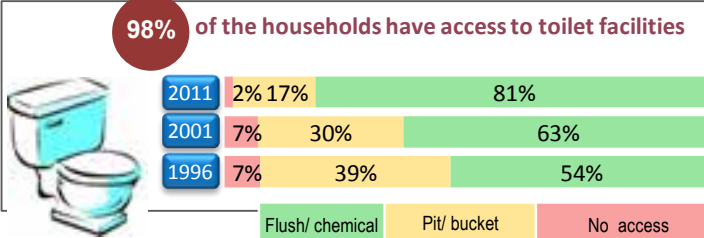
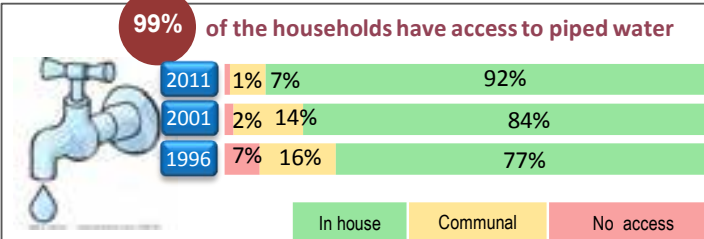
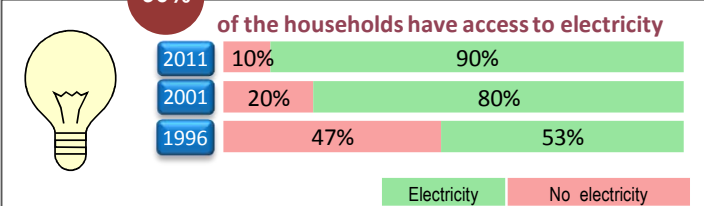
Population



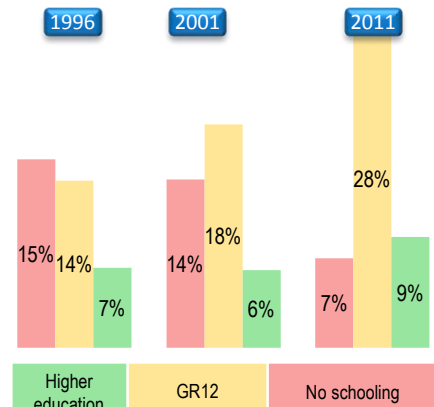
Households



Basic services

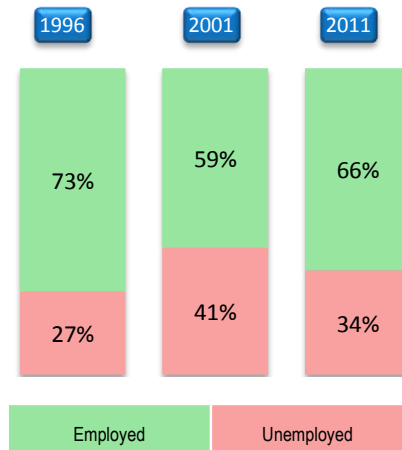


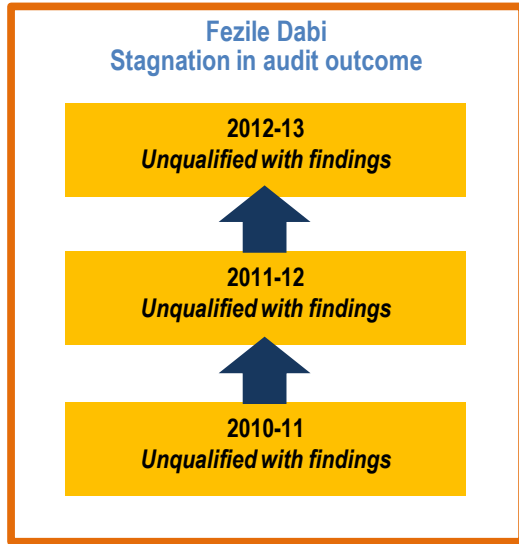
Education



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

Labour





Drivers of key controls improving

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

Good Concerning Intervention required

Improved Stagnant or little progress Regressed

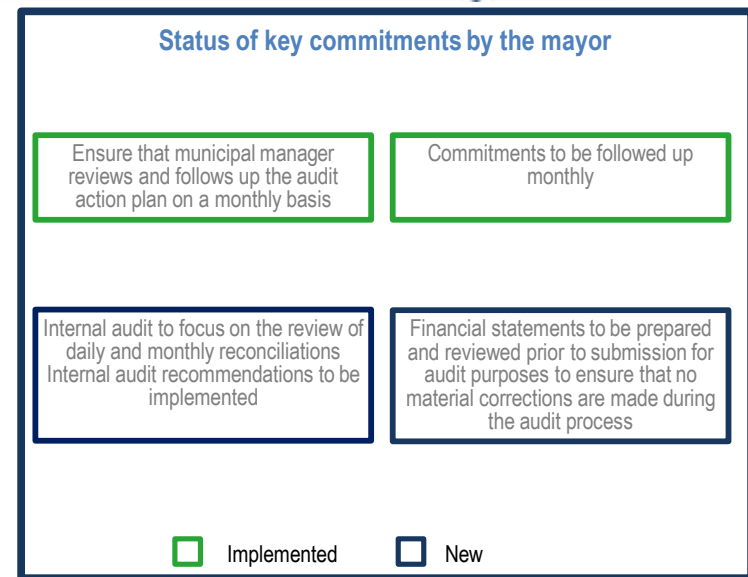
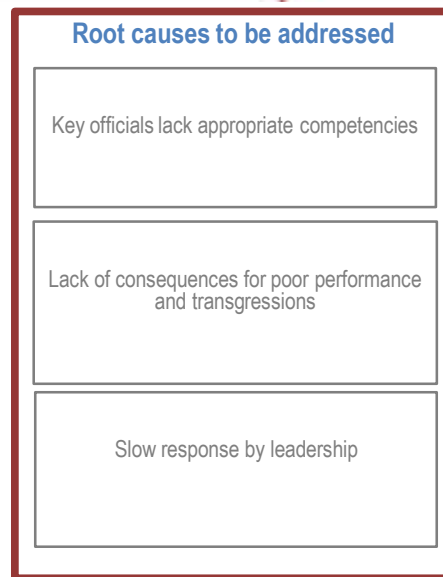
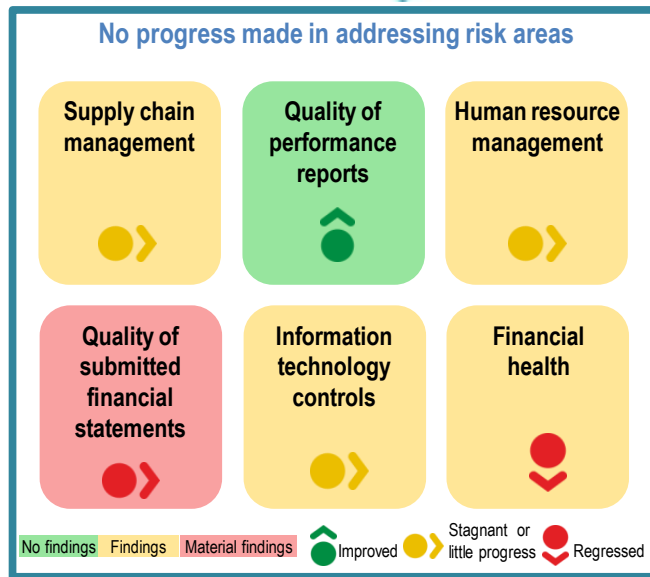
Assurance levels should be improved

Senior management	<i>Provides some assurance</i>
Municipal manager	<i>Provides assurance</i>
Mayor	<i>Provides assurance</i>
Internal audit	<i>Provides assurance</i>
Audit committee	<i>Provides assurance</i>
Municipal council	<i>Provides some assurance</i>
MPAC	<i>Provides some assurance</i>

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*.



Fezile Dabi District Municipality and its entity

Current year audit outcome:

- Fezile Dabi District Municipality: *Unqualified with other matters*
- Fezile Dabi District Municipality Trust: *Unqualified with no findings*

Stagnation in audit outcome

For the past five years there has been stagnation in the audit outcomes of the municipality. The only matter hampering the municipality from obtaining a clean audit opinion is non-compliance due to the number of material audit adjustments made to the financial statements. The quality of the annual performance report has improved from the previous year and no findings have been reported, which could be attributed to the fact that all the audit findings of the previous year have been addressed. The Trust has received a clean audit opinion as it is dormant, with the result that there have been no transactions for the year. The entity has therefore been excluded in the analysis of this report.

46 Six key risk areas

Overall, there has been stagnation in the six key risk areas at the municipality, mainly due to minimal progress made in addressing the findings of the previous year. However, in the area of reporting on performance information there has been some improvement. The municipality should remain focused on improving these areas to ensure sustainability. The financial statements submitted for audit purposes remained of poor quality, even though consultants were reappointed due to a lack of technical skills within the municipality. As a result, many material corrections were made to the submitted financial statements, based on misstatements identified by the auditors. These misstatements occurred because monthly disciplines were not implemented and monitored by senior management and consequences for poor performance were lacking.

Consultants were again engaged to provide financial reporting assistance at a cost of R257 414 (2012: R272 859). The use of consultants was managed effectively, but skills transfer was lacking.

The status of SCM remains unsatisfactory, primarily due to a lack of consequences for poor performance, which ultimately resulted in irregular expenditure to the amount of R1 151 207 (2012: R4 253 383) being incurred for the year. Although this amount had reduced from the previous year, there were no effective controls over SCM processes.

Ineffective oversight of IT and the controls that ensure its effective functioning

contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective and is not paying adequate attention to it even though a dedicated IT manager has been employed.

Key controls and root causes

Leadership consistently initiated actions to address the deficiencies in key controls identified in the previous year and the mayor also increased oversight to ensure that key controls operated effectively, with the result that there was an overall improvement in these controls.

The following controls should 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 controls over daily and monthly processing and the reconciliation of transactions to ensure that all liabilities are recorded, giving particular attention to the performance of year-end procedures.

Senior management should address the root causes of audit outcomes and inadequate controls as follows:

- Leadership controls should be improved through enhanced oversight by implementing critical policies and procedures and ensuring that officials have the required competence and skills.
- The daily and monthly reconciliations should be performed and reviewed and consequences for poor performance should be implemented.

Impact of key role players on audit outcomes

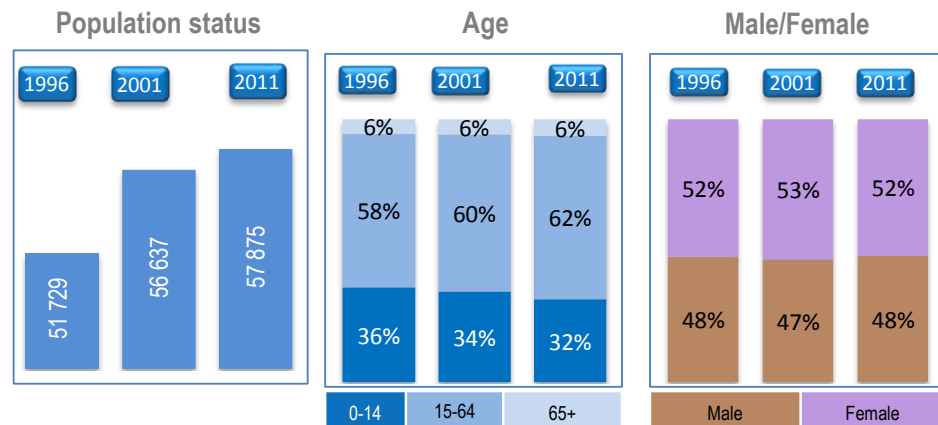
To improve the audit outcome the assurance level should be enhanced by implementing the recommendations of the Auditor-General, the audit committee and internal audit. Also, internal audit should focus on the daily and monthly reconciliations of financial statements, as well as on performance reporting, and financial statements should be adequately reviewed and adjusted before being submitted for audit purposes.

We had six meetings with the mayor during the financial year and these oversight interactions had some impact on the audit outcomes. Our assessment is based on the impact that the oversight provided by the mayor had, namely improved internal controls, as well as on the impact of the commitment made to ensure that the audit action plan would be reviewed, followed up and reported to the mayor every month. The municipal public accounts committee (MPAC) could strengthen its oversight role over financial administration at the municipality through regular, effective meetings.

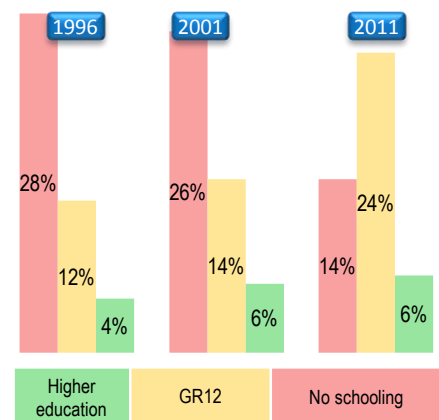
MAFUBE LOCAL MUNICIPALITY

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Population

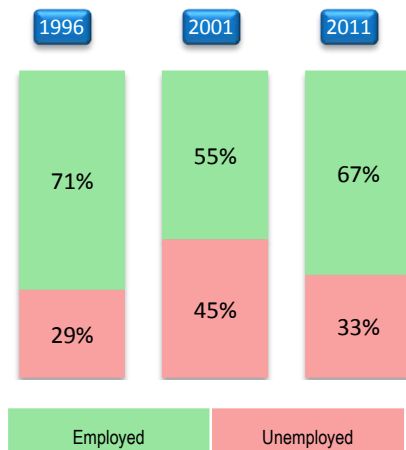


Education

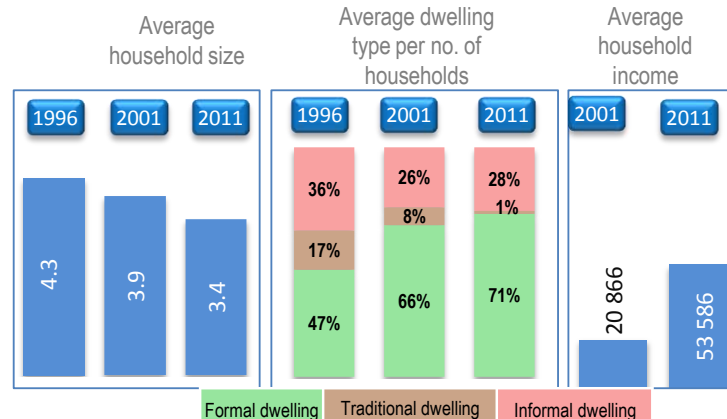


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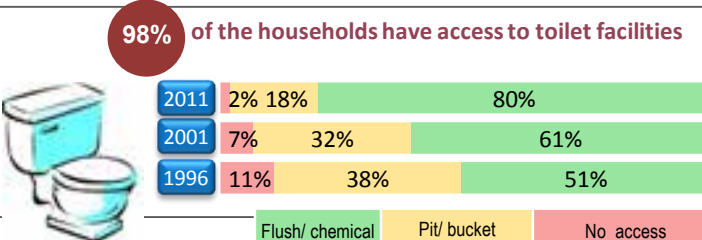
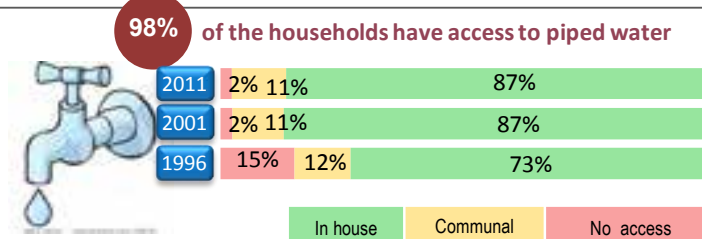
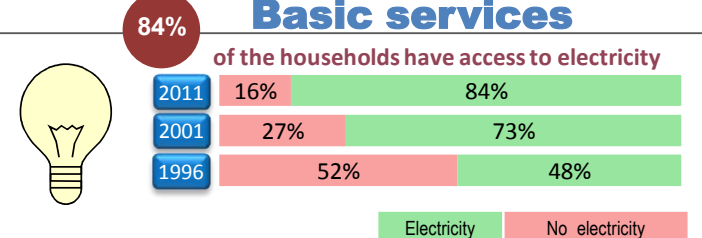
Labour

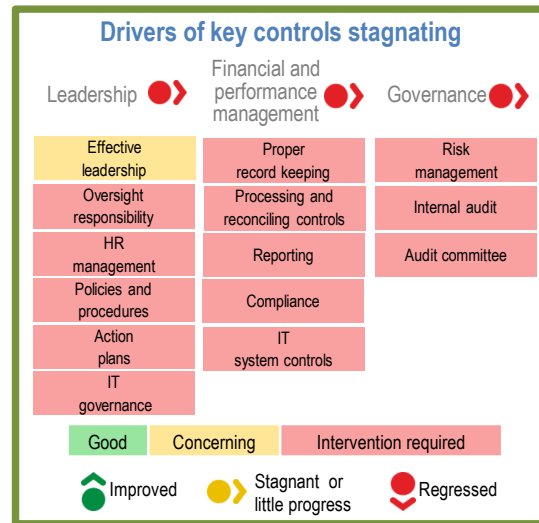
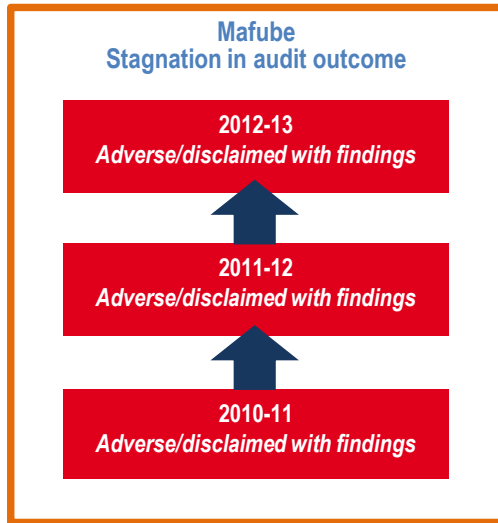


Households



Basic services

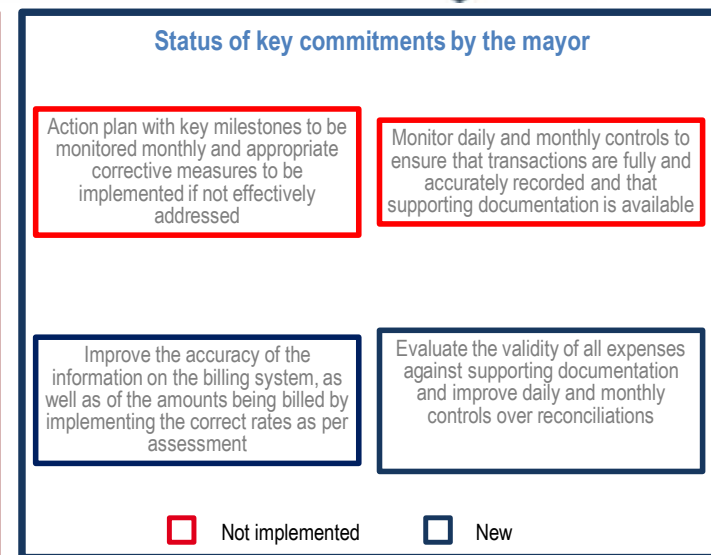
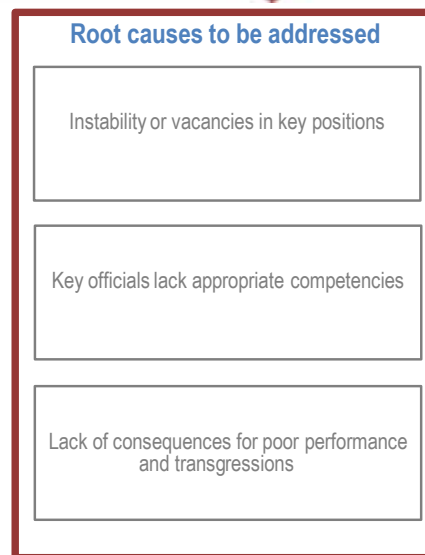
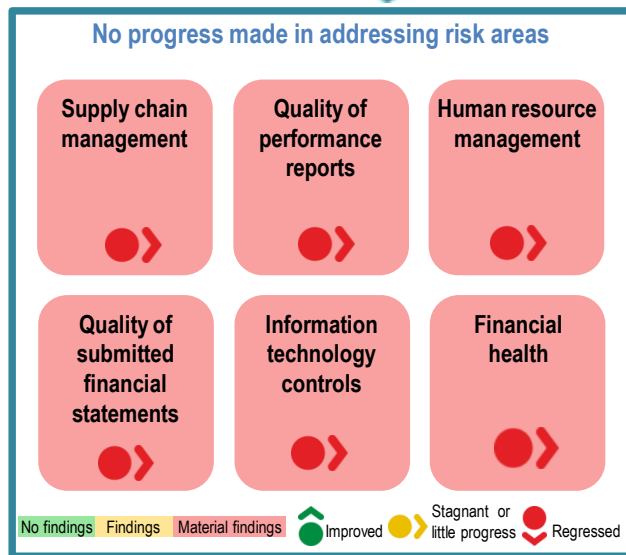




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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**.



Mafube Local Municipality

Current year audit outcome: *Disclaimer*

Stagnation in audit outcome

Since the amalgamation of the municipality 12 years ago there has been persistent stagnation in its audit outcomes as the audit matters reported in previous years were not addressed. The CFO position was vacant for three months of the year under review and some of the senior managers, including the municipal manager and the mayor, were only appointed during the year under review. Urgent intervention on both provincial and political levels is needed to change the culture of repeated disclaimers.

Six key risk areas

The municipality did not improve its audit outcome due to the lack of progress made in addressing the findings in the six key risk areas reported in the previous year. The financial statements submitted for audit purposes remained of poor quality, even though consultants were reappointed due to the lack of skills within the municipality. As a result, many repeat and new qualifications were reported. In addition, material corrections were made to the submitted financial statements based on misstatements identified by the auditors.

Consultants were again engaged to compile financial statements at a cost of R3 066 600 (2012: R3 284 511). Management remained overly dependent on consultants as a result of the vacancies and the consequent lack of skills transfer.

The controls and structures required for reporting on performance information were lacking. The annual performance report was not submitted for audit purposes due to vacancies within the unit and a lack of leadership attention to ensure adherence to legislative requirements.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations and a lack of consequences for poor performance, which ultimately resulted in irregular expenditure of R120 110 781 (2012: R56 089 663) being incurred for the year. A qualified audit opinion was expressed in terms of the amount of irregular expenditure disclosed in the financial statements as the full extent thereof could not be determined. The municipality was one of the major contributors to irregular expenditure.

Ineffective oversight of IT and the controls that ensure its effective functioning, as well as the vacancy of the IT manager position contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective.

Due to the disclaimer of opinion we were unable to determine the state of the municipality's financial health as various account balances, classes of transactions and

General report on the audit outcomes of Free State local government for 2012-13

disclosures were subject to material limitations. It should be noted that the unspent conditional grants were not cash backed as the municipality had a net liability of R128 million.

Key controls and root causes

The stagnation in the six key risk areas was the result of the overall stagnation in key controls, caused by vacancies, skills shortages and the lack of consequences for transgressions and poor performance. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Effective leadership based on a culture of honesty, ethical business practices and good governance should be provided to protect and enhance the best interests of the entity.
- Oversight responsibility regarding financial and performance reporting and related internal controls should be effectively exercised.
- The implementation of action plans developed to address internal control deficiencies should be monitored.

The accounting officer, senior management and the audit committee should address the root causes of inadequate controls as follows:

- Employees should be held accountable for poor performance and consequences for any material non-compliance identified should be implemented, backed by visible support from the council.
- It should be ensured that officials responsible for financial and performance reporting have the appropriate competencies.
- All critical vacancies should be filled by appointing competent and qualified staff.

Impact of key role players on audit outcomes

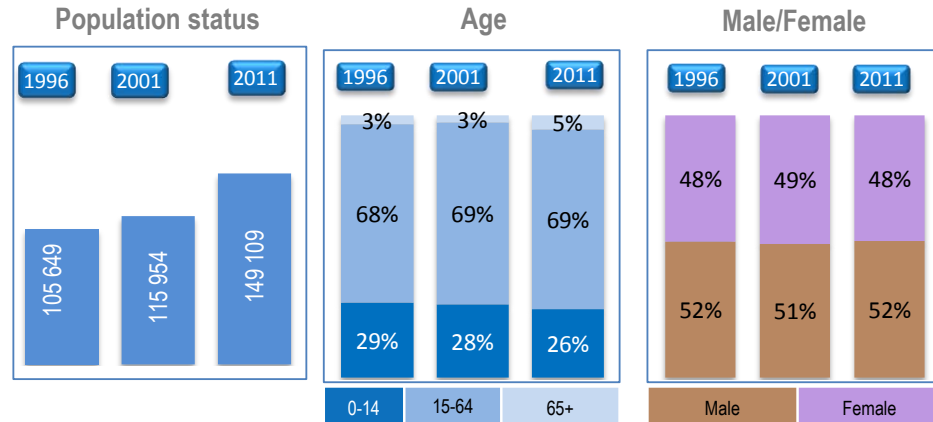
To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General and internal audit are timeously implemented and that the work of the audit committee is directed towards evaluating significant risks.

We had six meetings with the newly appointed mayor during the year and these oversight interactions had no impact on the audit outcome. Due to the shortness of his tenure at the time, the mayor had limited opportunity to impact the controls of the auditee and honour the commitments made by the previous mayor and the council. The municipality would benefit from establishing a more effective MPAC to strengthen the oversight role over financial administration.

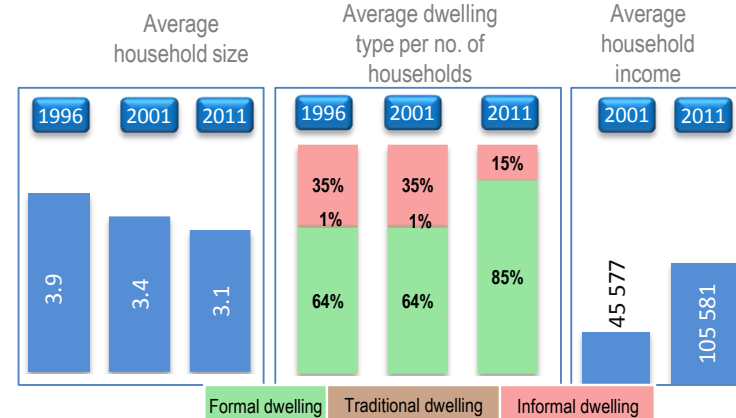
METSIMAHOLO LOCAL MUNICIPALITY

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

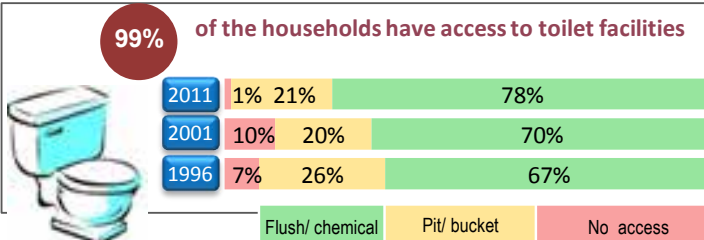
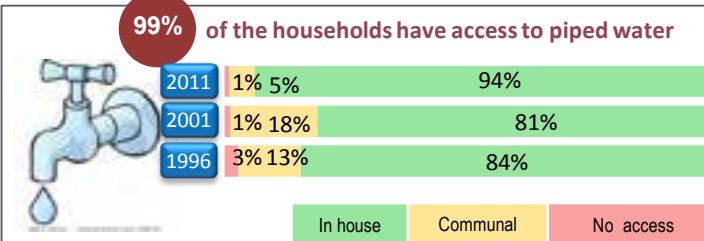
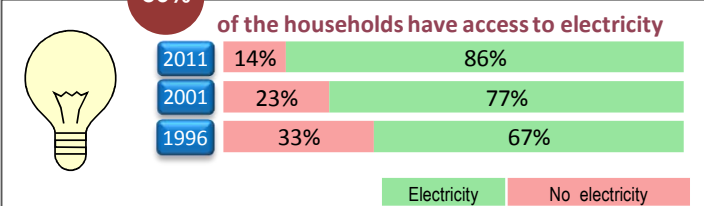
Population



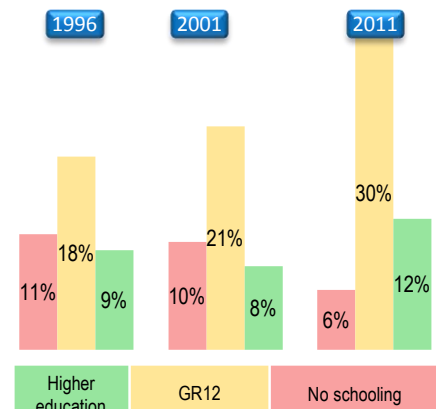
Households



Basic services

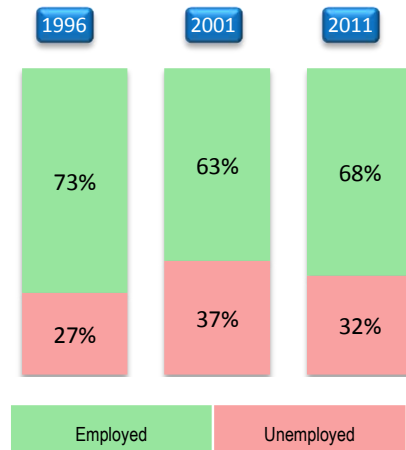


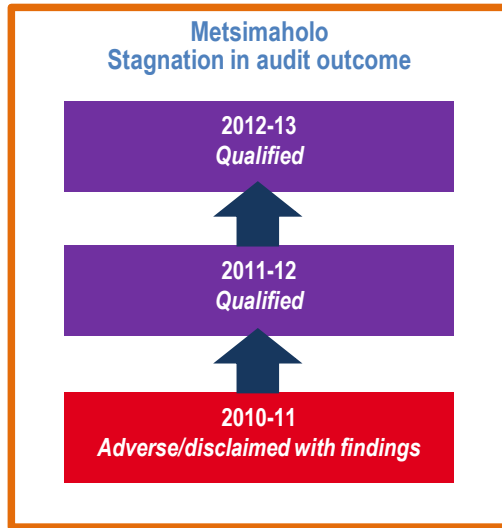
Education



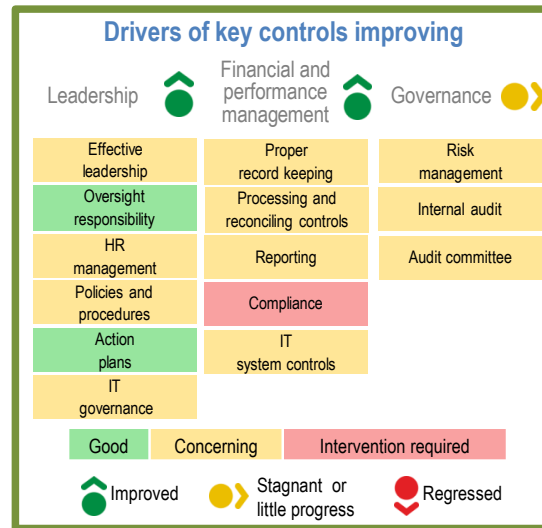
The statistics depicted above do not reflect persons who only have partial primary or secondary schooling. The graphic therefore does not add up to 100%

Labour





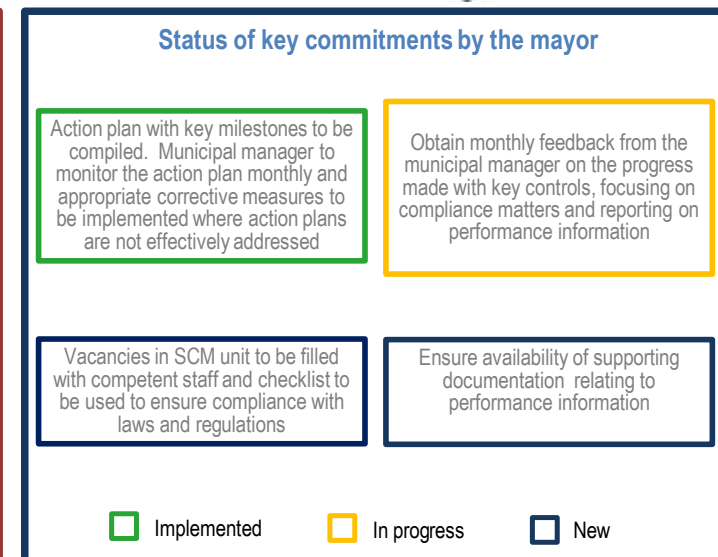
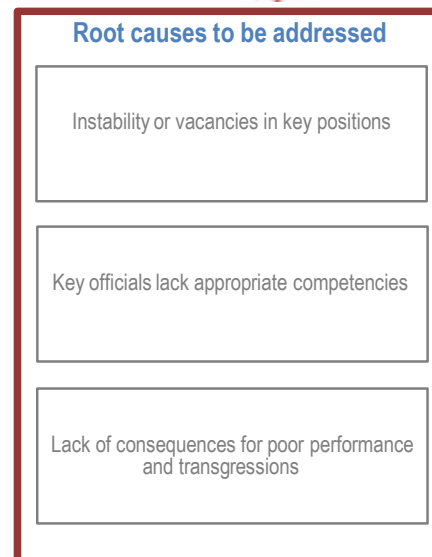
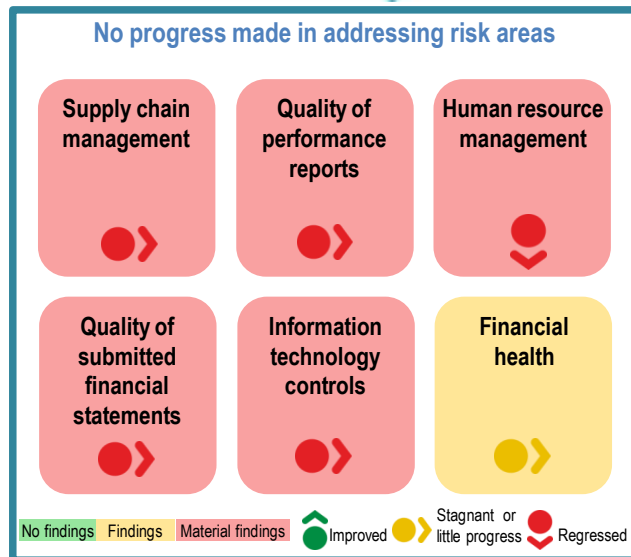
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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**.



Metsimaholo Local Municipality and Municipal Trust

Current year audit outcome:

- Metsimaholo Local Municipality – *Qualified*
- Metsimaholo Municipal Trust – *Qualified*

Stagnation in audit outcome

The stagnation in the portfolio's audit outcome could be attributed to the municipality again receiving a qualified audit opinion on irregular expenditure, although all the other qualifications of the previous year were cleared. Various non-compliance findings and findings on the usefulness and reliability of performance information at the municipality were, however, also reported again.

The trust was dormant, but there were findings from the previous year that had not been addressed. The entity has been excluded in the above analysis.

Six key risk areas

The municipality did not improve its audit outcome due to a lack of progress made in addressing the findings in the six key risk areas reported in the previous year. The position of CFO was vacant for five months of the year under review. The financial statements submitted for audit purposes remained of poor quality, even though consultants were reappointed due to the lack of skills and vacant positions within the municipality. As a result, many material corrections were made to the submitted financial statements, based on misstatements identified by the auditors.

Consultants were again engaged to compile financial statements and performance information at a cost of R3 597 210 (2012: R114 364). Due to vacancies in the municipality, the management of performance and the monitoring of consultants' contracts were ineffective.

The quality of the annual performance report has not improved since the previous year and remains unsatisfactory due to the fact that supporting documentation could not be submitted for the verification of the reported targets as managers did not specify what the appropriate supporting documents should be.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations, a lack of consequences for poor performance and a supply chain management vacancy, which ultimately resulted in irregular expenditure of R102 752 598 (2012: R66 719 549) being incurred for the year. The entity was one of the major contributors to irregular expenditure.

The vacancy rate at the municipality had increased since the previous year and resulted in additional overtime. Furthermore, ineffective oversight of IT and the controls that

ensure its effective functioning contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective.

Key controls and root causes

The stagnation in key controls was caused by vacancies, skills shortages and the lack of consequences for poor performance. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Effective leadership, based on a culture of honesty, ethical business practices and good governance, should be provided to protect and promote the best interests of the municipality.
- The establishment of documented processes for performance information reporting should be prioritised to enhance the collection, verification and collation of information.
- Key positions, especially the position of head of supply chain management, should be filled by appointing competent staff who comply with the minimum competency levels and staff should be trained in areas where skills shortages are identified.

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

- It should be ensured that the officials responsible for financial and performance reporting have the appropriate competencies required to perform their responsibilities.
- It should be ensured that all vacancies are filled and that adequate training is given to staff responsible for financial and performance reporting.
- A performance management system should be implemented that would ensure accountability for poor performance and transgressions.

Impact of key role players on audit outcomes

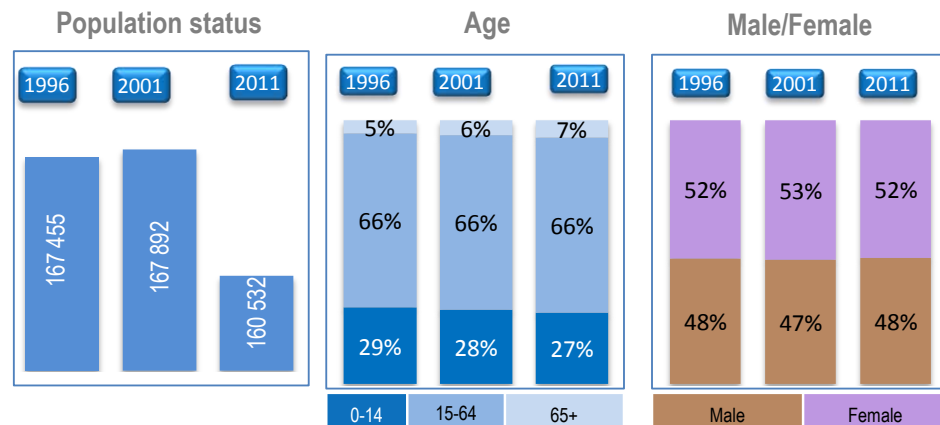
To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General and internal audit, which should focus on daily and monthly reconciliations, are timeously implemented.

We had six meetings with the mayor during the financial year and these oversight interactions had some impact on the audit outcomes. The reason for this assessment is that many of the audit issues of the previous year that related to compliance and performance information have remained unresolved. The mayor committed to filling the vacant positions within the SCM unit with competent employees and to ensuring that supporting documentation on performance reporting is maintained. The MPAC should strengthen its oversight role in terms of financial administration.

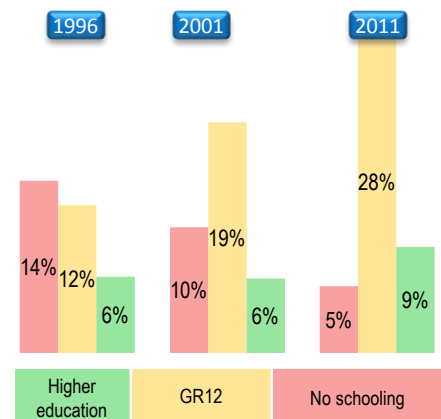
MOQHAKA LOCAL MUNICIPALITY

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Population

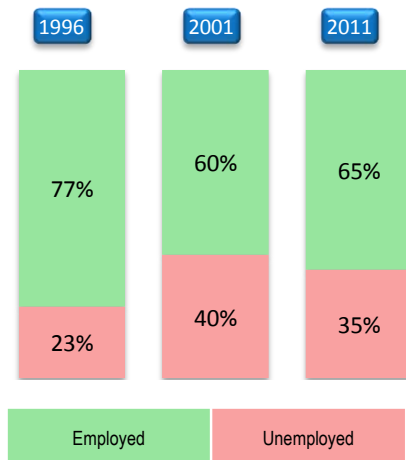


Education

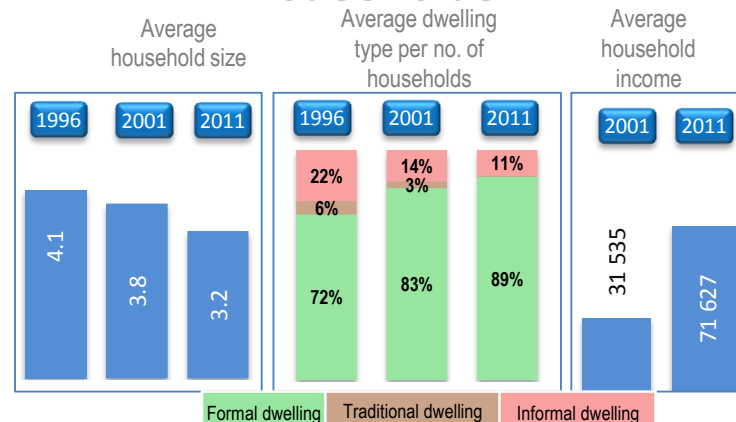


The statistics depicted above do not reflect persons who only have partial primary or secondary schooling. The graphic therefore does not add up to 100%

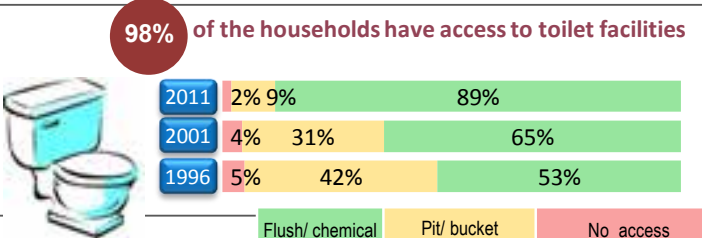
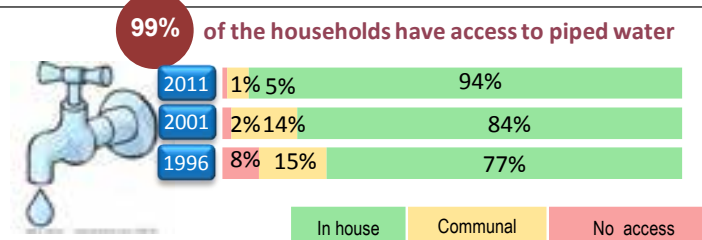
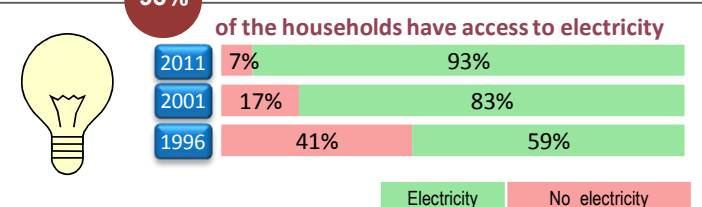
Labour

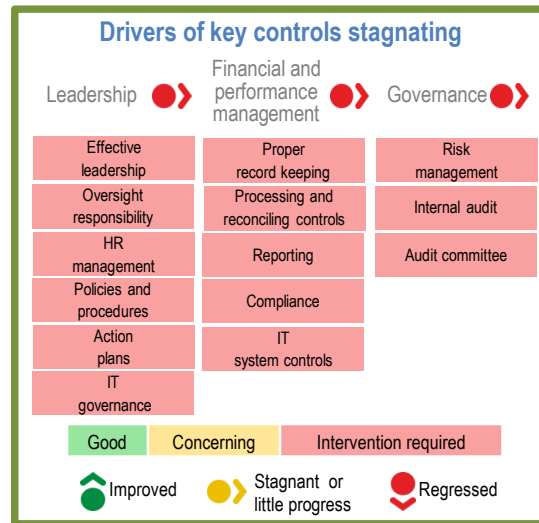
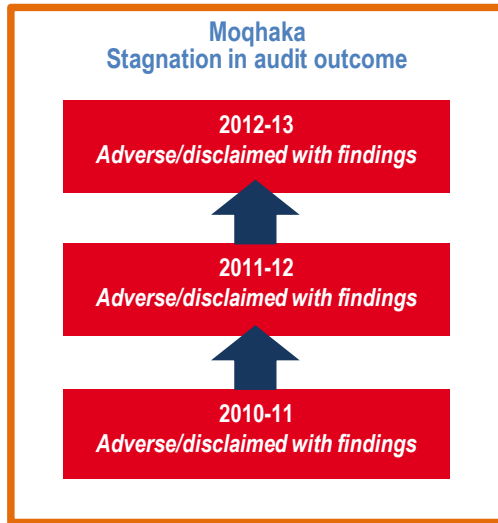


Households



Basic services

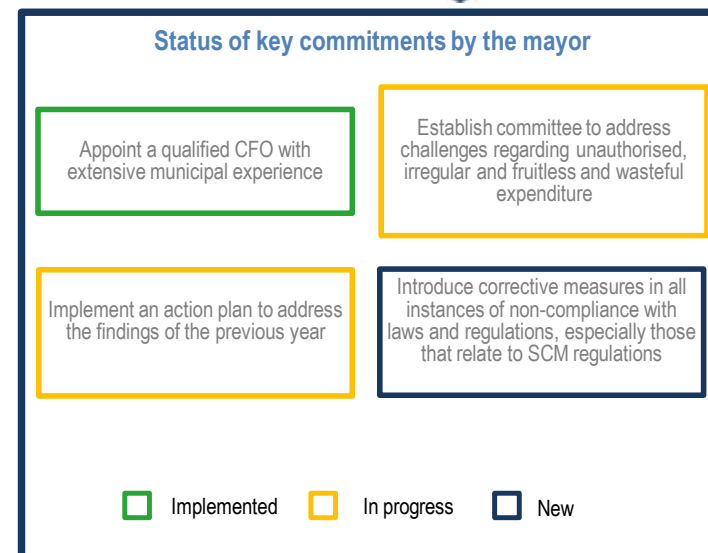
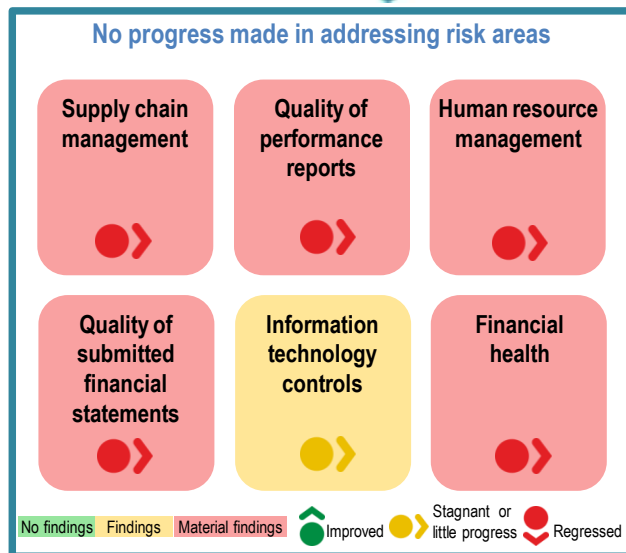




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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**.



Moqhaka Local Municipality

Current year audit outcome: *Disclaimer*

Stagnation in audit outcome

The municipality has been receiving a disclaimer of opinion for the past eight years as audit report matters of previous years were not being addressed. These included qualifications on fixed assets, receivables and disclosure notes, various non-compliance matters and findings on performance information. Additional qualifications on matters such as service charges, payables and expenditure have also been raised. The stagnation can largely be attributed to the instability in key positions as the CFO and SCM manager positions were vacant during the financial year.

Six key risk areas

The municipality did not improve its audit outcome due to a lack of progress in addressing the findings in the six key risk areas reported in the previous year. The financial statements submitted for audit purposes remained of poor quality, even though consultants were reappointed due to a lack of the required skills. Furthermore, due to a lack of supporting documents many repeat and new findings were reported. Material corrections were made to the submitted financial statements, based on the misstatements identified by the auditors. These misstatements occurred due to the fact that monthly disciplines were not implemented and monitored by senior management.

Consultants were engaged to assist with financial reporting at a cost of R3 351 543 (2012: R8 499 336). The vacant CFO position as well as a lack of adequate skills resulted in a lack of skills transfer and dependency on consultants.

The controls and structures required for reporting on predetermined objectives were lacking. As a result, supporting documentation on actual performance could not be provided. This lack of controls and structures could be attributed to vacancies and skills shortages at the different service delivery departments.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations and a lack of consequences for poor performance, which ultimately resulted in irregular expenditure of R48 017 686 (2012: R111 721 311) being incurred for the year.

Ineffective oversight of IT and the controls that ensure its effective functioning contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective. Furthermore, we were unable to determine the status of the financial health of the municipality as various account balances,

classes of transactions and disclosures that would have an impact on the assessment are subject to material limitations.

Key controls and root causes

The stagnation in the six key risk areas was the result of the overall stagnation in key controls, caused by the slow response by leadership, a lack of the necessary skills and a lack of consequences for poor performance. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with laws and regulations:

- Stability should be created in key positions and competent staff should be appointed.
- Unauthorised, irregular and fruitless and wasteful expenditure should be investigated to determine liability and the necessary action should be taken.
- A full set of financial statements should monthly be prepared and reviewed and it should be ensured that there is sufficient financial information to support the financial statements.

The accounting officer and senior management, with the oversight of the audit committee, should address the root causes of inadequate controls as follows:

- Oversight should be enhanced by regularly monitoring and evaluating supporting evidence for financial and performance reporting throughout the financial year and by promptly intervening where shortcomings are noted.
- It should be ensured that there are consequences for poor performance and transgressions of laws and regulations, especially those relating to SCM regulations.
- The finance section and the internal audit unit should be adequately capacitated to ensure that the municipality's risks and internal control deficiencies are effectively monitored.

Impact of key role players on audit outcomes

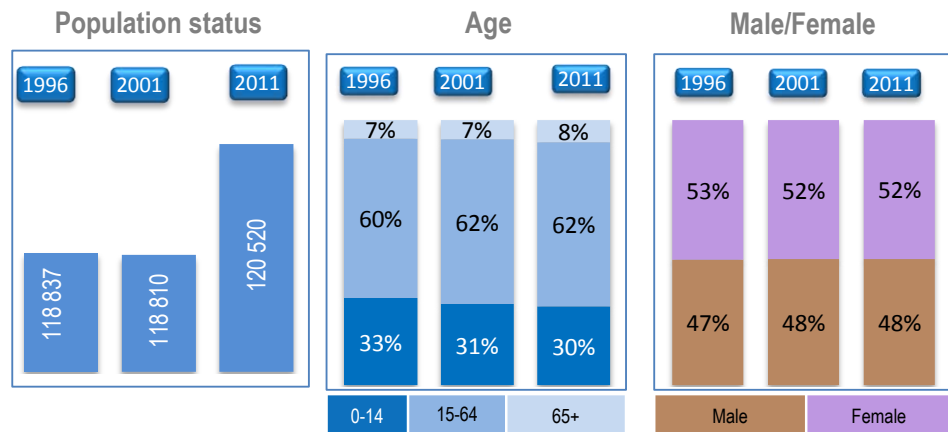
To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General are timeously implemented.

We had two meetings with the mayor during the year and these oversight interactions had no impact. According to our assessment, the implementation of sound accountability principles failed at both mayor and council levels due to political infighting. The municipality would benefit from establishing a more effective MPAC to strengthen its oversight role.

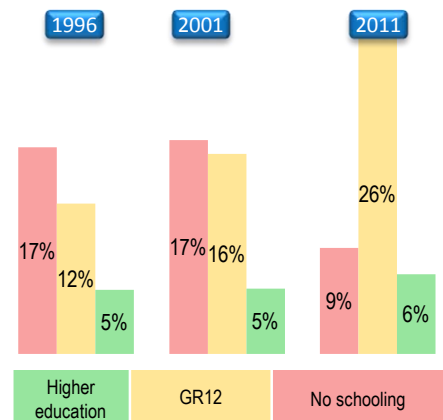
NGWATHE LOCAL MUNICIPALITY

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Population

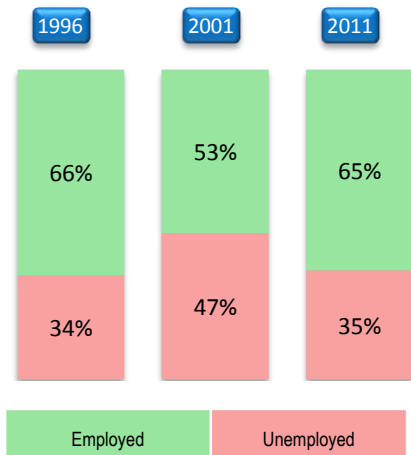


Education

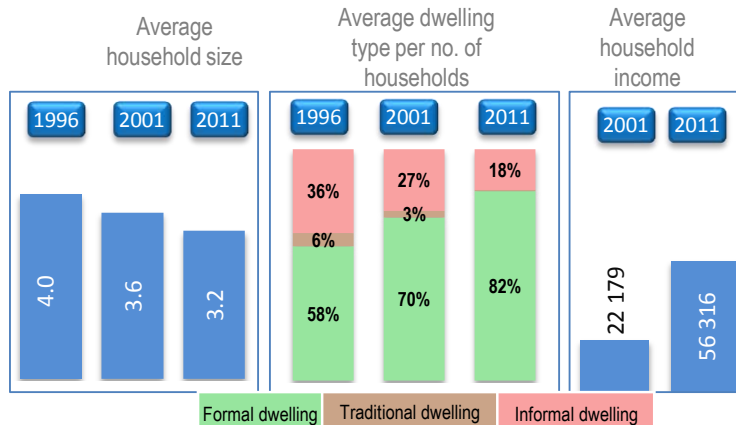


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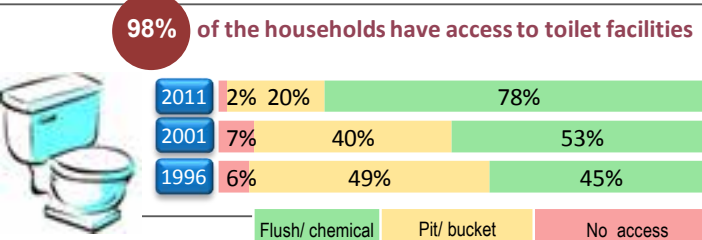
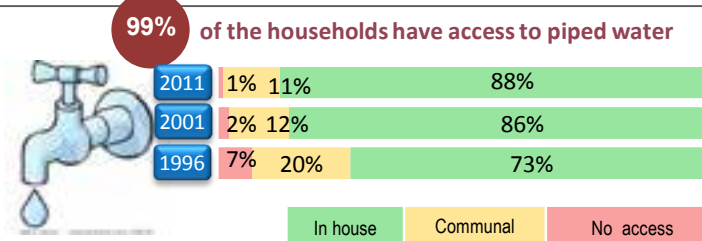
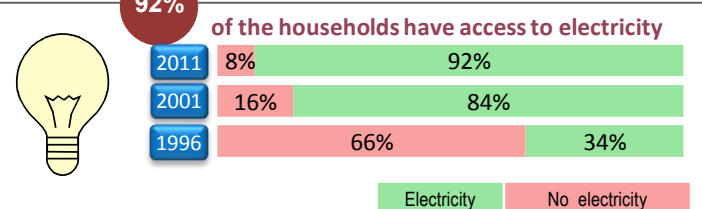
Labour

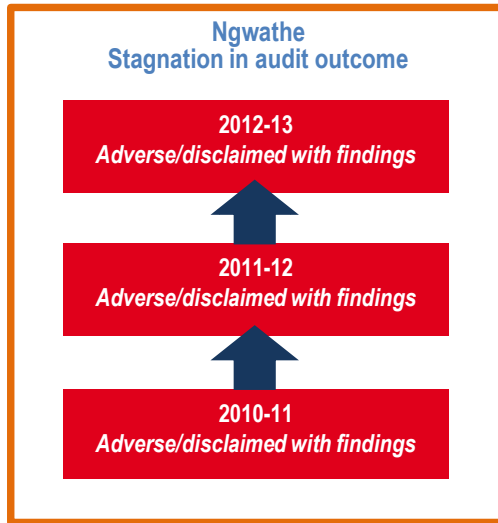


Households



Basic services





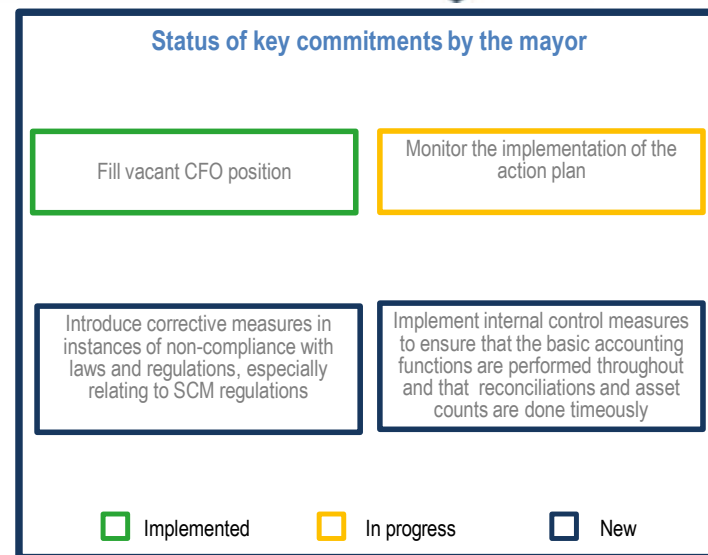
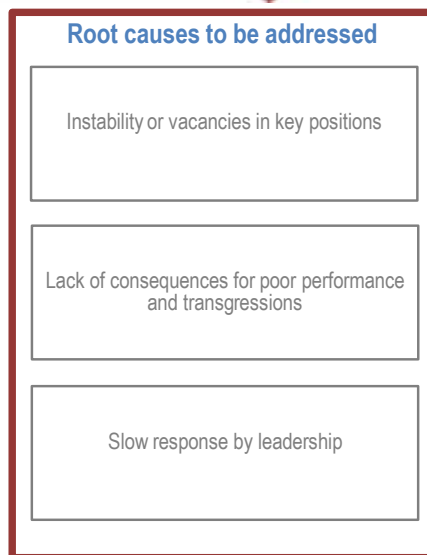
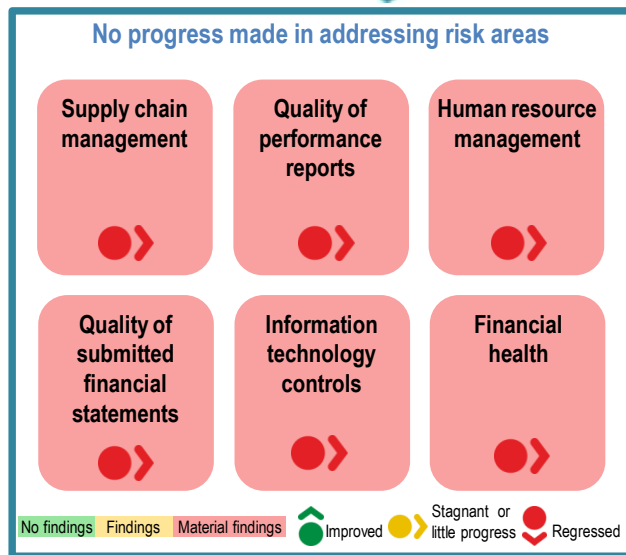
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Ngwathe Local Municipality

Current year audit outcome: *Disclaimer*

Stagnation in audit outcome

Since the amalgamation of the municipality 12 years ago there has been persistent stagnation in its audit outcomes as a result of audit matters reported in previous years not being addressed. The municipality received a qualified audit opinion on most of the components in the financial statements, which is indicative of poor financial management. Urgent intervention on both provincial and political levels is needed to change the culture of repeated disclaimers.

Six key risk areas

The municipality did not improve its audit outcome due to a lack of progress in addressing the findings in the six key risk area reported in the previous year. The financial statements submitted for audit purposes remained of poor quality even though the services of consultants were again obtained due to vacancies and the lack of skills at the municipality. The recurrent lack of supporting documents, inadequate monthly disciplines and the late appointment of consultants resulted in many repeat qualifications. Although the provincial treasury assisted the municipality during the audit process, their efforts were frustrated by the municipality's lack of key controls.

Consultants were engaged to provide financial reporting assistance at a cost of R1 025 000 (2012: R707 751). Due to the weak internal control environment the municipality could not provide credible financial information for the consultants to use in compiling the financial statements.

The controls and structures required for reporting on predetermined objectives were lacking. As a result, supporting documentation on actual performance could not be provided as vacancies in the unit responsible for reporting on predetermined objectives had not been filled.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations, a lack of consequences for poor performance and the vacancy of the position of head of SCM. This ultimately resulted in irregular expenditure of R17 361 899 (2012: R8 073 107) being incurred for the year.

Ineffective oversight of IT and the controls that ensure its effective functioning, as well as the vacancy of the IT manager position contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective. Furthermore, we were unable to determine the status of the financial health of the

municipality as various account balances, classes of transactions and disclosures that would have an impact on the assessment are subject to material limitations.

Key controls and root causes

The overall stagnation in key controls was caused by the lack of basic financial management controls, the slow response of leadership to the AGSA's message, a lack of consequences for poor performance and delays in filling critical key positions. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with laws and regulations:

- It should be ensured that the basic accounting functions are performed daily, weekly and monthly (reconciliations, asset counts, etc.).
- Unauthorised, irregular and fruitless and wasteful expenditure should be investigated to determine liability and take the necessary action.
- A sound record management and archiving system should be implemented and all instances where documentation could not be submitted should be investigated.

The accounting officer and senior management, with the oversight of the audit committee, should address the root causes of inadequate controls as follows:

- The recommendations made by the Auditor-General, the audit committee and internal audit should be implemented timeously.
- Consequences should be instituted for poor performance and transgressions of laws and regulations, especially those that relate to SCM.
- The position of head of SCM should be filled and adequate training should be provided to financial staff.

Impact of key role players on audit outcomes

To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations made by the Auditor-General are timeously implemented. Oversight should be strengthened and officials should be held accountable for poor performance.

We had four meetings with the mayor during the year and these oversight interactions had no impact on the current audit outcome. According to our assessment, the implementation of sound accountability principles failed at both mayor and council levels. The municipality would benefit from establishing a more effective MPAC to strengthen oversight of financial administration.

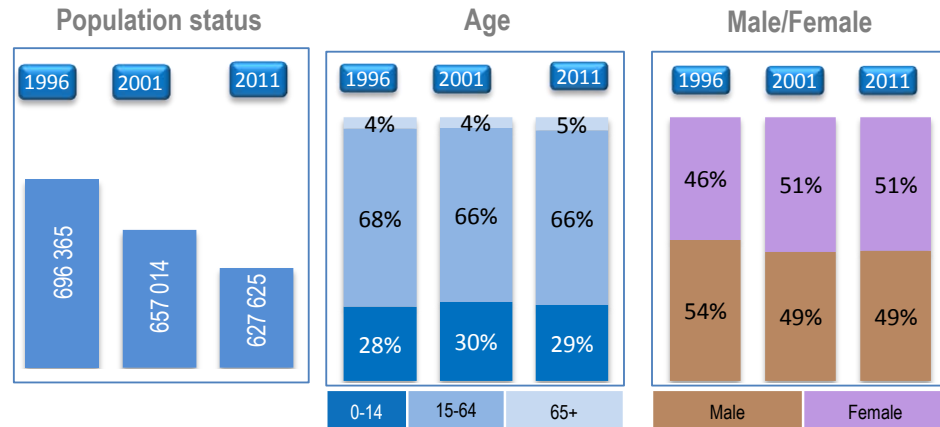
Lejweleputswa District

63

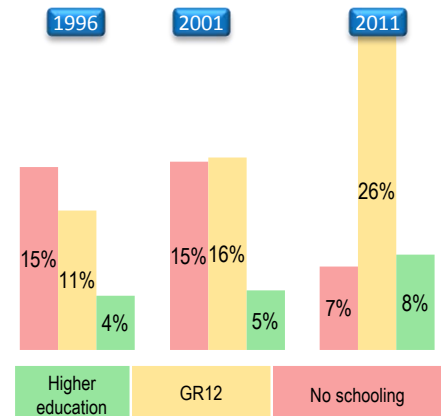
LEJWELEPUTSWA DISTRICT MUNICIPALITY

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Population

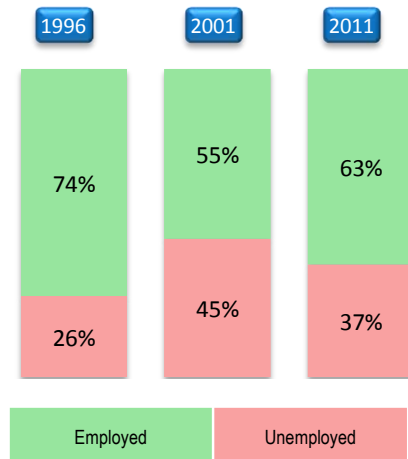


Education

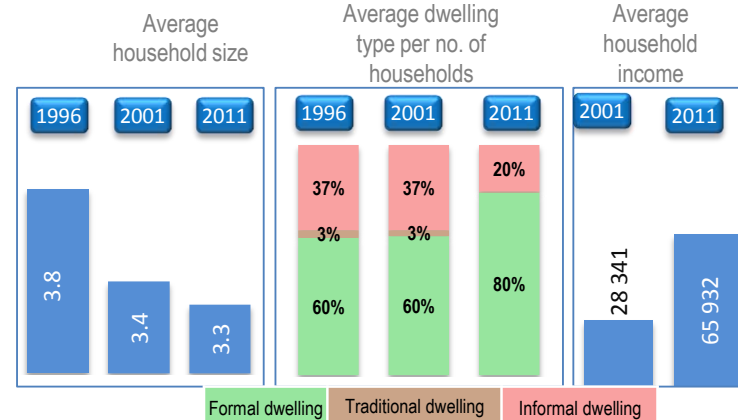


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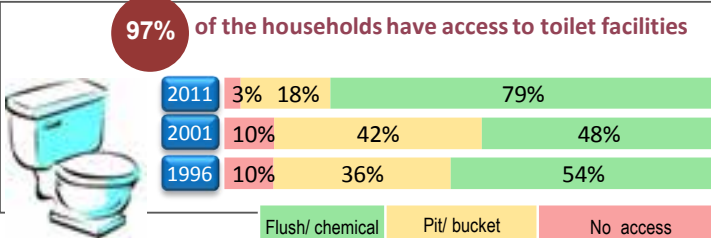
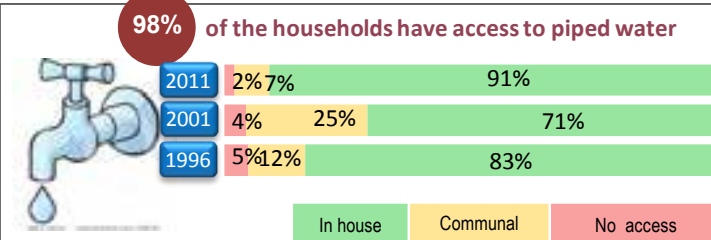
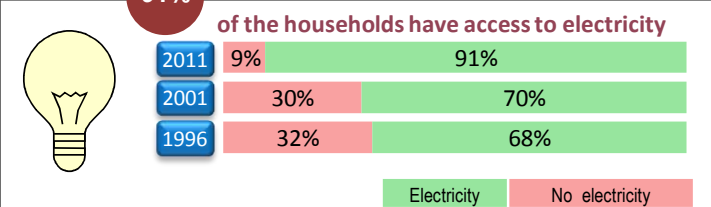
Labour

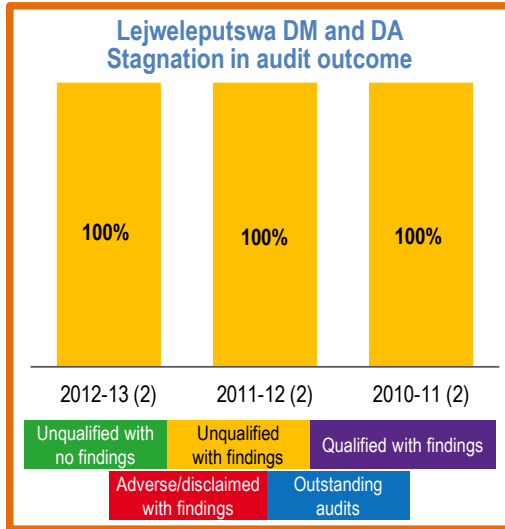


Households

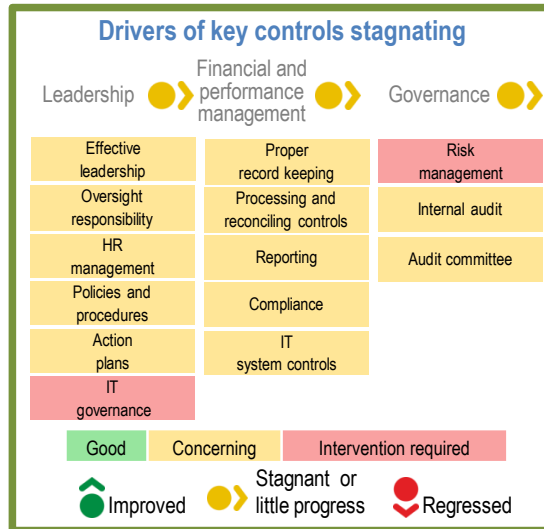
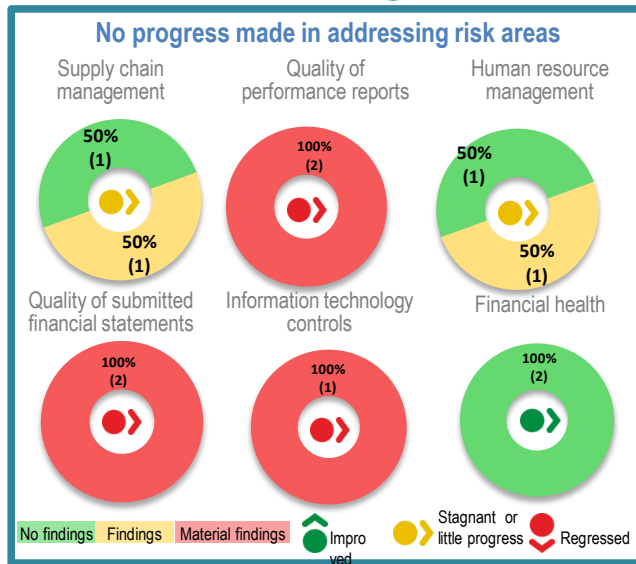


Basic services

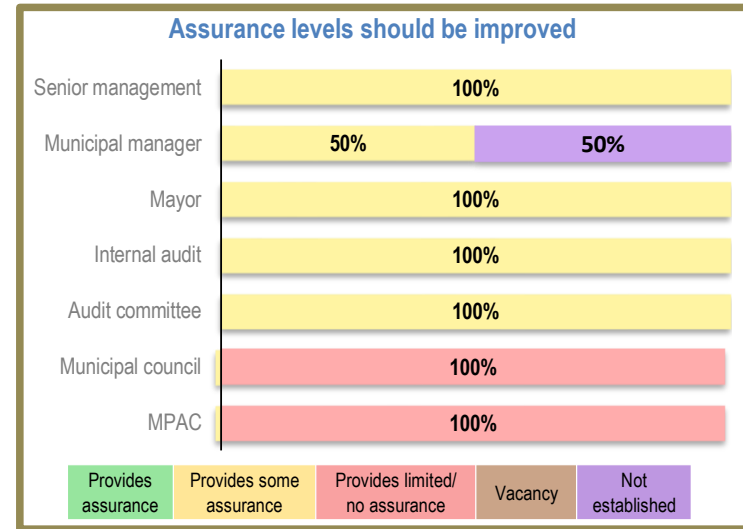




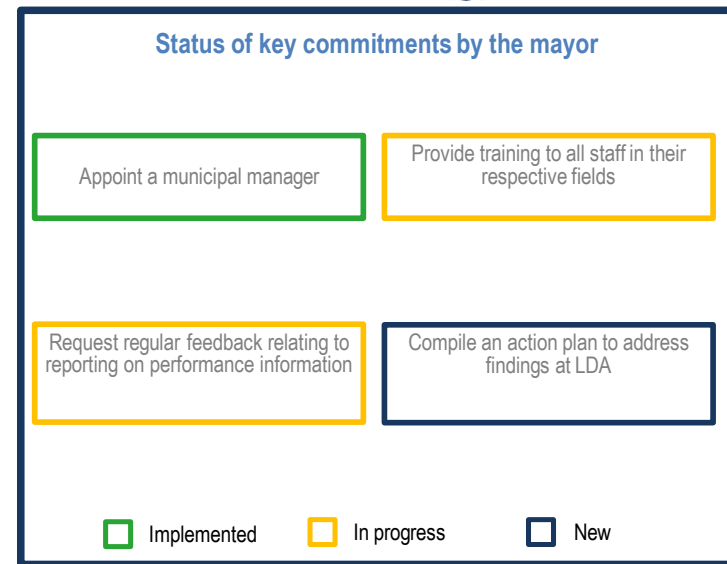
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Lejweleputswa District Municipality and its entity

Current year audit outcome:

- Lejweleputswa Development Agency (LDA): *Unqualified with other matters*
- Lejweleputswa District Municipality (LDM): *Unqualified with other matters*

Stagnation in audit outcome

For the past five years there has been stagnation in the audit outcomes of the municipality as the audit matters reported in previous years were not addressed. It is imperative for the municipality to focus on addressing non-compliance and predetermined objectives if it is to progress to a clean audit opinion.

Six key risk areas

Both auditees failed to improve their audit outcome because they made no progress in addressing the findings in the six key risk areas reported in the previous year. The financial statements submitted for audit purposes remained of poor quality, even though consultants were appointed due to the skills shortages in the finance unit. As a result, material adjustments had to be made to the financial statements based on misstatements identified by the auditors.

Consultants were again engaged to provide financial reporting assistance at both auditees at a cost of R603 008 (2012: R533 003). The size of the entity precluded the appointment of a chief financial officer (CFO) for the entity, with the result that the services of consultants were required.

The controls and structures required for reporting on performance information were not in place, mainly due to the responsible officials lacking key competencies and ineffective oversight by leadership. The result was that indicators were not well defined or verifiable and supporting documentation on the actual performance of LDM was not submitted in time for audit purposes.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations and a lack of consequences for poor performance, which ultimately resulted in irregular expenditure of R20 715 602 (2012: R13 516 246) being incurred by LDM for the year. The municipality appointed an accounting officer during the last month of the financial year. The current organisational structure of the entity at management level is inadequate as it is composed of only one official.

Ineffective oversight of IT and the controls that ensure its effective functioning contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective.

The material findings reported in respect of two financial health indicators focused on during the analysis were mostly due to a lack of funding and strategic direction from the parent municipality, but may be indicative of a financial health and service delivery risk.

Key controls and root causes

The overall stagnation in key controls was caused by skills shortages and the slow response of political office bearers and the leadership of the entity. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The municipality should maintain effective oversight of financial and performance reporting, compliance and related internal controls.
- The municipality should prepare regular, accurate and complete financial and performance reports that are supported by reliable information.
- The municipality should implement effective HR management, especially at the development agency, to ensure that an adequate complement of sufficiently skilled resources is timeously established.

Senior management, the municipal manager and the municipal council should address the root causes of inadequate controls as follows:

- Senior management should continuously monitor compliance with laws and regulations and hold officials responsible for transgressions, backed by visible support from the council in institutionalising the platform for exceptional discipline.
- The accounting officer should ensure that the officials responsible for financial and performance reporting have the appropriate competencies required to enable them to implement daily, monthly and quarterly reporting disciplines.

Impact of key role players on audit outcomes

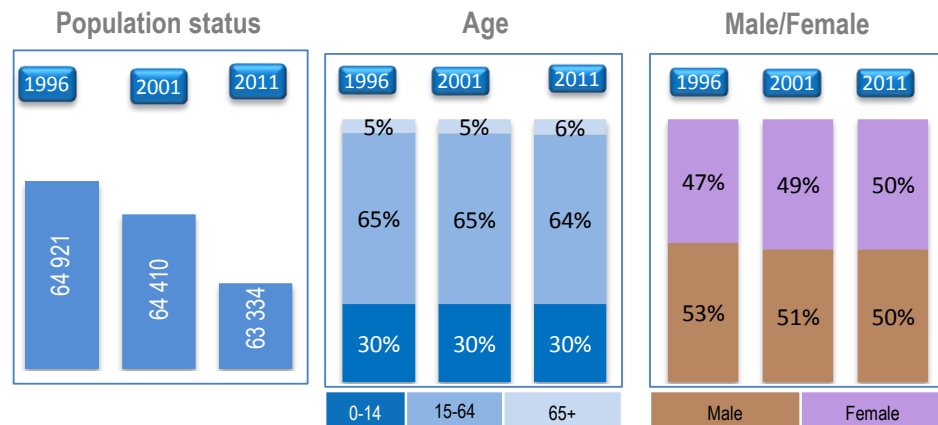
To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General are timeously implemented and that the work of the audit committee is directed towards evaluating significant risks.

We had two meetings with the mayor during the financial year and these oversight interactions had minimal impact on the audit outcomes as the mayor either did not honour previous commitments or only partially honoured them. The MPAC could strengthen its oversight of financial administration at the municipality through regular, effective meetings.

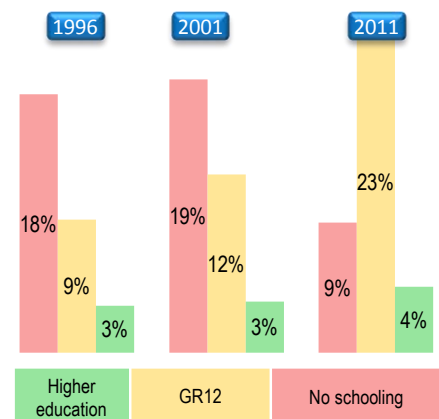
MASILONYANA LOCAL MUNICIPALITY

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Population

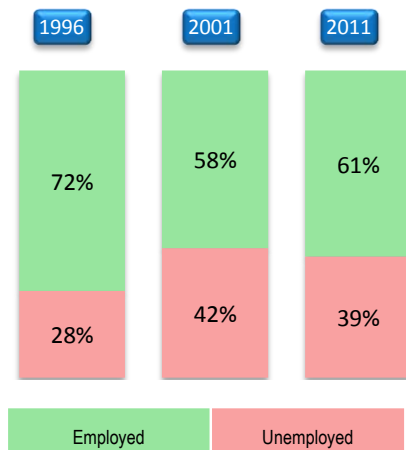


Education

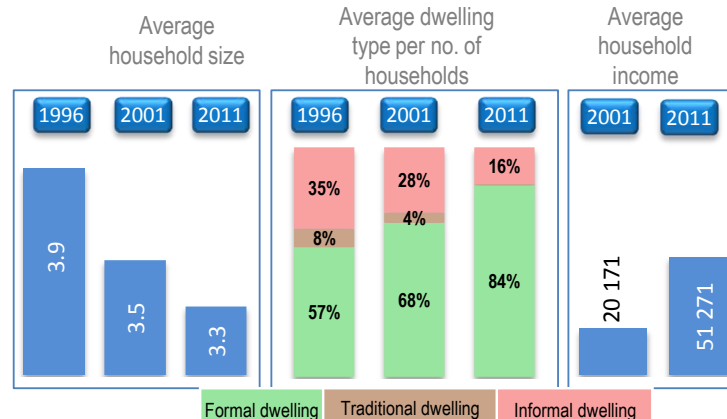


The statistics depicted above do not reflect persons who only have partial primary or secondary schooling. The graphic therefore does not add up to 100%

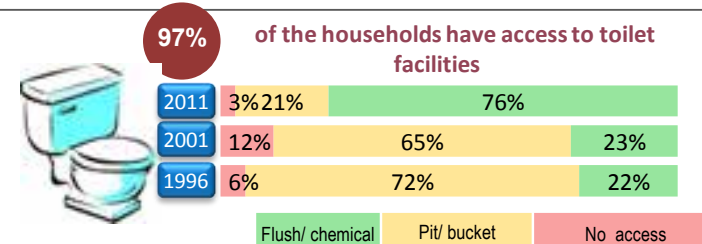
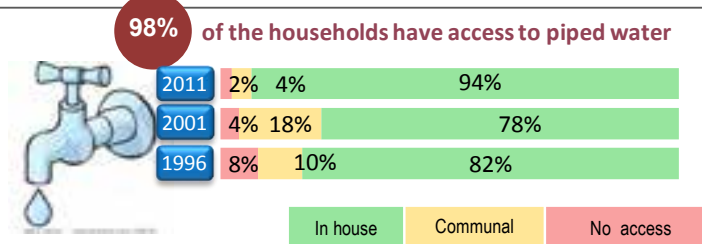
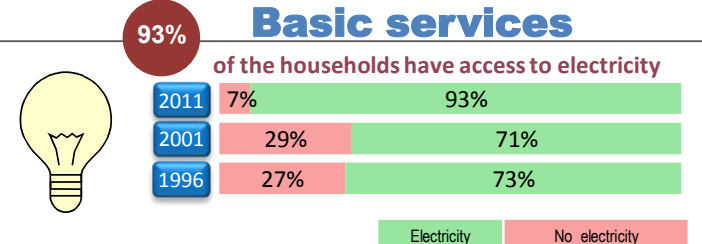
Labour

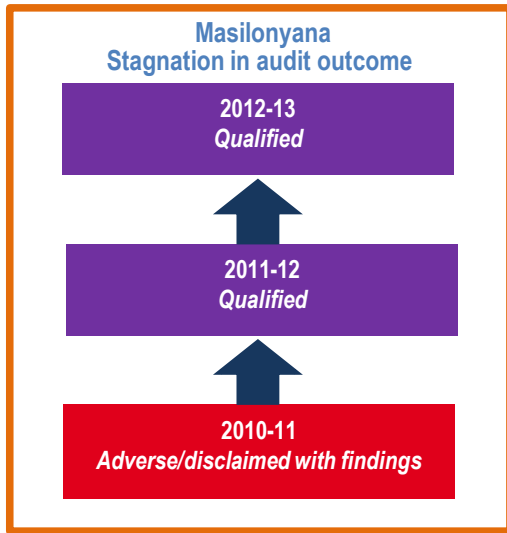


Households

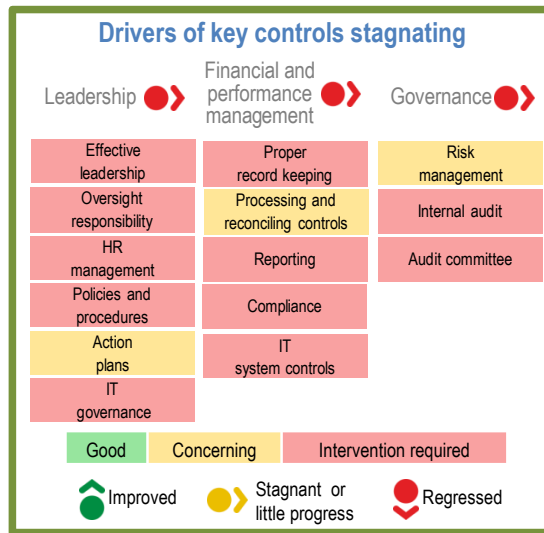
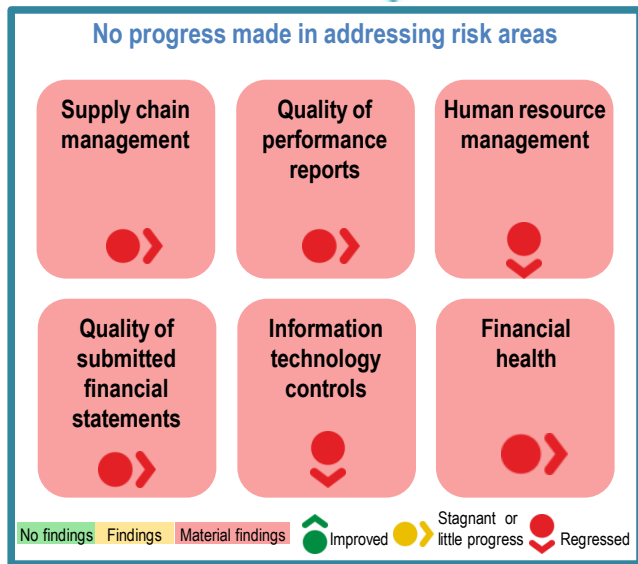


Basic services

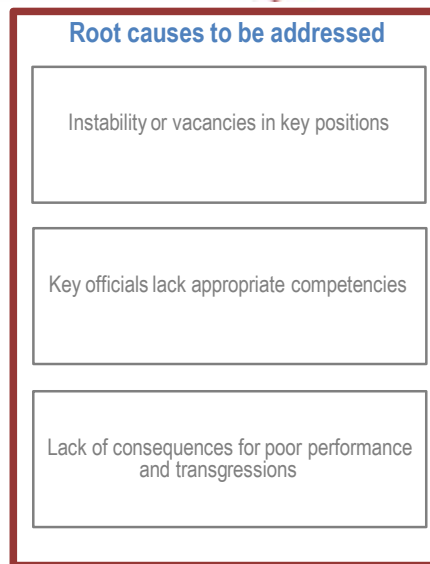




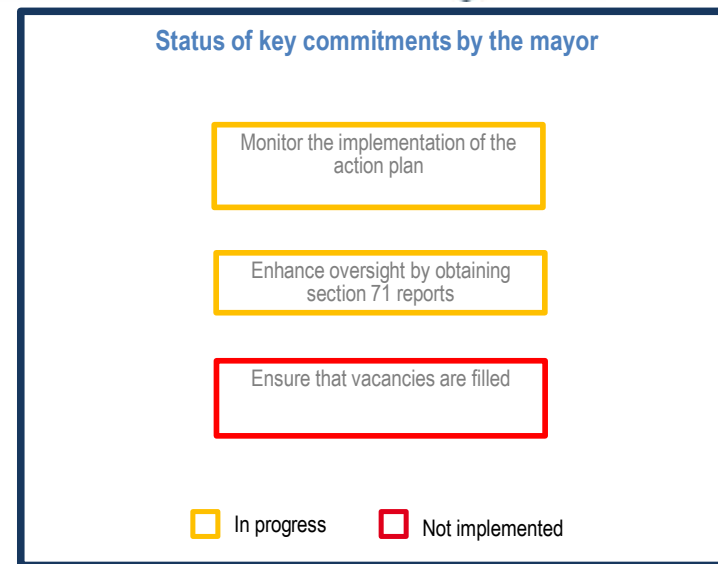
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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**.



Masilonyana Local Municipality

Current year audit outcome: *Qualified*

Stagnation in audit outcome

The stagnation in the audit outcome was due to management's slow response in addressing the findings on audit matters reported in the previous year. The CFO was, moreover, only appointed in February 2013. The audit opinion included qualifications on immovable assets as well as various non-compliance matters and findings on performance information.

Six key risk areas

The municipality did not improve its audit outcome due to a lack of progress in addressing the findings in the six key risk areas reported in the previous year. The late submission of the financial statements for audit purposes was due to the fact that consultants were not timeously appointed and the CFO was prevented by time constraints from properly reviewing the financial statements. Previous findings were again reported and material corrections were made to the submitted financial statements, based on misstatements identified by the auditors.

The municipality engaged consultants for financial reporting at a cost of R4 578 135 (2012: R4 444 351). The consultants did not transfer skills and their work was not monitored due to time constraints and a lack of capacity.

The controls and structures required for reporting on performance information were incomplete due to a lack of the necessary skills and inadequate as indicators and targets were not well defined or verifiable.

Control measures implemented by the municipal manager resulted in irregular expenditure decreasing to R31 528 047 (2012: R54 769 100). However, irregular expenditure still occurred because of management's neglect to comply with SCM regulations, a lack of consequences for poor performance and the vacancy of the SCM manager position at year-end.

Management did not monitor the human resources processes satisfactorily, which resulted in a vacancy rate of 60%. Ineffective oversight over IT and the controls that ensure its effective functioning contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective.

The financial health of the municipality is of concern. The municipality recovers debt from customers over a period of 1 208 days but pays its creditors within 83 days. Based on this analysis and the municipality's dependence on grants and subsidies, it is evident that a material financial health and service delivery risk exists that could affect the municipality's ability to operate in the foreseeable future (i.e. as a going

concern). The unspent conditional grants amount at year-end was higher than the cash and cash equivalents because the municipality in some instances used the conditional grants to finance its operations.

Key controls and root causes

The overall stagnation in key controls was caused by vacancies in critical positions, a lack of appropriate skills and the lack of consequences for transgressions and poor performance. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Effective HR management processes should be implemented to ensure that competent and sufficiently skilled officials are appointed and retained and that their performance is monitored.
- The establishment of documented processes for financial and performance information reporting should be prioritised to ensure the completeness and accuracy of information, backed up by adequate supporting documentation that confirms the reported information.
- A compliance checklist that includes all the relevant laws and regulations, especially those that relate to procurement, should be developed and implemented.

The accounting officer, senior management and the audit committee should address the root causes of inadequate controls as follows:

- There should be consequences for poor performance and transgressions of laws and regulations, especially those relating to SCM.
- All the critical positions should be filled and adequate training should be provided to financial and performance reporting staff to enhance their skills and competencies.

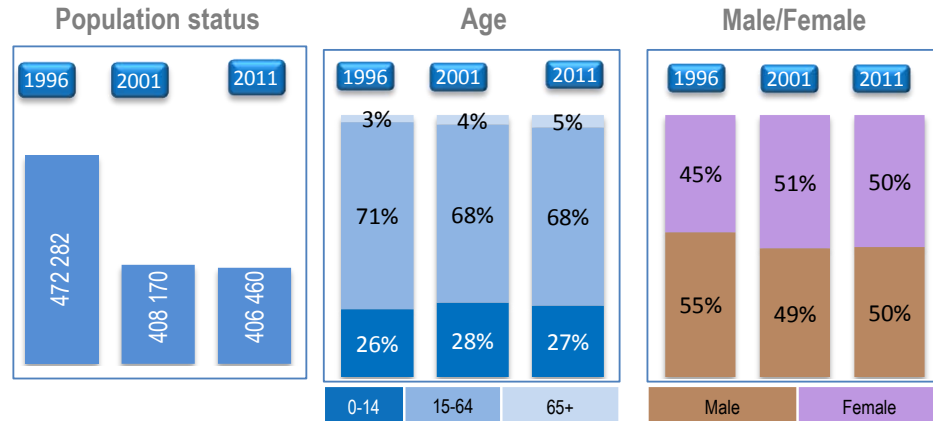
Impact of key role players on audit outcomes

To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General are timeously implemented and that the work of the audit committee is directed towards evaluating significant risks. We had three meetings with the mayor during the year and these oversight interactions had no impact on the audit outcome. The mayor had limited impact on the controls of the auditee. The lack of effective monitoring by the mayor and the council resulted in commitments not being honoured in full. A more effective MPAC would assist in strengthening oversight of financial administration.

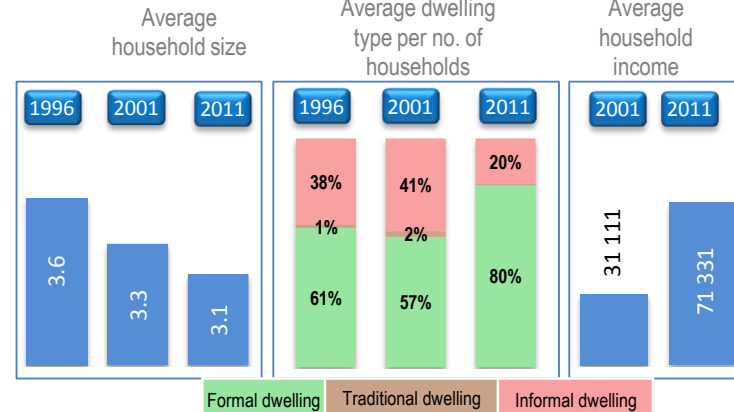
MATJHABENG LOCAL MUNICIPALITY

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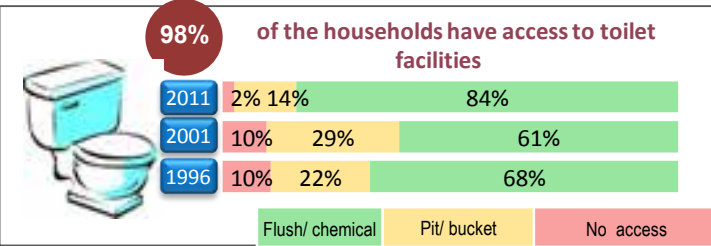
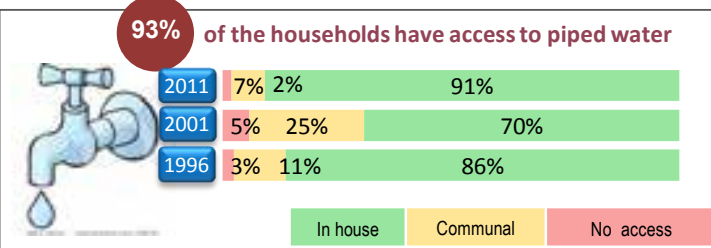
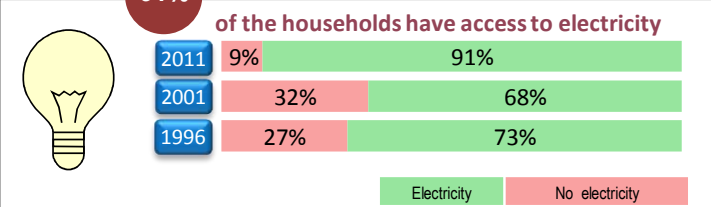
Population



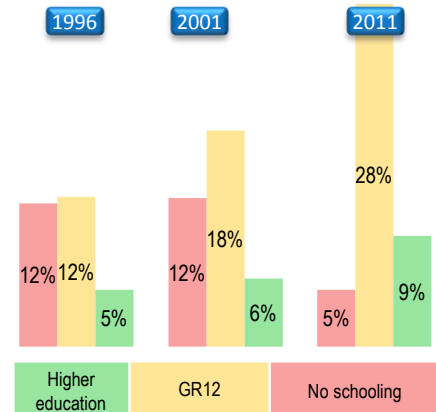
Households



Basic services

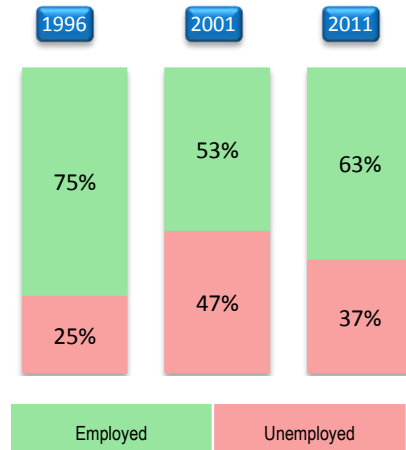


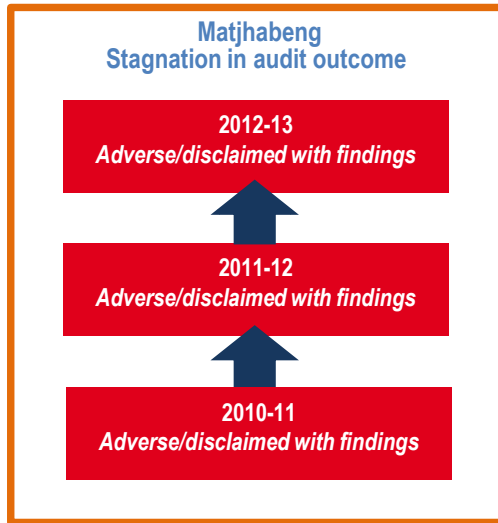
Education



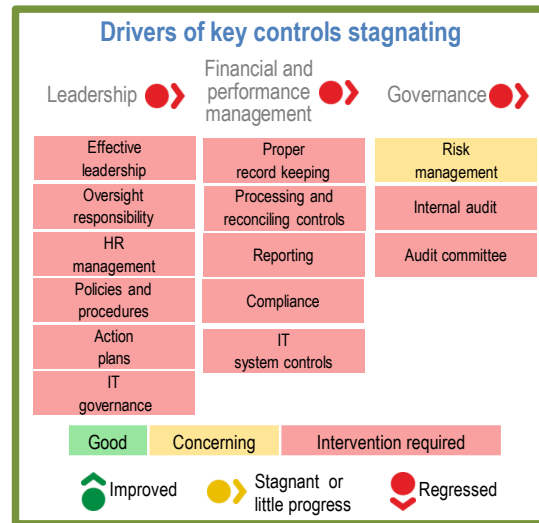
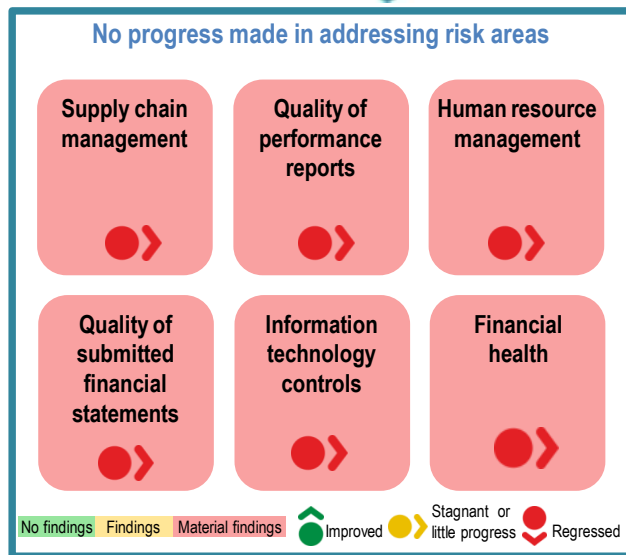
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Labour

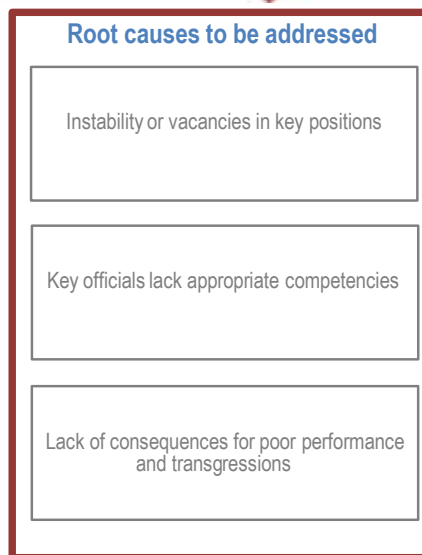




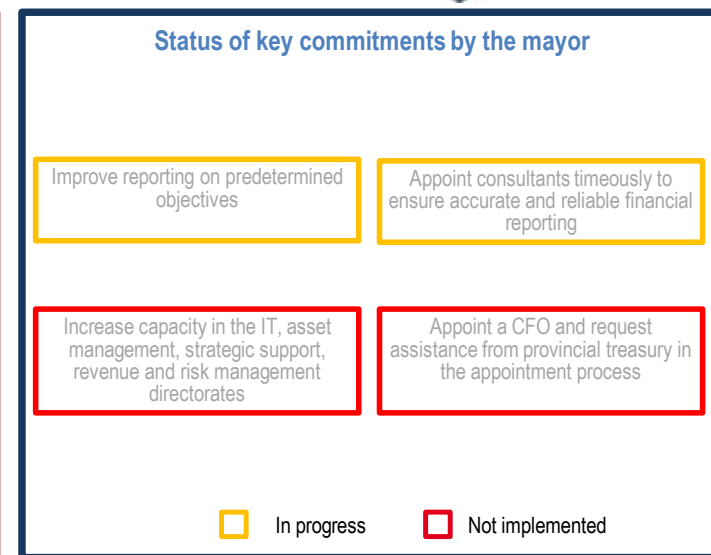
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Matjhabeng Local Municipality

Current year audit outcome: *Disclaimer*

Stagnation in audit outcome

Since the amalgamation of the municipality 12 years ago there has been persistent stagnation in its audit outcomes, which could be attributed to management's slow response in addressing the matters in the audit reports of previous years. Furthermore, the positions of CFO and SCM manager have been vacant for more than four and two years, respectively. Urgent intervention on both provincial and political levels is needed to change the culture of repeated disclaimers.

Six key risk areas

The municipality did not improve its audit outcomes due to a lack of progress made in addressing the findings in key risk areas reported in the previous year. Even though consultants were reappointed, the financial statements remained of poor quality, due to a lack of skills and vacancies within the municipality. Material corrections were made based on misstatements identified by the auditors.

The services of consultants were again engaged in the preparation of the financial statements and the assets register, the provision for landfill sites and meter readings at a cost of R4 093 794 (2012: R7 282 638). The work of the consultants was not monitored, with the result that the financial information was not credible. The municipality's continued reliance on consultants without any skills being transferred has the effect of entrenching its dependence on these service providers.

The controls and structures required for reporting on performance information were lacking as performance indicators were not well defined or verifiable. The municipality did not report actual performance in the annual performance report, mainly due to ineffective oversight by leadership.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations, a lack of consequences for poor performance and the vacancy of the position of head of SCM, which ultimately resulted in irregular expenditure to the amount of 2013: R96 171 463 (2012: R160 377 149) being incurred for the year.

Ineffective oversight of IT and the controls that ensure its effective functioning, as well as the vacancy of the IT manager position contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective.

The municipality had cash flow problems, which resulted in conditional grants being used to fund operations.

Key controls and root causes

The overall stagnation in key controls was caused by vacancies in critical positions, a lack of appropriate skills, as well as a lack of consequences for transgressions and poor performance. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Effective HR management processes should be implemented to ensure that a competent CFO and support staff are appointed and retained and performance is monitored.
- The establishment of documented processes for financial and performance information reporting should be prioritised to ensure the completeness and accuracy of information, backed by adequate supporting documentation that confirms the reported information.
- A compliance checklist that includes all the relevant laws and regulations, especially those that relate to procurement and financial and performance reporting, should be developed and implemented.

The accounting officer, senior management and the audit committee should address the root causes of inadequate controls as follows:

- The accounting officer should ensure that officials responsible for financial and performance reporting have the appropriate competencies required to enable them to implement daily, monthly and quarterly reporting disciplines. There should be consequences for poor performance and transgressions of laws and regulations, especially those relating to SCM.
- All the critical positions should be filled and adequate training should be provided to financial and performance reporting staff to enhance their skills and competencies.

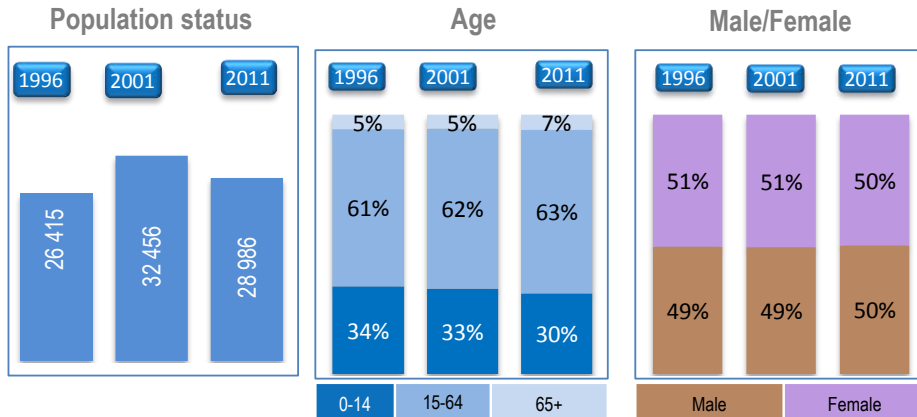
Impact of key role players on audit outcomes

To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General are timeously implemented and that the work of the audit committee is directed towards evaluating significant risks. We had six meetings with the mayor during the financial year but our interactions had no impact. According to our assessment, the implementation of sound accountability principles failed at both mayor and council levels, which impacted directly on the council's ability to provide effective assurance. The municipality would benefit from establishing a more effective MPAC to strengthen oversight of financial administration through regular, effective meetings.

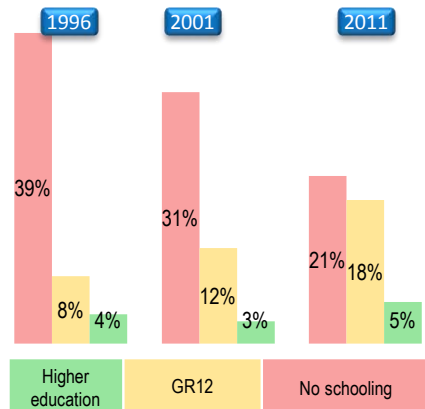
TOKOLOGO LOCAL MUNICIPALITY

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Population

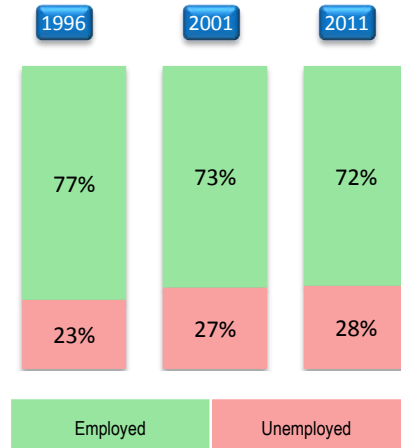


Education

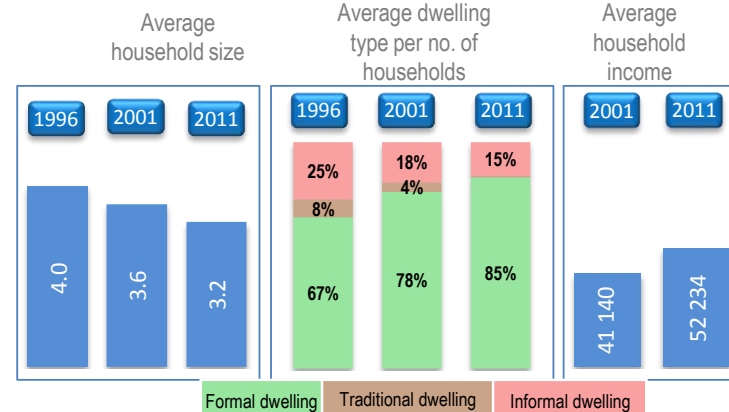


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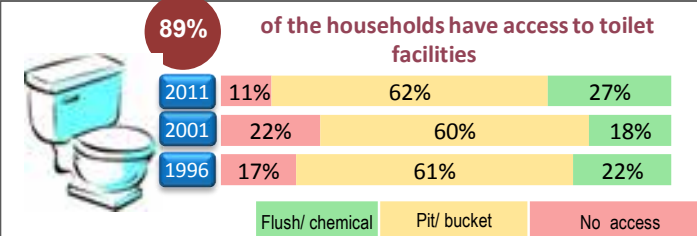
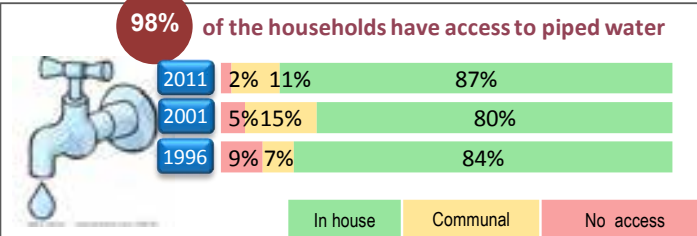
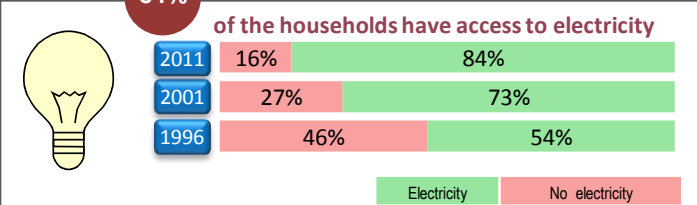
Labour

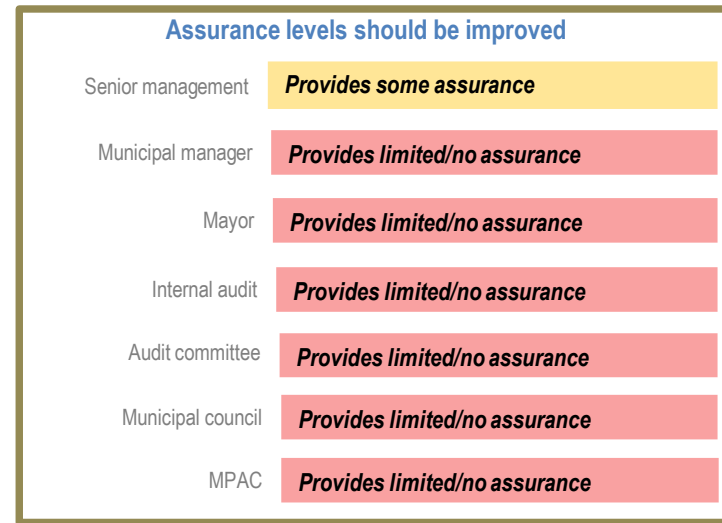
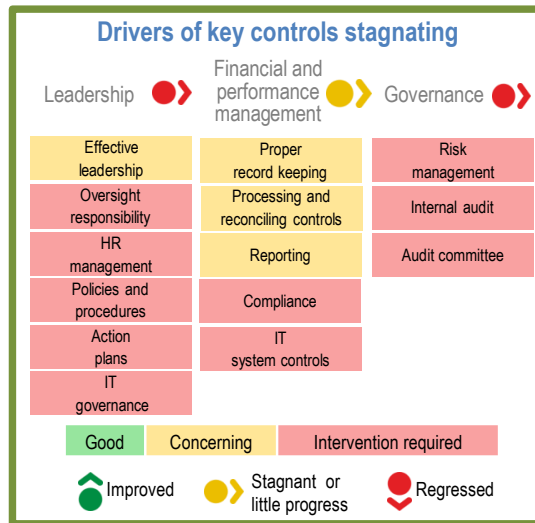
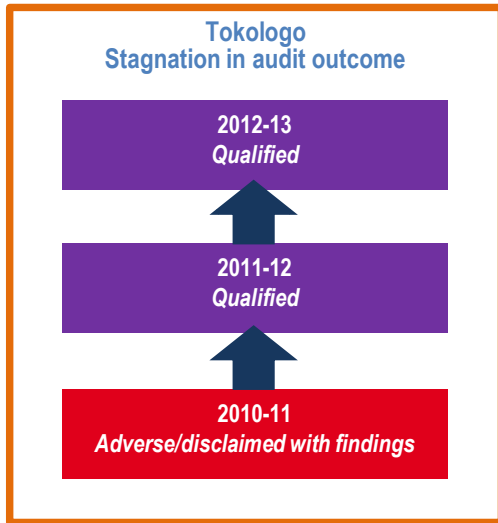


Households



Basic services

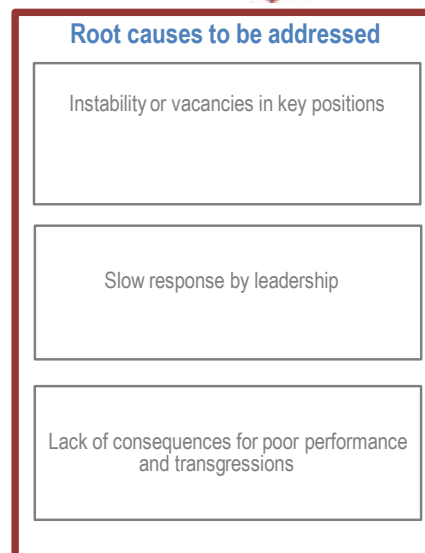
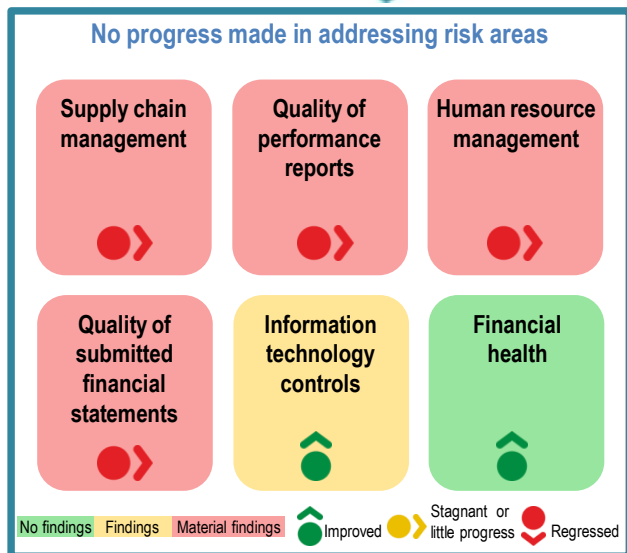




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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Tokologo Local Municipality

Current year audit outcome: *Qualified*

Stagnation in audit outcome

The stagnation in the audit outcome was caused by audit matters reported in the previous year not being addressed due to vacancies in middle management. However, the number of matters that received a qualified audit opinion decreased considerably. These included qualifications on property, plant and equipment, the cash flow statement and accumulated surplus, various non-compliance matters and findings on predetermined objectives.

Six key risk areas

The municipality did not improve its audit outcome due to a lack of progress in addressing some of the findings in the six key risk areas reported in the previous year. The financial statements submitted for audit purposes remained of poor quality, even though consultants were reappointed due to capacity constraints. The CFO did not review the financial statements properly, with the result that many repeat qualifications were reported and material corrections were made based on misstatements identified by the auditors.

The municipality again sought financial reporting assistance from consultants at a cost of R2 932 362 (2012: R4 287 707), but did not manage to ensure proper transfer of skills, which resulted in continued dependence on consultants.

The controls and structures required for reporting on predetermined objectives were lacking. As a result, indicators were not well defined and supporting documentation on actual performance could not be provided. Due to the lack of capacity in the units responsible for reporting on predetermined objectives consultants were engaged to report on service delivery matters.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations, a lack of consequences for poor performance and the vacancy of the SCM manager position for 24 months, which ultimately resulted in irregular expenditure of R13 949 004 (2012: R5 154 096) being incurred for the year.

Ineffective oversight of IT and the controls that ensure its effective functioning, as well as the vacancy of the chief information officer post for the entire financial year contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective.

The financial health of the municipality improved as a result of the implementation of adequate budgetary controls.

Key controls and root causes

The overall stagnation in key controls was caused by the slow response by leadership, a lack of consequences for poor performance and delays in filling critical positions. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The asset register should be adequately maintained, reviewed and continuously monitored.
- The reporting on predetermined objectives should be prioritised to ensure effective monitoring of service delivery.
- Systems and processes should be implemented to ensure that non-compliance with laws and regulations is prevented.

The accounting officer, senior management and the audit committee should address the root causes of inadequate controls as follows:

- Oversight should be enhanced by regularly monitoring and evaluating supporting evidence on financial and performance reporting.
- Skilled staff should be appointed to fill critical vacancies and training should be provided where needed.
- Consequences for poor performance and transgressions should be implemented.

Impact of key role players on audit outcomes

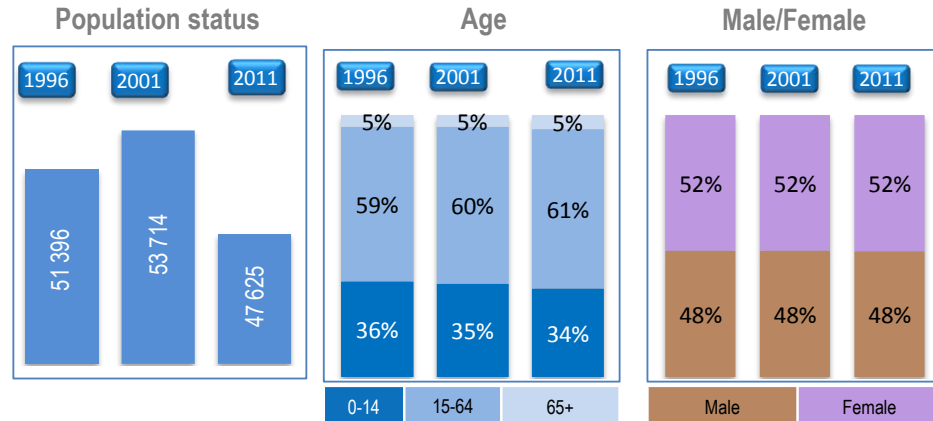
To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General and internal audit are timeously implemented and that the work of the audit committee is directed towards evaluating significant risks to achieve improved audit outcomes.

We had three meetings with the mayor during the year and these oversight interactions had no impact on the audit outcome. The reason for our assessment is the instability in the mayoral position within the municipality and a lack of oversight. The municipality would benefit from the establishment of an MPAC to strengthen oversight of financial administration.

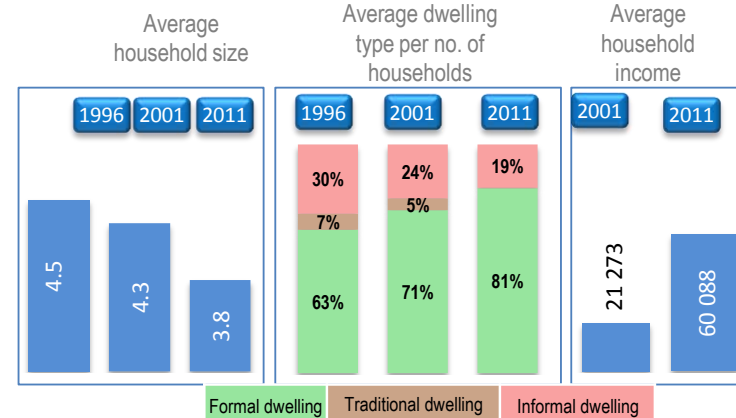
TSWELOPELE LOCAL MUNICIPALITY

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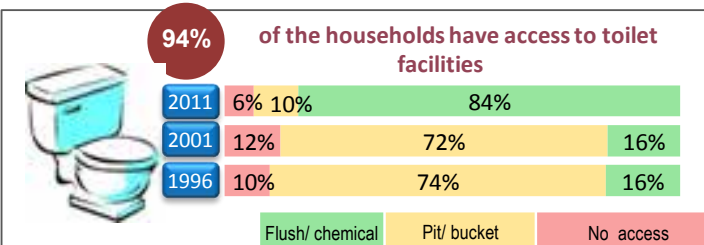
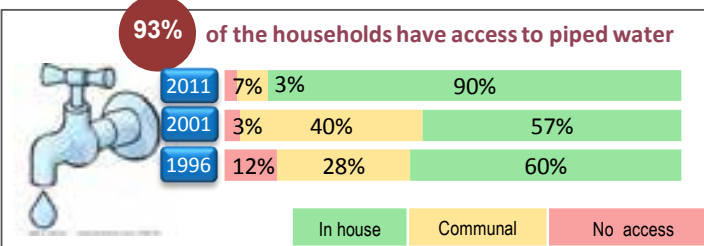
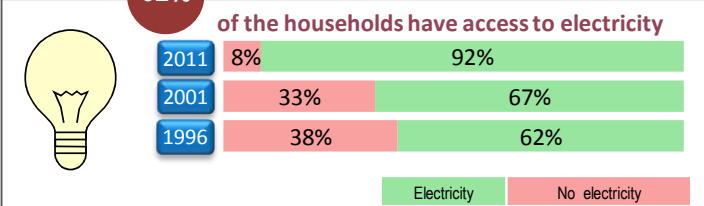
Population



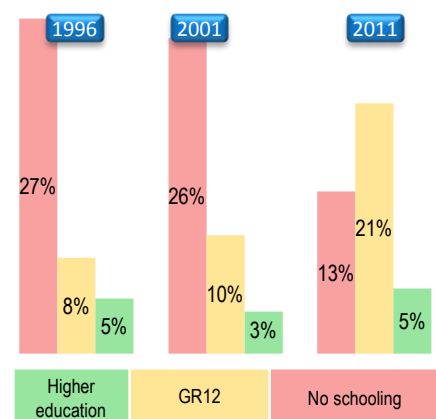
Households



Basic services

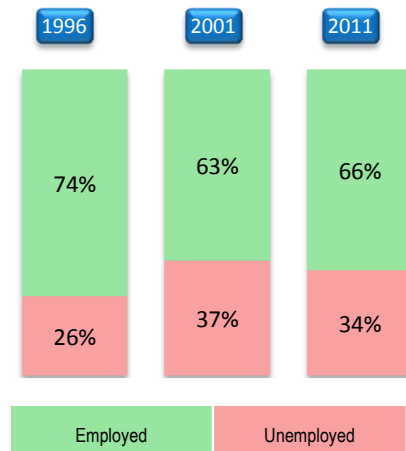


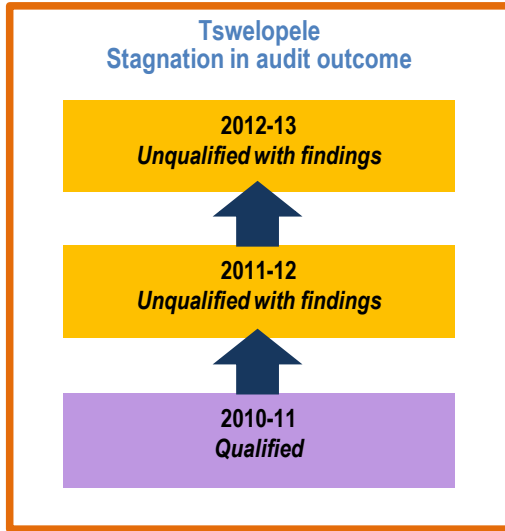
Education



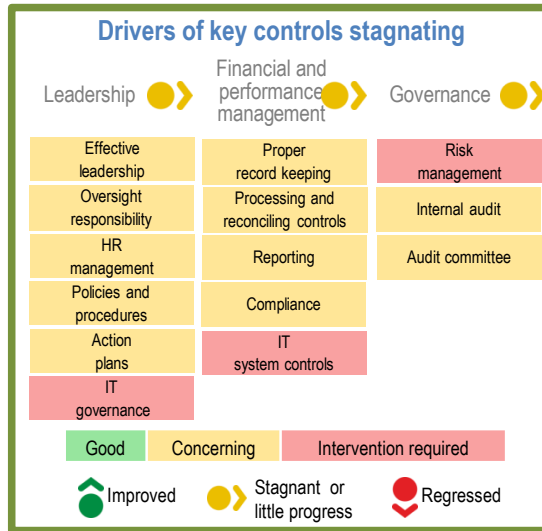
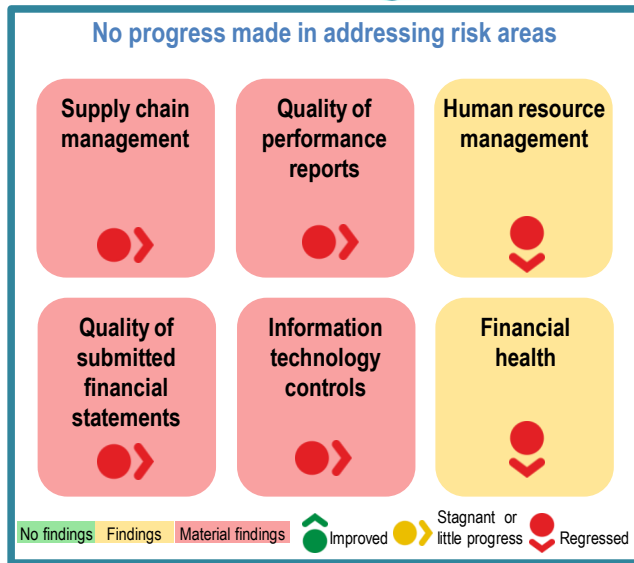
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Labour

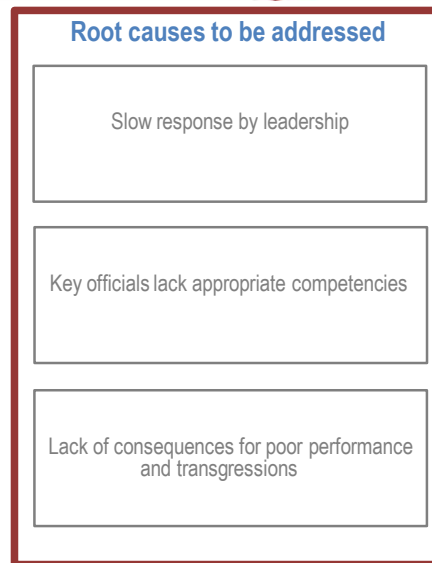




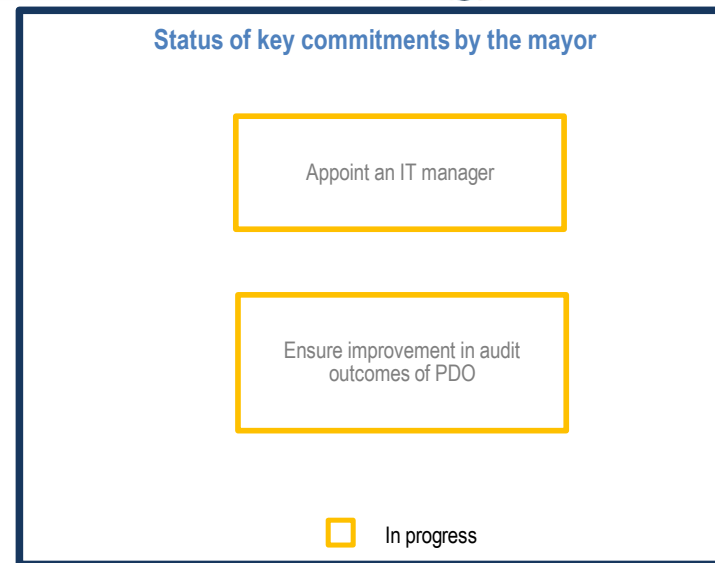
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Tswelopele Local Municipality

Current year audit outcome: *Unqualified with other matters*

Stagnation in audit outcome

The stagnation in the audit outcome was caused by audit matters reported in the previous year not being addressed. These included various non-compliance matters and findings on performance information, which are the only matters preventing a clean audit opinion.

Six key risk areas

The municipality did not improve its audit outcome due to a lack of progress in addressing findings in the six key risk areas reported in the previous year. Financial statements submitted for audit purposes were of poor quality as material corrections were made based on misstatements identified during the audit.

The services of consultants were again engaged for financial reporting at a cost of R3 201 878 (2012: R1 915 950) without ensuring proper transfer of skills.

82 The controls and structures required for reporting on performance information were lacking as performance indicators were not well defined or verifiable. The municipality did not report actual performance in the annual performance report, mainly due to officials lacking key competencies and ineffective oversight by the leadership.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations, a lack of consequences for poor performance and the vacancy of the SCM manager position, which was only created and filled after year-end. This ultimately resulted in irregular expenditure of R1 743 720 (2012: R2 076 997) being incurred for the year.

Ineffective oversight of IT and the controls that ensure its effective functioning, as well as the vacancy of the IT manager position, which was only created and filled after year-end, contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective.

Findings were reported on three of the financial health indicators focused on during the analysis, namely budget, cash and revenue management. These material financial indicators might be indicative of a financial health and service delivery risk.

Key controls and root causes

The stagnation in the six key risk areas was a result of the overall stagnation in key controls. The main reasons for the stagnation were leadership's slow response,

General report on the audit outcomes of Free State local government for 2012-13

changes in key positions during the last quarter of the year and the lack of consequences for transgressions and poor performance. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Oversight of financial and performance reporting, compliance and related internal controls should be prioritised.
- Accurate and complete financial and performance reports that are supported by reliable information should regularly be prepared.
- Compliance with applicable laws and regulations should continuously be reviewed and monitored.

Senior management, the chief financial officer, the municipal manager and municipal council should address the root causes of inadequate controls as follows:

- Oversight should be enhanced by regularly monitoring and evaluating supporting evidence for performance reporting throughout the financial year and by developing compliance checklists to be implemented.
- An action plan should be developed for which responsibilities should be assigned and target dates set and remedial action should be taken against transgressors and poor performers.
- The accounting officer should ensure that officials responsible for financial and performance reporting have the appropriate competencies required to enable them to perform daily, monthly, and quarterly reporting disciplines.

Impact of key role players on audit outcomes

To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General are timeously implemented and that the work of the audit committee is directed towards preventing and mitigating significant risks to achieve improved audit outcomes.

We had four meetings with the mayor during the financial year and these oversight interactions had minimal impact on the audit outcomes as there was no improvement in key controls. Commitments previously made regarding the filling of vacancies and measures to improve performance reporting were only implemented after year-end. The municipality would benefit from establishing a more effective MPAC to strengthen oversight of financial administration.

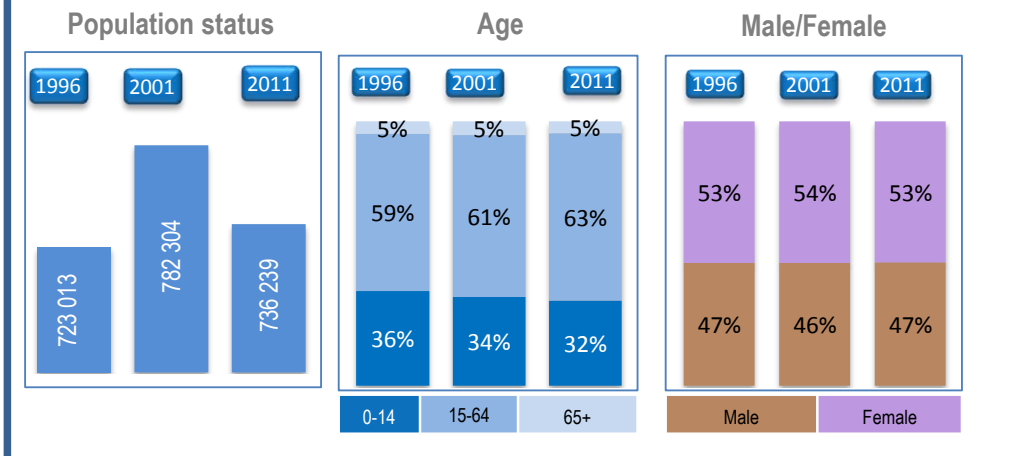
Thabo Mofutsanyana District

83

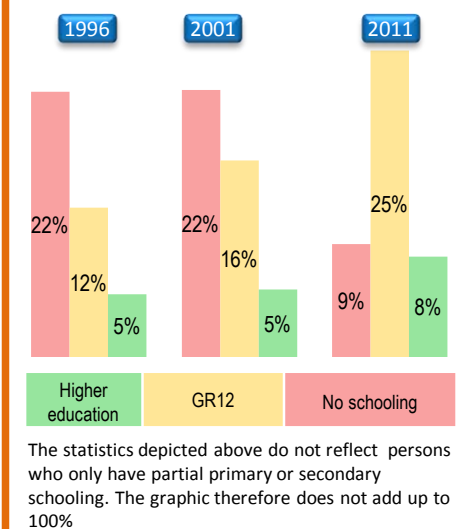
THABO MOFUTSANYANA DISTRICT MUNICIPALITY

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

Population



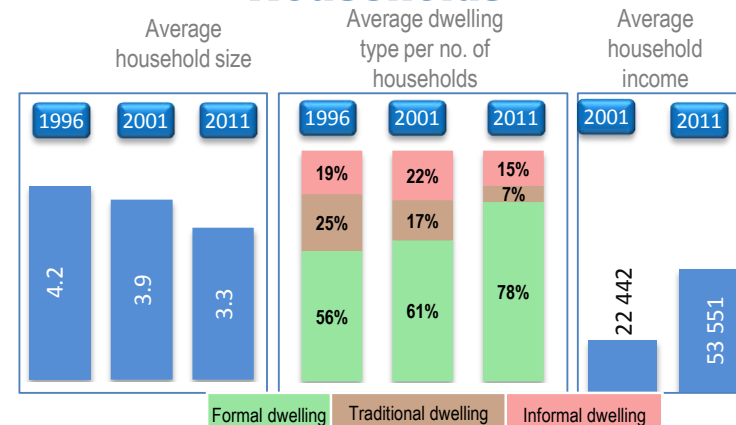
Education



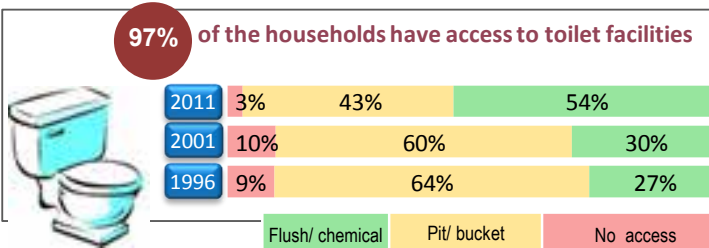
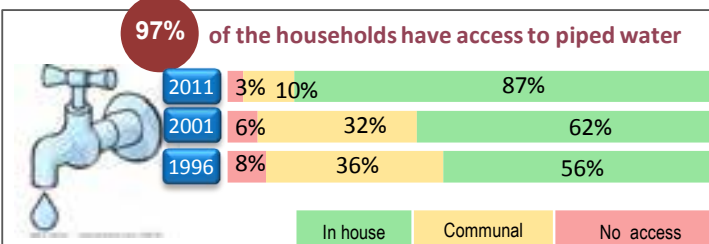
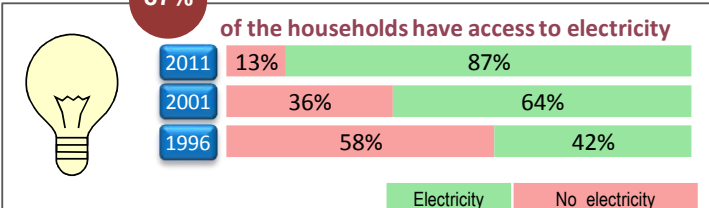
Labour

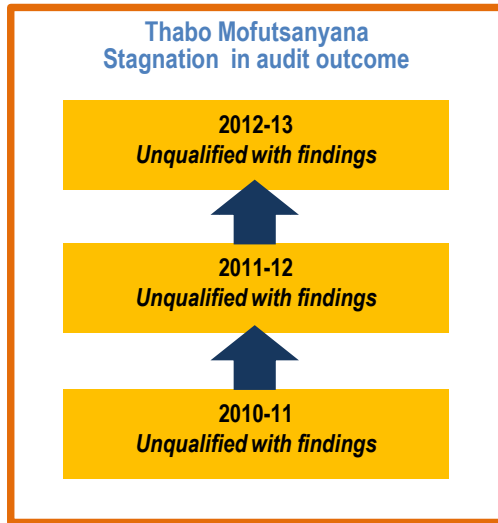


Households



Basic services





Drivers of key controls improving

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

● Good ● Concerning ● Intervention required
↑ Improved ➔ Stagnant or little progress ↓ Regressed

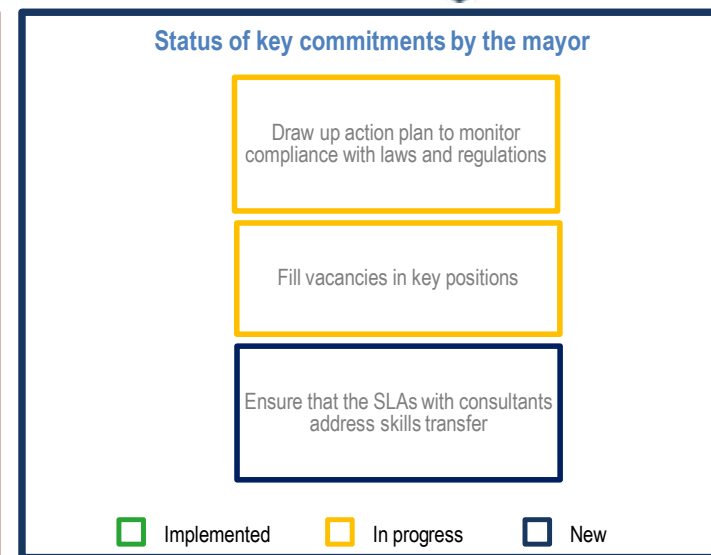
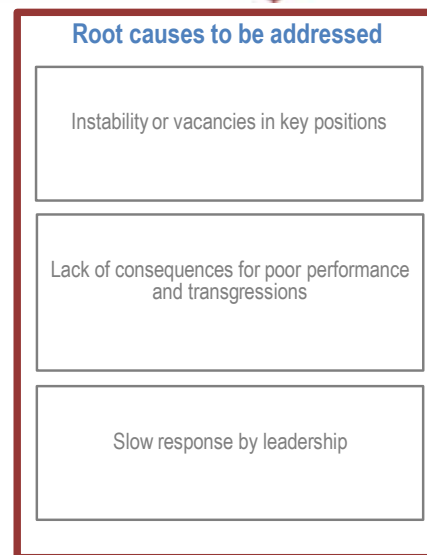
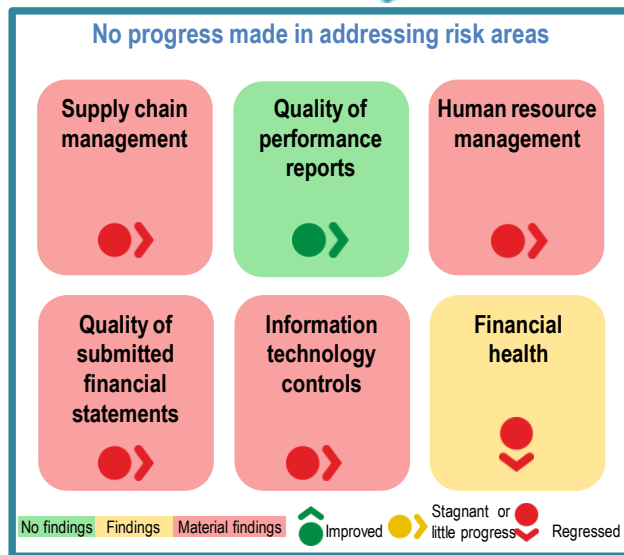
Assurance levels should be improved

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

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**.



Thabo Mofutsanyana District Municipality

Current year audit outcome: *Unqualified with other matters*

Stagnation in audit outcome

The stagnation in the audit outcome over the past four years could be attributed to various instances of non-compliance with laws and regulations governing the preparation of annual financial statements, the management of conditional grants, budgets and human resources not being addressed. The non-compliance issues are the only obstacles preventing the municipality from achieving a clean audit outcome. Aspects such as the lack of oversight by the audit committee and the functional weaknesses of the internal audit unit gave rise to additional non-compliance matters being raised. The municipality has not had findings on performance information for the past three years.

Six key risk areas

The municipality did not improve its audit outcome due to a lack of progress in addressing the findings in the six key risk areas reported in the previous year. The financial statements submitted for audit purposes remained of poor quality, even though consultants were reappointed due to vacancies. Material corrections were made, based on misstatements identified by the auditors.

The municipality again sought financial reporting assistance from consultants at a cost of R1 114 118 (2012: R782 496) but did not manage to ensure effective transfer of skills, which resulted in continued dependence on consultants.

The municipality has not had any findings on their performance reports for the past three years, but should nevertheless pay attention to the controls and structures required for reporting on performance information. Material misstatements in the annual performance report were identified during the audit, all of which were corrected by management. These misstatements could be attributed to a lack of monitoring and evaluation of the performance information.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations, a lack of consequences for poor performance and the vacancy of the SCM manager position, which ultimately resulted in irregular expenditure of R2 595 928 (2012: R3 140 976) being incurred for the year. However, improved oversight of adherence to laws and regulations resulted in a reduction in irregular expenditure.

Ineffective oversight of IT and the controls that ensure its effective functioning contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective.

Key controls and root causes

The stagnation in the six key risk areas was the result of the overall stagnation in key controls. The main reasons for the stagnation were delays in the filling of critical key positions, the slow response of leadership and a lack of consequences for transgressions and poor performance. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The investigation into irregular expenditure should be completed to determine whether any person was liable and to ensure that action is instituted according to the requirements of the Municipal Finance Management Act.
- The establishment of documented processes on performance information reporting should be prioritised to enhance the collection, verification and collation of information and to ensure compliance with all laws and regulations.
- Competent staff should be appointed to fill critical positions.

The accounting officer, senior management and the audit committee should address the root causes of inadequate controls as follows:

- It should be ensured that the recommendations made by the Auditor-General, the audit committee and internal audit are implemented timeously.
- An action plan should be developed for which responsibilities should be assigned and target dates set and remedial action should be taken against transgressors and poor performers.
- All critical vacancies should be filled by appointing candidates with the required skills and staff should receive the training needed to address any shortcomings.

Impact of key role players on audit outcomes

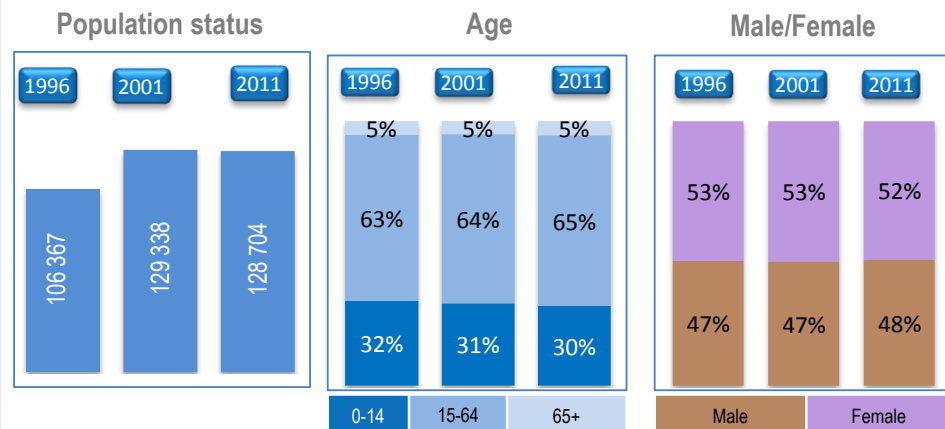
To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General and internal audit are timeously implemented and that the work of the audit committee is directed towards evaluating significant risks to achieve improved audit outcomes.

We had four meetings with the mayor during the year and these oversight interactions had some impact on the audit outcome. The reason for our assessment is the stagnation in the audit outcome identified in all risk areas during the key control assessments, notwithstanding the mayor's support and the quarterly commitments agreed with the Auditor-General. The council has made a commitment to address the non-compliance issues and the lack of skills transfer. The MPAC could strengthen oversight of financial administration at the municipality.

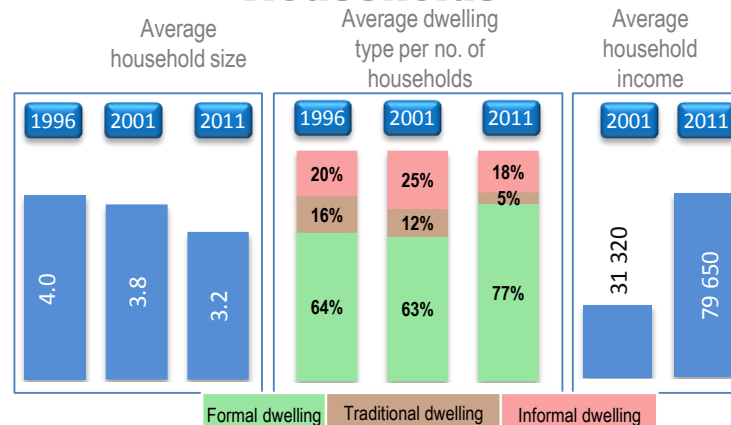
DIHLABENG LOCAL MUNICIPALITY

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

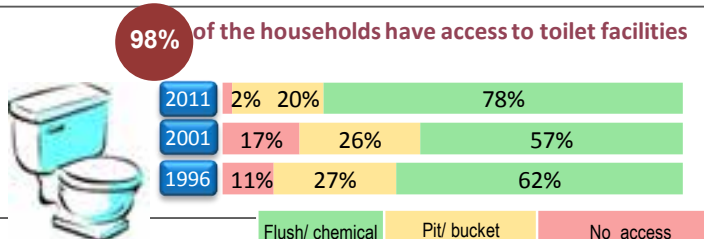
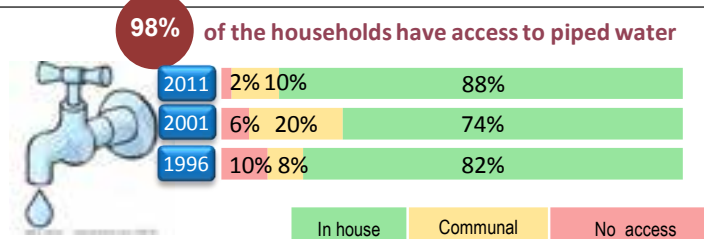
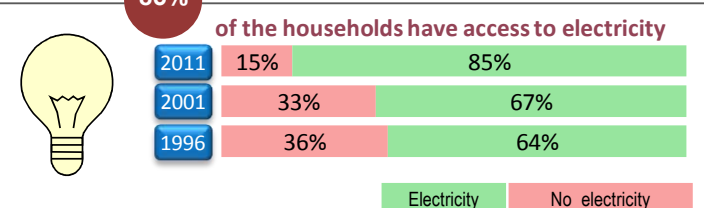
Population



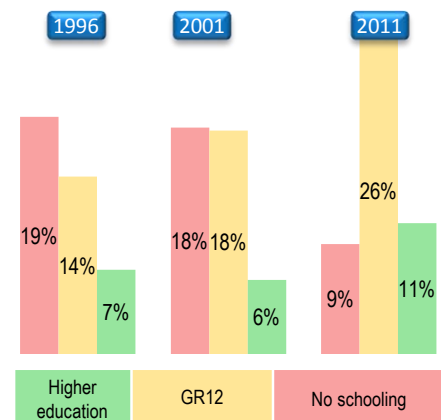
Households



Basic services

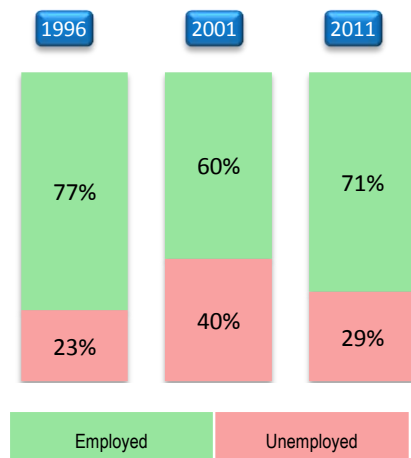


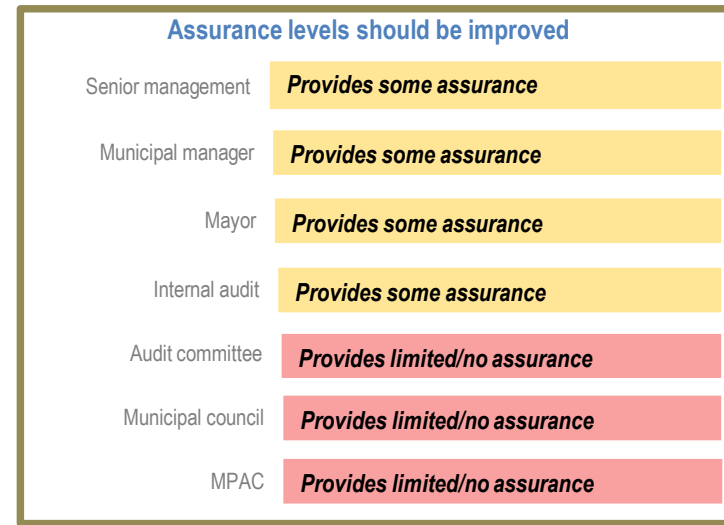
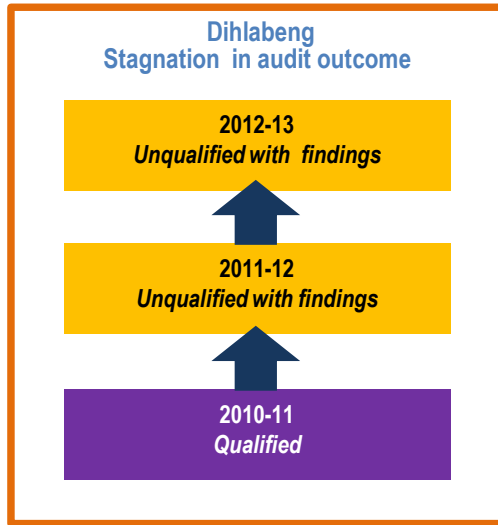
Education



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

Labour

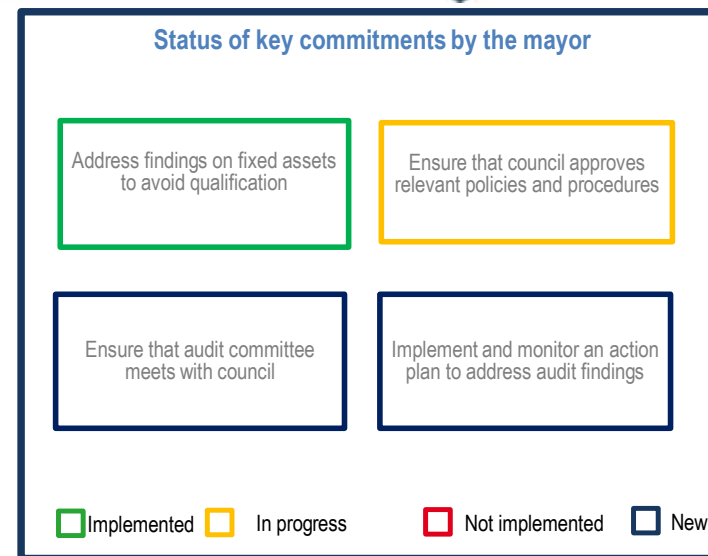
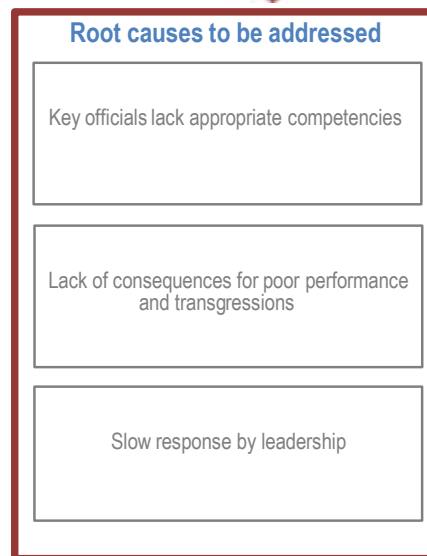
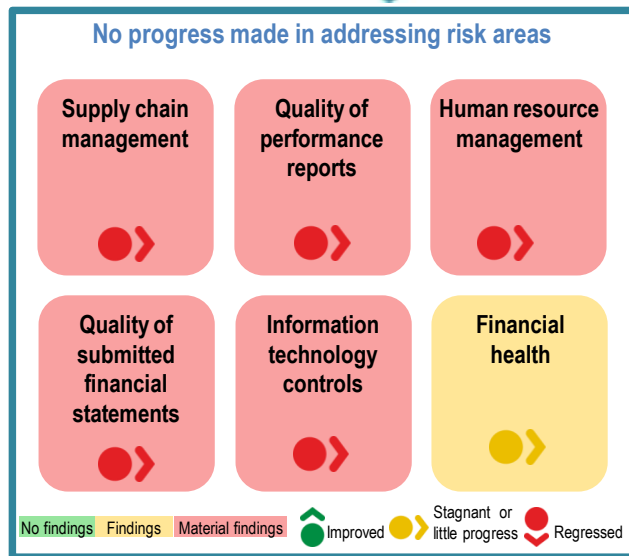




The current **audit outcomes** are the result of the attention given to the **six key risk areas**.

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**.



Dihlabeng Local Municipality

Current year audit outcome: *Unqualified with other matters*

Stagnation in audit outcome

The stagnation in the audit outcome was caused by audit matters reported in the previous year not being addressed. These matters relate to non-compliance with various laws and regulations in areas such as the preparation of annual financial statements, assets, expenditure, procurement and contract management, performance reporting, internal audit and audit committees. It is imperative that the municipality focus on addressing non-compliance and predetermined objectives if it is to progress towards a clean audit opinion.

Six key risk areas

The sustainability of the audit outcomes is still questionable as adequate progress has still not been made in addressing the findings in the six key risk areas reported in the previous year. The financial statements submitted for audit purposes were prepared in-house and were of poor quality, which resulted in material corrections being made based on misstatements identified by the auditors. These misstatements occurred due to the fact that monthly disciplines were not implemented and monitored by senior management.

The quality of performance reporting remained unchanged. Inadequate performance systems resulted in repeat findings on usefulness and reliability as the system was not managed by sufficiently skilled staff.

The status of supply chain management (SCM) remains unsatisfactory due to the lack of consequences for poor performance, which has resulted in irregular expenditure for the year amounting to R48 405 747 (2012: R60 385 887).

Ineffective oversight of information technology (IT) and the controls that ensure its effective functioning contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective. The IT manager position has been vacant for over three years.

The municipality disclosed a material loss of R58 381 254, incurred during the financial year due to the writing off of irrecoverable receivables, which is indicative of a material financial health and service delivery risk. It should be noted that the unspent conditional grants were not cash backed as the municipality had a net liability of R117 million. The cash constraints at the municipality due to debtors either not paying their bills on time or not paying in full also impacted on its ability to pay its suppliers within the prescribed period of 30 days.

Key controls and root causes

The stagnation in the six key risk areas was the result of a lack of consequences for poor performance, the lack of sufficiently skilled staff to oversee the performance reporting process and a slow response by leadership.

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

- The municipality should implement effective human resource (HR) management to ensure that competent and sufficiently skilled officials are appointed and retained and that performance is monitored.
- The municipality should prepare and review interim financial statements and ensure that there is sufficient financial information to support the financial statements and performance report.
- The municipality should implement systems and processes to ensure that non-compliance with laws and regulations is prevented, backed by visible support from the council in institutionalising discipline.

Senior management should address the root causes of inadequate controls as follows:

- Leadership controls should be improved through enhanced oversight responsibility by implementing and monitoring critical policies and procedures and appointing skilled personnel to oversee performance reporting.
- The daily and monthly reconciliations should be performed and reviewed and consequences for poor performance should be implemented.

Impact of key role players on audit outcomes

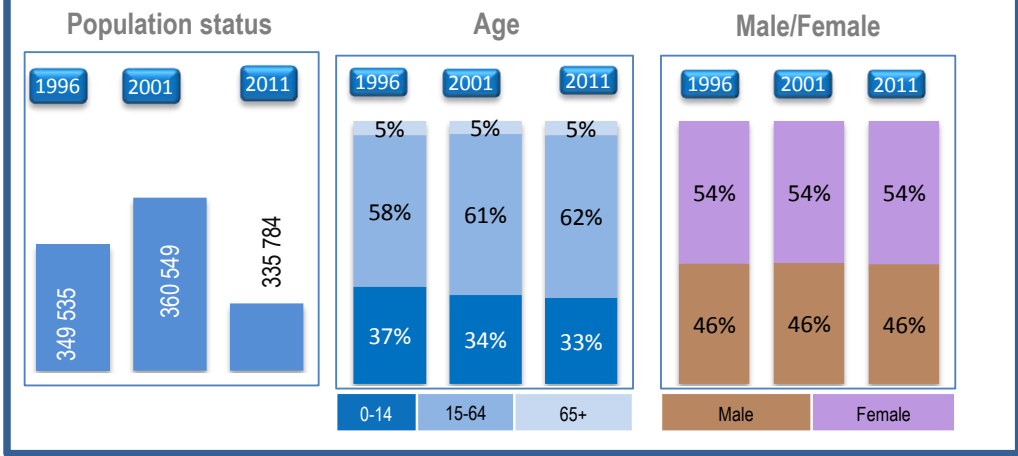
To improve the audit outcome the assurance levels should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure the timely implementation of the recommendations made by the Auditor-General and internal audit and should direct the work of the audit committee towards evaluating significant risks to achieve improved audit outcomes.

We had four meetings with the mayor during the financial year and these interactions had minimal impact on the audit outcome. Although the council committed to fully addressing the asset issues, the corrections were only made during the audit process.

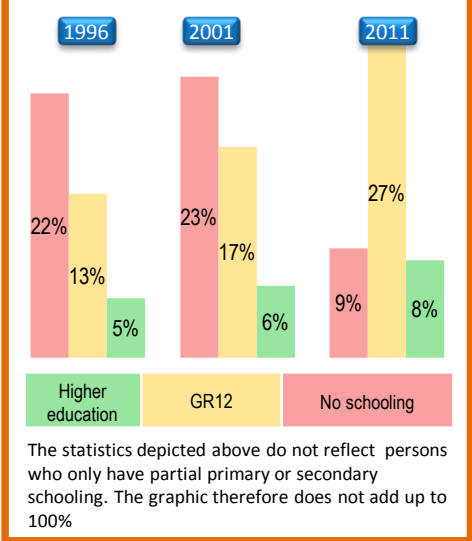
MALUTI-A-PHOFUNG LOCAL MUNICIPALITY

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Population



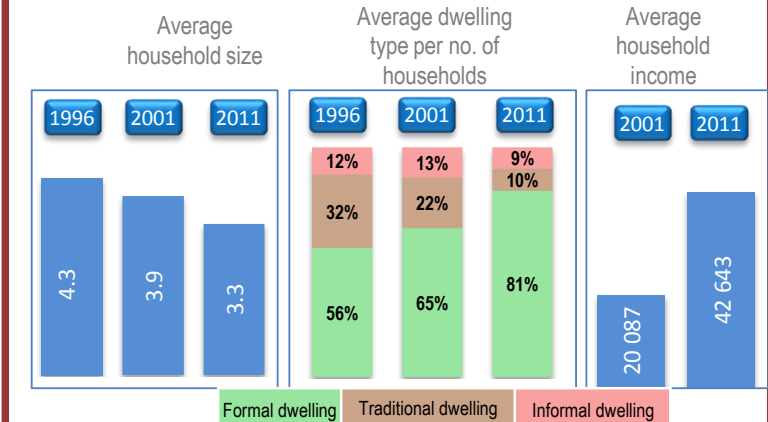
Education



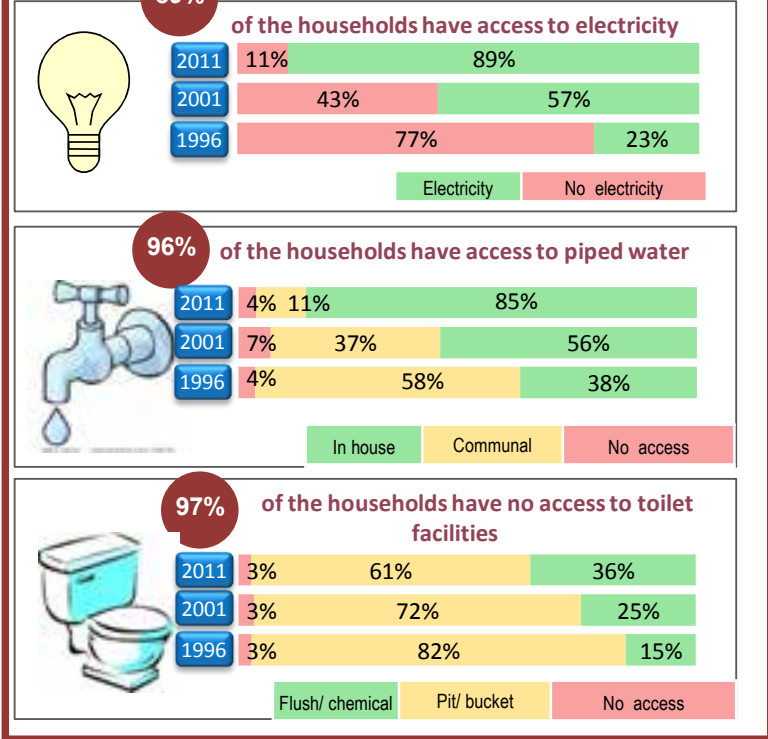
Labour

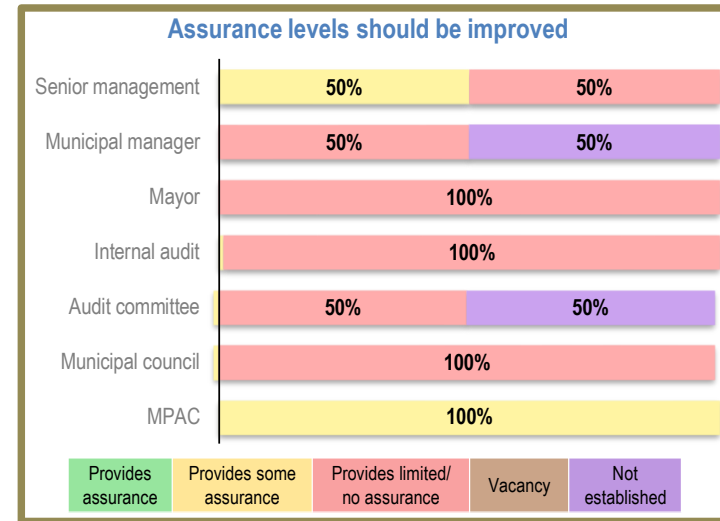
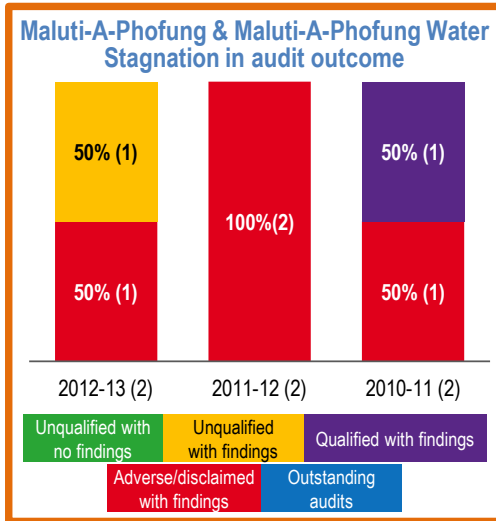


Households



Basic services

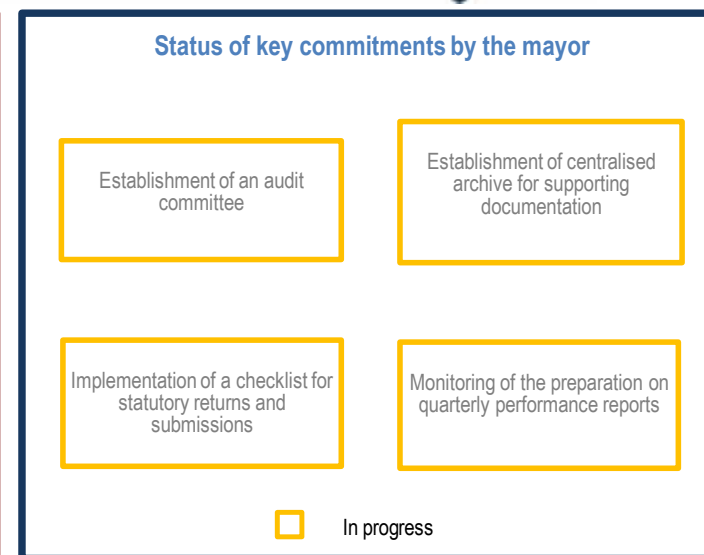
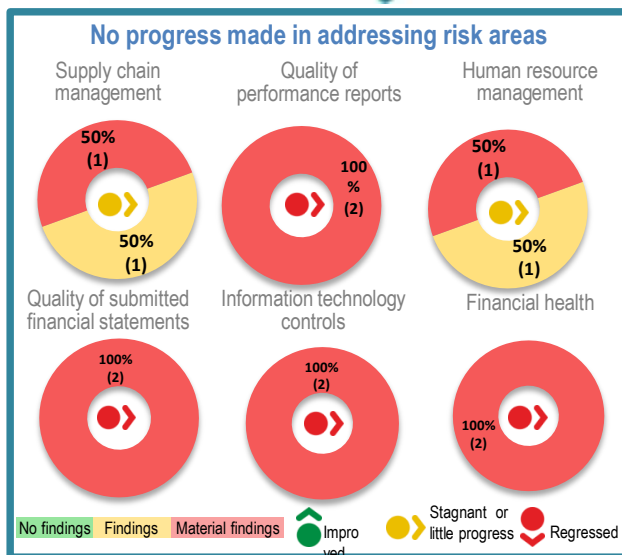




The current **audit outcomes** are the result of the attention given to the **six key risk areas**.

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**.



Maluti-a-Phofung Local Municipality and its entity

Current year audit outcome:

- Maluti-a-Phofung Local Municipality – *Disclaimer*
- Maluti-a-Phofung Water – *Unqualified opinion with other matters*

Stagnation in audit outcome

The stagnation in the audit outcome of the municipality over the past five years has been caused by audit matters reported in previous years not being addressed and the position of the CFO remaining vacant for seven months in the period under review. Urgent intervention on both provincial and political levels is needed to change the culture of repeated disclaimers.

The entity's audit outcome improved due to management's increased involvement. Management also demonstrated greater commitment in addressing the audit findings of the previous year by ensuring that sufficient and appropriate audit evidence is submitted for audit purposes.

Six key risk areas

The municipality did not improve its audit outcome due to a lack of progress in addressing the findings in the six key risk areas reported in the previous year. Even though consultants were reappointed, the financial statements submitted for audit purposes remained of poor quality, due to a lack of skills within the municipality. The poor quality of the financial statements could be attributed to a lack of consequences for poor performance, as demonstrated by the extent to which the documentation submitted was lacking/incomplete. Furthermore, most of the meetings held with the auditors during the audit process were not attended by management.

Although there was an improvement in the audit outcome of the entity, the sustainability thereof is questionable as limited progress has been made in addressing the findings in the six key risk areas reported in the previous year. The financial statements submitted for audit purposes was of poor quality as the financial official who prepared the financial statements lacked a comprehensive understanding of the accounting standards. Consequently, both auditees made material corrections to their financial statements based on misstatements identified by the auditors.

Due to vacancies in the finance unit, the services of consultants were again engaged in connection with financial reporting information at a cost of R1 066 575

(2012: R596 079). Furthermore, there was a lack of skills transfer at both auditees, which resulted in continued dependence on consultants.

The controls and structures required for reporting on performance information were lacking at both the municipality and the entity. As a result, indicators were still not well defined or verifiable. Supporting documentation could, moreover, not be provided during the audit due to a skills shortage at both auditees and because the municipal officials responsible for performance reporting were not available.

The status of SCM remains unsatisfactory primarily due to a total disregard of the need for compliance with SCM regulations. This resulted in the municipality incurring irregular expenditure of R3 577 518 (2012: R7 247 237) for the year. However, the amount of the irregular expenditure could not be confirmed due to a significant limitation of scope. The entity incurred irregular expenditure of R1 216 191 (2012: R4 244 160) during the period under review.

Ineffective oversight of IT and the controls that ensure its effective functioning contributed to the lack of progress in the area of IT as neither of the two auditees regards it as a strategic objective.

The state of the municipality's financial health could not be determined due to material limitations on the scope of the audit. The entity incurred a net loss of R17 525 411 (2012: R4 068 640) during the year which is indicative of material risk in terms of both financial health and service delivery and may affect the entity's ability to remain operational in the foreseeable future. Furthermore, unspent conditional grants are not cash backed due to the municipality's net liability position of R230 million.

Key controls and root causes

The stagnation in the six key risk areas at both auditees was the result of the overall stagnation in key controls caused by leadership's slow response, a lack of skills, vacancies and the lack of consequences for transgressions and poor performance. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Effective HR management should be instituted to ensure that competent and sufficiently skilled officials are appointed and retained and performance is monitored.
- The establishment of documented processes for financial and performance information reporting should be prioritised to ensure the completeness and accuracy of information, backed by supporting documentation that confirms the reported information.

- A compliance checklist should be developed and implemented and should include all the relevant laws and regulations, especially those that relate to procurement and financial and performance reporting.

The accounting officer, senior management and the audit committee should address the root causes of the poor audit outcome and inadequate controls as follows:

- The accounting officer should ensure that officials responsible for financial and performance reporting have the appropriate competencies required to perform their responsibilities.
- There should be consequences for poor performance and transgressions of laws and regulations, especially those that relate to SCM. For these measures to have the desired impact they should be backed by visible support from the council.

Impact of key role players on audit outcomes

To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General and internal audit are timeously implemented and that the work of the audit committee is directed towards evaluating significant risks.

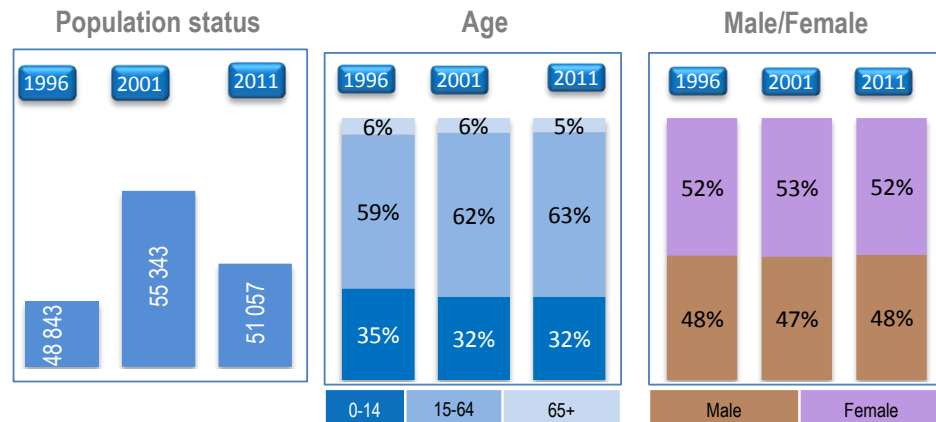
We had four meetings with the mayor during the year and these oversight interactions had no impact on the audit outcomes. Our assessment is based on the fact that previous commitments made with regard to the archiving of supporting documentation, the monitoring of performance information, the timely submission of statutory returns and the establishment of an audit committee have not been fully implemented.

We attended several MPAC meetings during the year where the implementation of the action plans of both the municipality and the entity were monitored. The MPAC should continue with this action, especially with regard to the municipality, to improve the audit outcome.

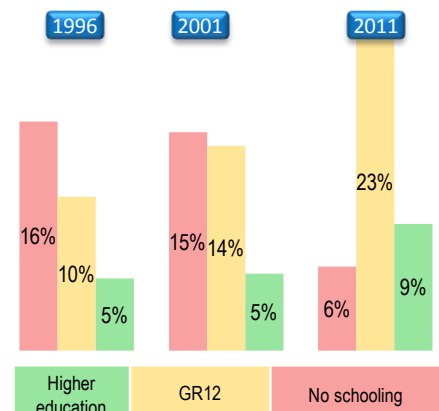
MANTSOPA LOCAL MUNICIPALITY

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Population

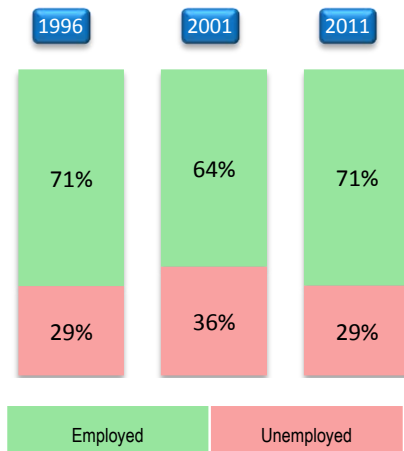


Education

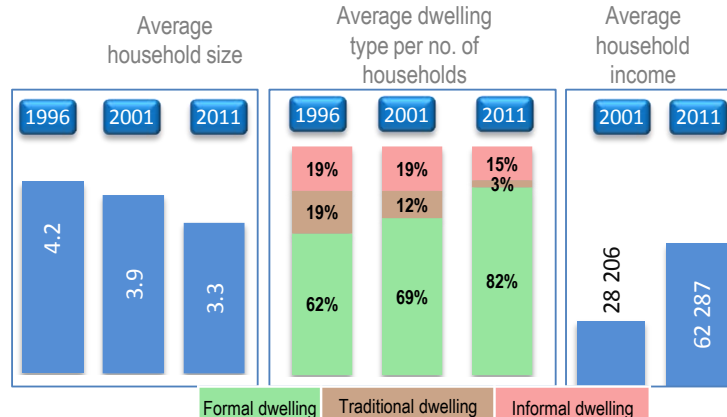


The statistics depicted above do not reflect persons who only have partial primary or secondary schooling. The graphic therefore does not add up to 100%

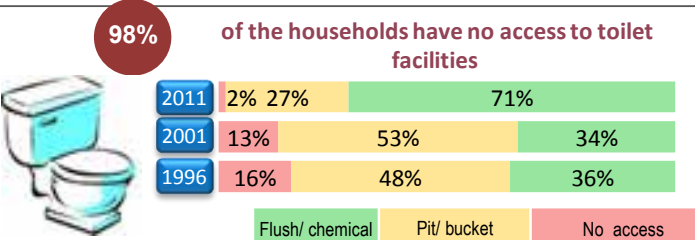
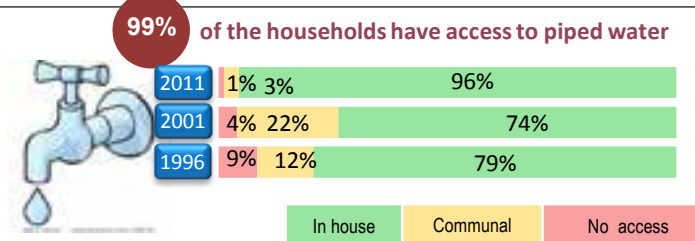
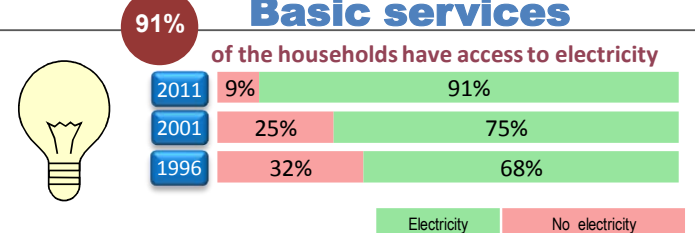
Labour

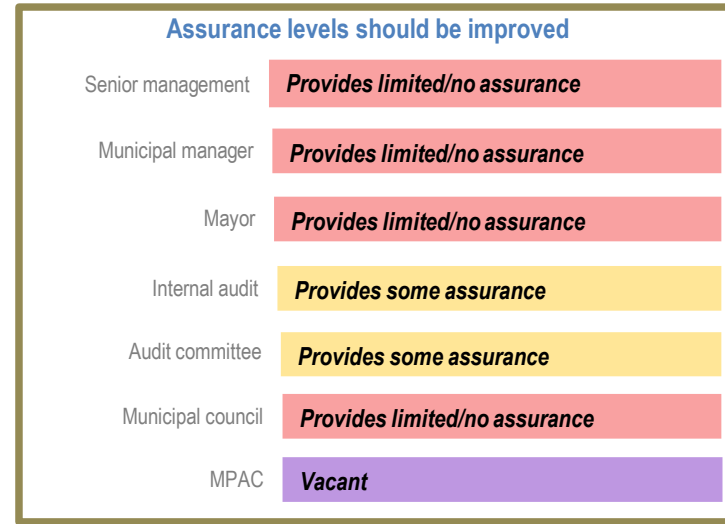
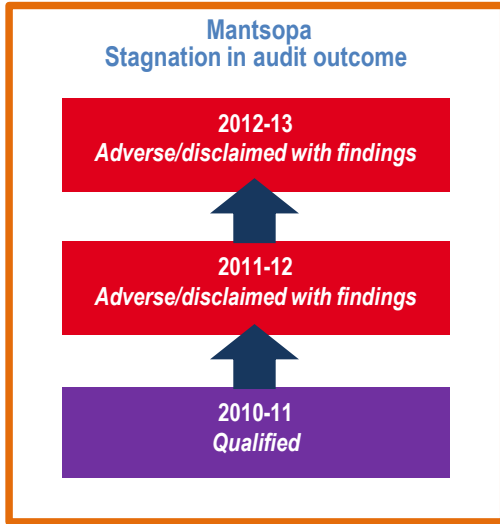


Households



Basic services

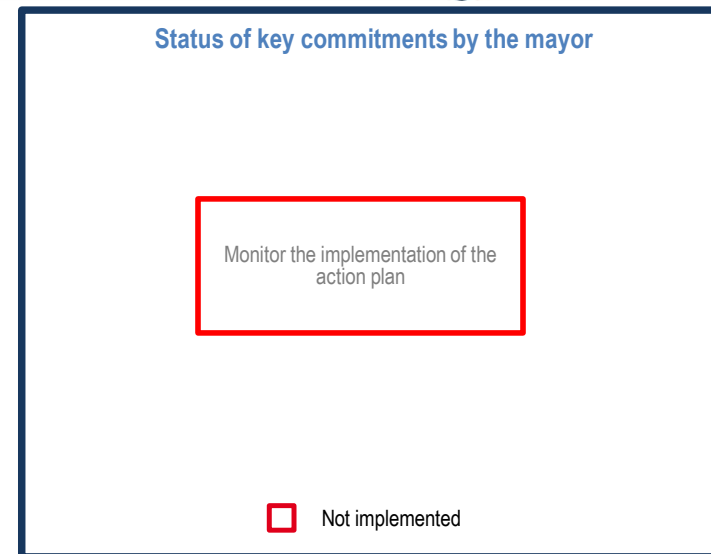
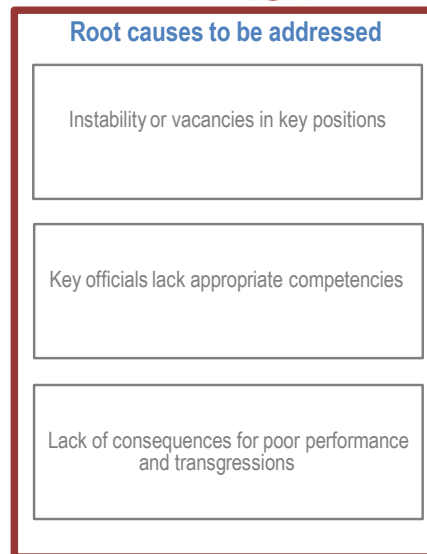
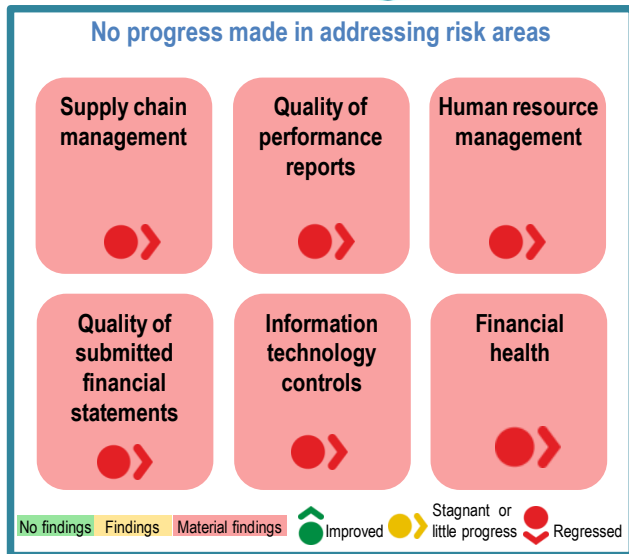




The current **audit outcomes** are the result of the attention given to the **six key risk areas**.

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**.



Mantsopa Local Municipality

Current year audit outcome: *Disclaimer*

Stagnation in audit outcome

The stagnation in the audit outcome that regressed two years ago from a qualified opinion to a disclaimer was caused by senior management's lack of skills and competencies, which led to matters in the previous year's audit report not being addressed. The matters reported in the previous year included qualifications on non-current and current assets, current liabilities, expenditure, and irregular, fruitless and wasteful expenditure, as well as various non-compliance matters and findings on performance information. In addition, new qualifications were raised, which included service charges and disclosure notes.

Six key risk areas

The municipality did not improve its audit outcome due to a lack of progress in addressing the findings in the six key risk areas reported in the previous year. The municipality prepared their own financial statements. However, these statements were of poor quality as the required skills and competencies had not been stipulated in the finance section's reporting framework. As a result, many new qualifications were reported in addition to those previously reported. Furthermore, material corrections had to be made to the submitted financial statements based on misstatements identified by the auditors.

The controls and structures required for reporting on performance information were lacking. As a result, indicators and targets were still not well defined and supporting documentation on actual performance could not be provided. This could be attributed to vacancies in key positions and the lack of skills in the unit responsible for performance reporting.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations, a lack of consequences for poor performance and an SCM vacancy. This ultimately resulted in irregular expenditure of R55 798 330 (2012: R11 626 988) being incurred for the year, leading to a qualified opinion being expressed on irregular expenditure.

Ineffective oversight over IT and the controls that ensure its effective functioning contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective.

The municipality incurred a net loss of R43 897 013 (2012: R110 251 946) during the current financial year, which is indicative of a material risk in terms of financial health and service delivery. Unspent conditional grants have also exceeded cash and cash equivalents at the municipality. The municipality's cash constraints are [General report on the audit outcomes of Free State local government for 2012-13](#)

also impacting on its ability to pay its suppliers within the prescribed period of 30 days due to debtors not paying their bills on time or not paying in full.

Key controls and root causes

The stagnation in the six key risk areas was the result of the overall stagnation in key controls caused by the slow response from leadership, the lack of consequences for poor performance and failure to fill positions with competent and skilled personnel or to provide training to staff. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The asset register should be thoroughly reviewed to ensure the completeness, ownership and correct valuation thereof.
- The investigation of irregular expenditure to determine whether any person was liable or acted in contravention of the requirements of the Municipal Finance Management Act should be completed.
- Stability should be created in key positions, competent staff should be appointed and the competencies of staff should continuously be developed through training.

The accounting officer, senior management and the audit committee should address the root causes of inadequate controls as follows:

- There should be consequences for poor performance and transgressions of laws and regulations, especially those relating to SCM.
- All the critical positions should be filled and adequate training should be provided to financial and performance reporting staff to enhance their skills and competencies.

Impact of key role players on audit outcomes

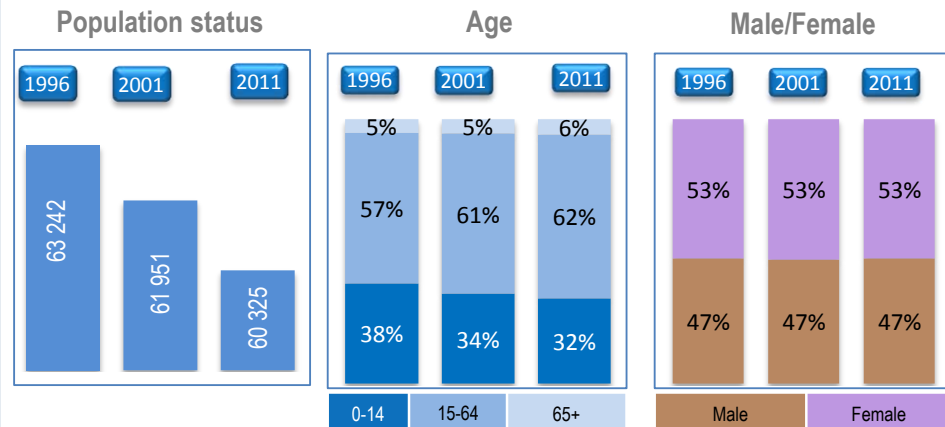
To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General and internal audit are timeously implemented and that the work of the audit committee is directed towards evaluating significant risks.

We had three meetings with the mayor during the year and these oversight interactions had no impact on the audit outcome due to a lack of commitments received from the mayor. Furthermore, although the council committed to fully implementing the previous year's commitments, this was not done. The municipality would benefit from the support provided by the municipal support team of the Department of Cooperative Governance and Traditional Affairs (CoGTA) in strengthening oversight of financial administration.

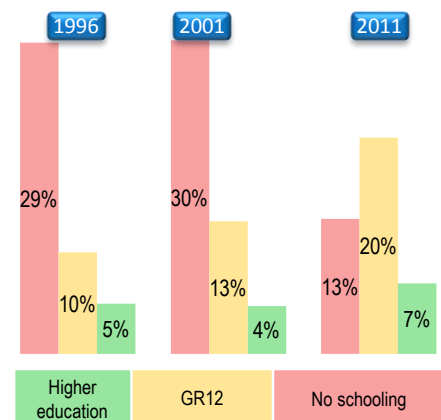
NKETOANA LOCAL MUNICIPALITY

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Population

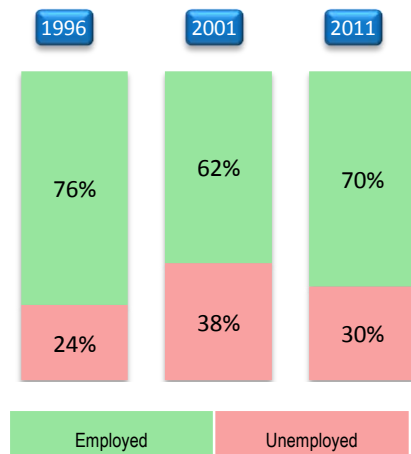


Education

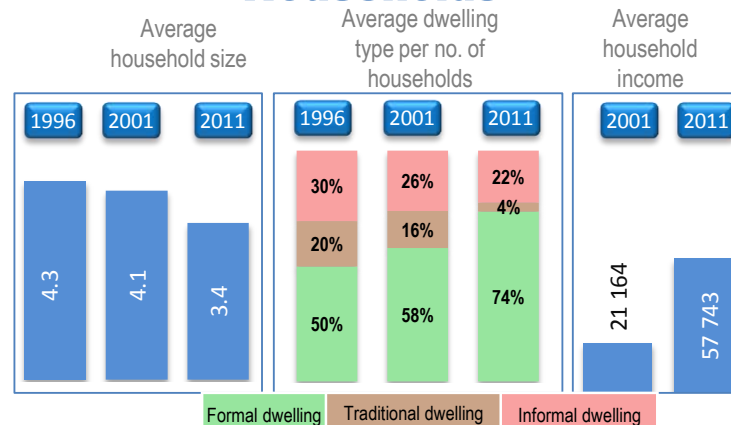


The statistics depicted above do not reflect persons who only have partial primary or secondary schooling. The graphic therefore does not add up to 100%

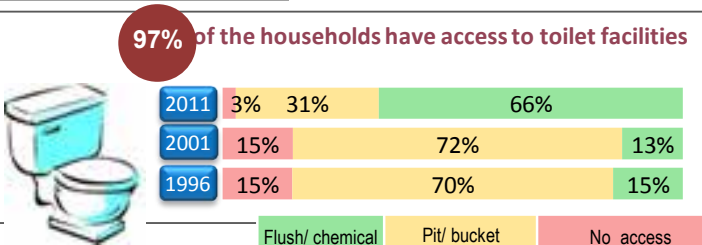
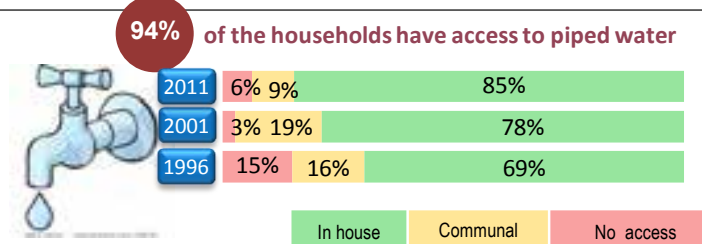
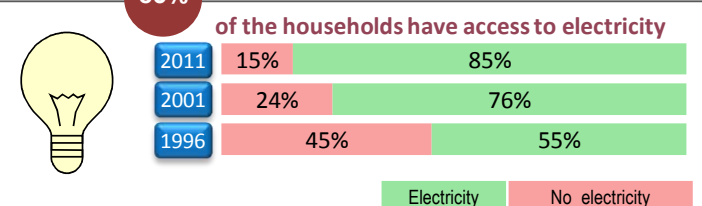
Labour

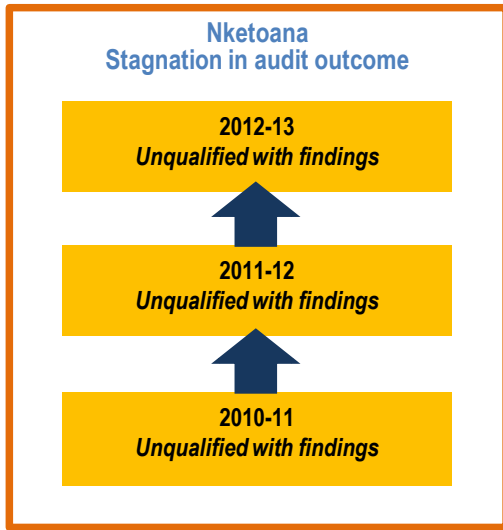


Households

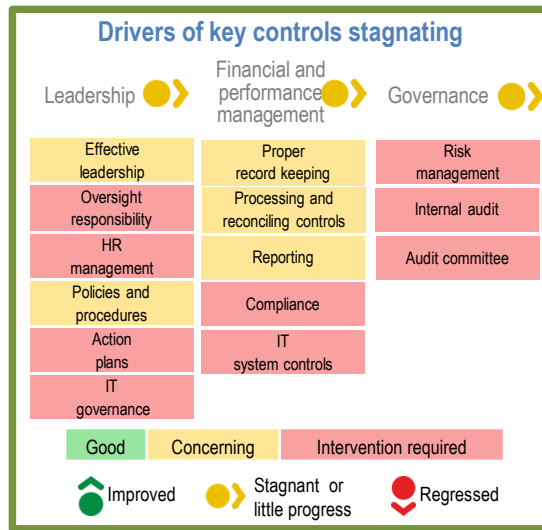


Basic services

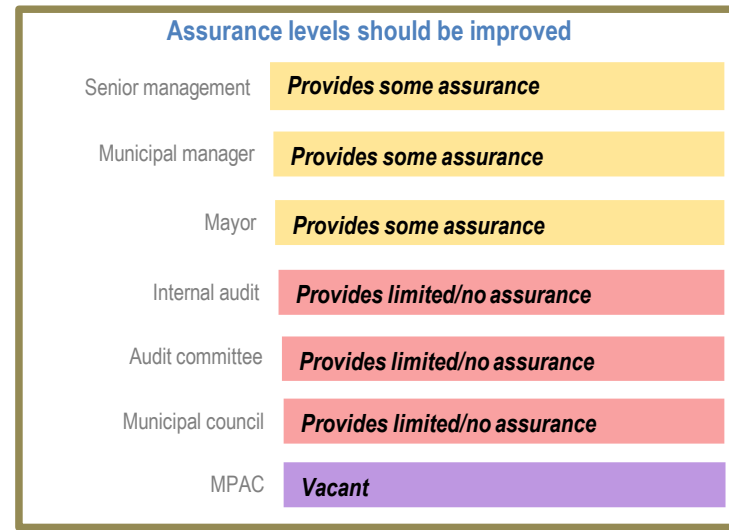




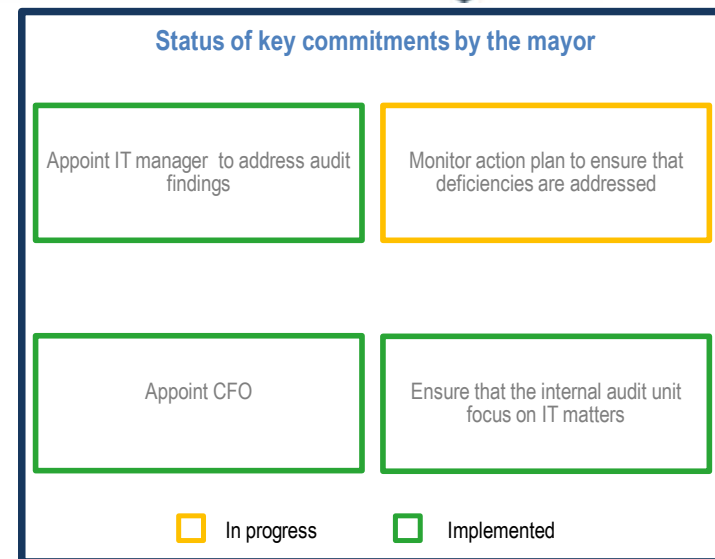
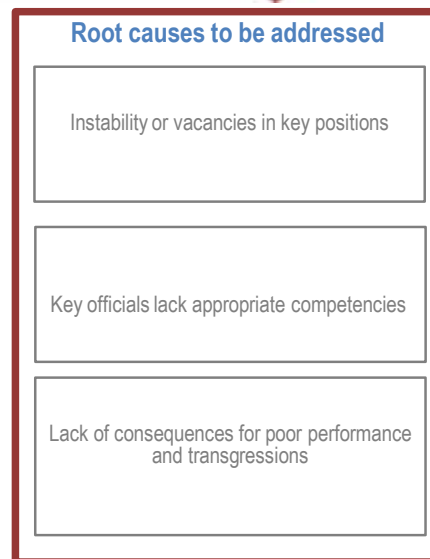
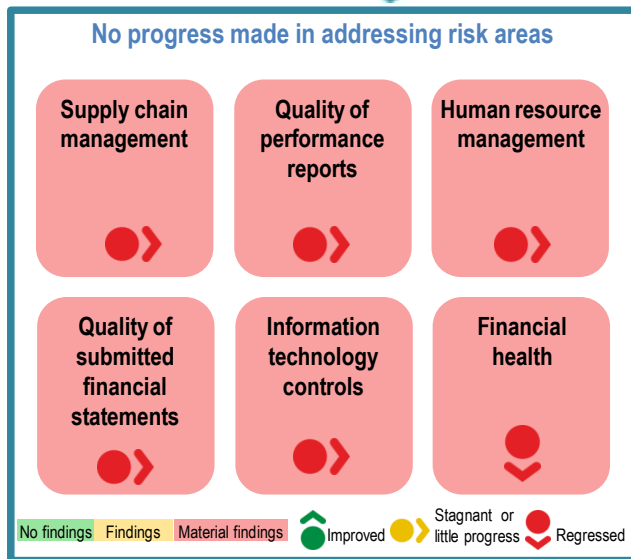
The current **audit outcomes** are the result of the attention given to the **six key risk areas**.



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**.



Nketoana Local Municipality

Current year audit outcome: *Unqualified with other matters*

Stagnation in audit outcome

Since the amalgamation of the municipality 12 years ago there has been persistent stagnation in its audit outcomes as a result of audit matters reported in previous years not being addressed. These included various non-compliance matters and findings on performance information, which are the only matters still preventing a clean audit report. Sound accountability principles need to be implemented in an effort to address these shortcomings that have been hampering the municipality from achieving a clean audit report for the past three years.

Six key risk areas

The municipality did not improve its audit outcome due to a lack of progress in addressing the findings in the six key risk areas reported in the previous year. The financial statements submitted for audit purposes remained of poor quality, even though consultants were again appointed due to a lack of technical skills at the municipality and the vacancy of the CFO position at year-end. As a result, many material corrections were made to the submitted financial statements, based on misstatements identified by the auditors. The services of consultants engaged to provide financial and performance reporting assistance at a cost of R732 336 (2012: R308 764) added some value to the auditee. However, the information provided to the consultants to prepare financial statements was, in many instances, incomplete. Limited skills transfer took place owing to low competency levels and the CFO vacancy at year-end.

The controls and structures required for reporting on performance information were lacking. As a result, indicators were still not well defined and supporting documentation on actual performance could not be provided due to vacancies and a shortage of skills in the unit.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations and a lack of consequences for poor performance, which ultimately resulted in irregular expenditure of R17 869 263 (2012: R8 627 946) being incurred for the year.

Ineffective oversight of IT and the controls that ensure its effective functioning, as well as the vacancy of the IT manager position contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective. The capital budget was significantly underspent due to poor planning and budgeting.

Furthermore, the municipality did not implement the debt collection policy adequately, which resulted in difficulties being experienced in recovering receivables and making provision for material debt impairment. Unspent conditional grants exceeded cash and cash equivalents by R15 879 906 due to poor planning.

Key controls and root causes

The overall stagnation in key controls was caused by delays in filling critical key positions, a lack of adequate training in financial and performance reporting and a lack of consequences for poor performance. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- A procurement checklist should be developed and implemented, which should include all relevant procurement legislation.
- The establishment of documented processes for performance information reporting should be prioritised to enhance the collection, verification and collation of information.
- Key positions should be filled with competent staff who comply with minimum competency levels and staff should be trained in areas where skills shortages exist.

The accounting officer, senior management and the audit committee should address the root causes of inadequate controls as follows:

- Finance and SCM officials should be required to have the technical skills, competence and qualifications needed to perform their functions.
- A performance management system should be implemented to ensure accountability for poor performance and transgressions.

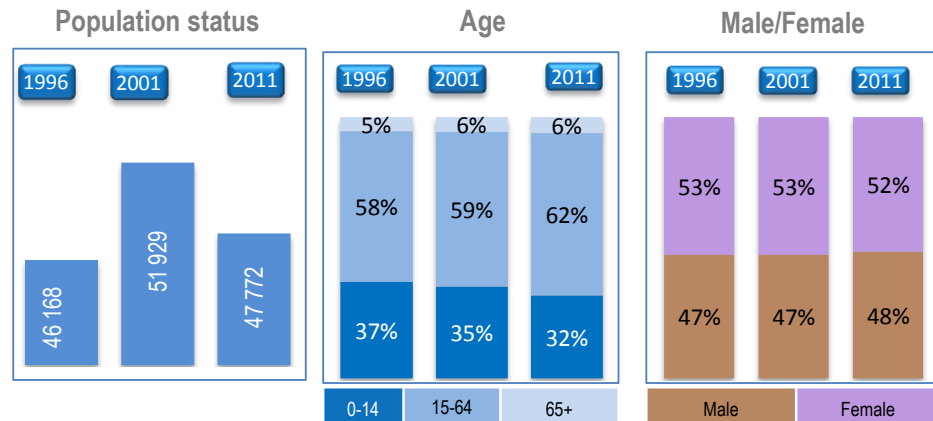
Impact of key role players on audit outcomes

To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General and internal audit are timeously implemented and that the work of the audit committee is directed towards evaluating performance information. We had seven meetings with the mayor during the financial year and these oversight interactions had minimal impact on the audit outcomes as many of the audit issues of the previous year remained unresolved because management did not implement the recommendations and action plans timeously. The municipality would benefit from establishing an MPAC to strengthen oversight of financial administration.

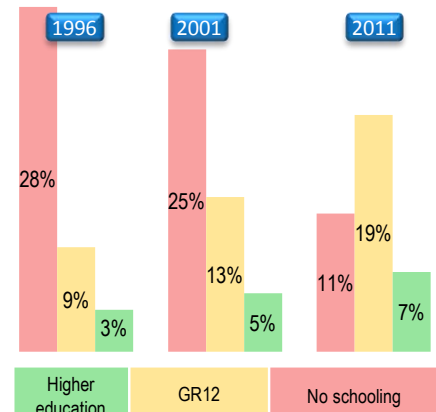
PHUMELELA LOCAL MUNICIPALITY

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Population

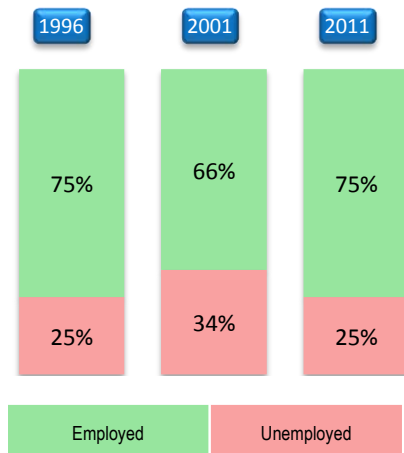


Education

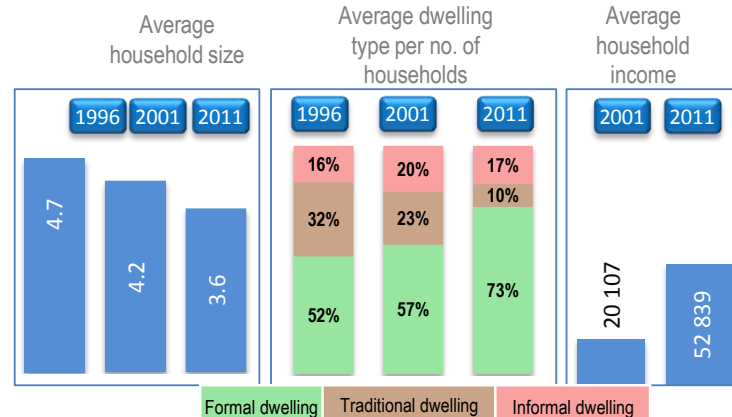


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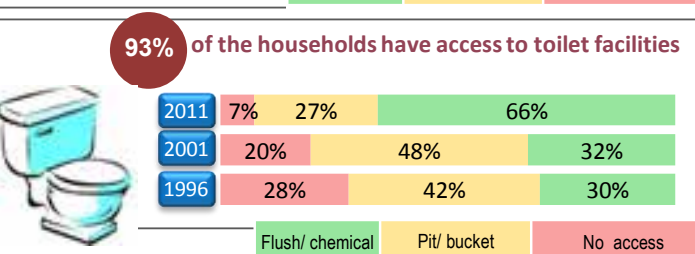
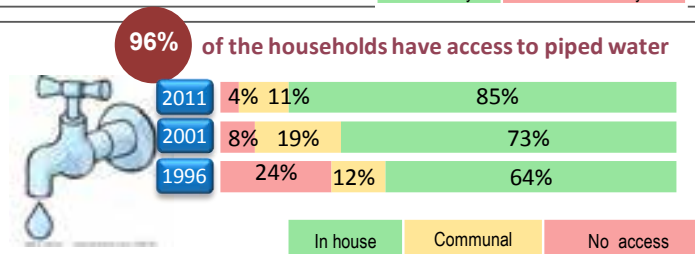
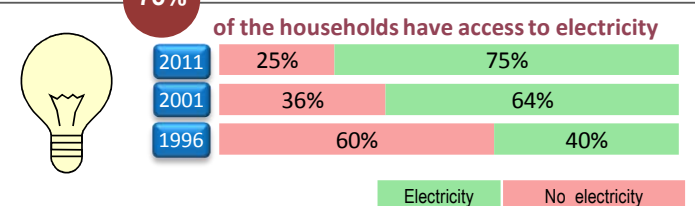
Labour

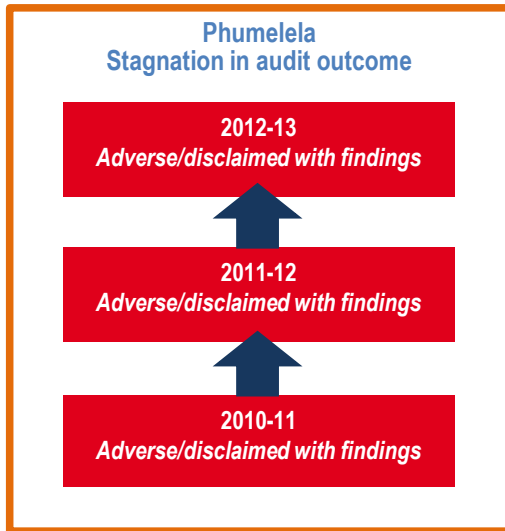


Households

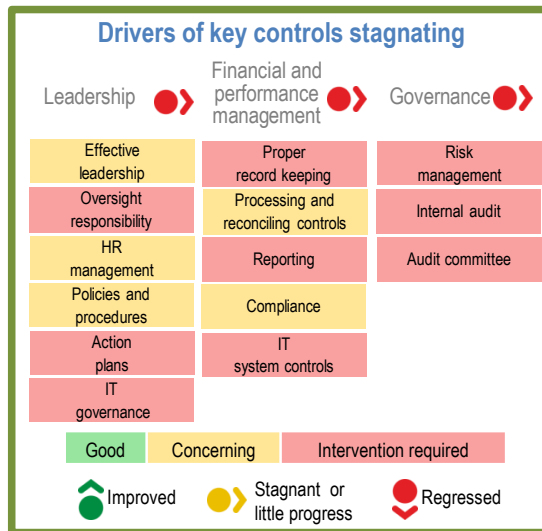
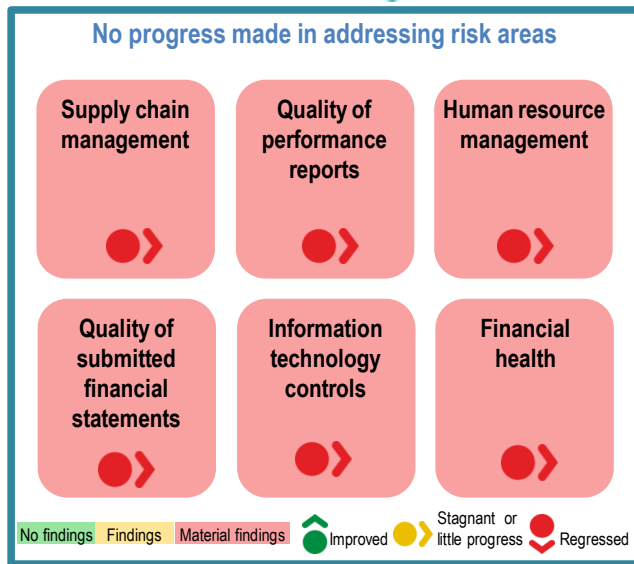


Basic services

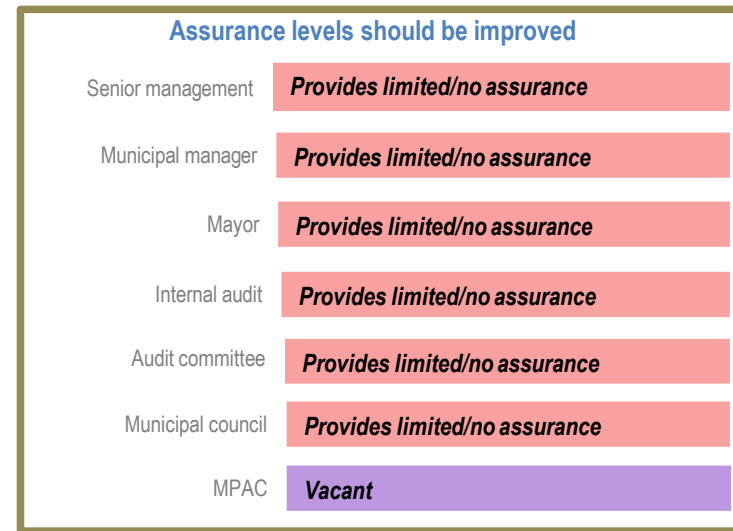




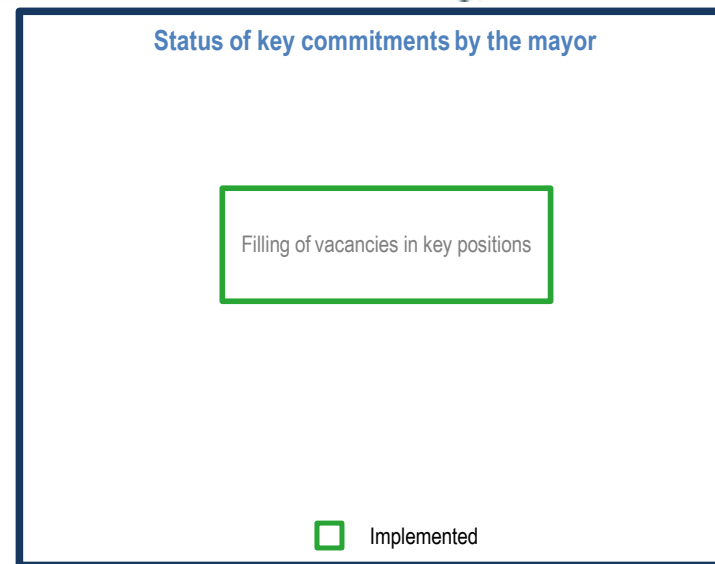
The current *audit outcomes* are the result of the attention given to the *six key risk areas*,



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*.



Phumelela Local Municipality

Current year audit outcome: *Disclaimer*

Stagnation in audit outcome

Since the amalgamation of the municipality 12 years ago there has been persistent stagnation in its audit outcomes as a result of audit matters reported in the previous years not being addressed. The recurrence of a disclaimer in the current year was caused by the CFO position remaining vacant for the entire year under review. Urgent intervention on both provincial and political levels is needed to change the culture of repeated disclaimers.

Six key risk areas

The municipality did not improve its audit outcome due to a lack of progress in addressing the findings in the six key risk areas reported in the previous year. The financial statements submitted for audit purposes remained of poor quality, even though consultants were appointed due to the vacant CFO position. Furthermore, new qualifications were reported and material corrections were made to the submitted financial statements, based on misstatements identified by the auditors. These misstatements could be attributed to the fact that senior management had not implemented and monitored monthly controls due to the high number of vacancies.

We are concerned about the fact that the municipality again sought assistance from consultants in connection with financial reporting at a cost of R1 954 576 (2012: R1 602 136). The municipality has become overdependent on consultants as a result of the instability in key positions and a lack of effective transfer of skills.

The controls and structures required for reporting on performance information were lacking. As a result, indicators were still not well defined and supporting documentation on actual performance could not be provided due to vacancies in the positions of the manager and support staff.

The status of SCM remains unsatisfactory, primarily due to the vacancy of the SCM manager and CFO positions, management's neglect to comply with SCM regulations and a lack of consequences relating to council's failure to take further actions following the investigation into irregular expenditure by provincial treasury in the previous year. This ultimately resulted in irregular expenditure of R27 492 770 (2012: R40 037 283) being incurred for the year. Despite this disclosure, material doubt remains regarding the completeness of the irregular expenditure that resulted in a qualification.

Ineffective oversight of IT and the controls that ensure its effective functioning contributed to the lack of progress in the area of IT. Furthermore, the system in use (Abakus) is unique to the Free State Province and all systems needed to be drafted from scratch by the newly appointed IT manager.

It should be noted that the unspent conditional grants were not cash backed as the municipality had a net liability position of R44 million.

Key controls and root causes

The overall stagnation in key controls was caused by delays in filling critical positions, the slow response of leadership and the lack of consequences for poor performance. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The asset and inventory registers should be thoroughly reviewed.
- The establishment of documented processes for performance information reporting should be prioritised to enhance the collection, verification and collation of information.
- A procurement checklist that includes all the relevant procurement legislation should be developed and implemented.

The accounting officer, senior management and the audit committee should address the root causes of inadequate controls as follows:

- Stability should be created in key positions and competent staff should be appointed.
- Irregular expenditure should be investigated to determine liability and the necessary action should be taken.
- An action plan should be developed for which responsibilities should be assigned and target dates set and remedial action should be taken against transgressors and poor performers.

Impact of key role players on audit outcomes

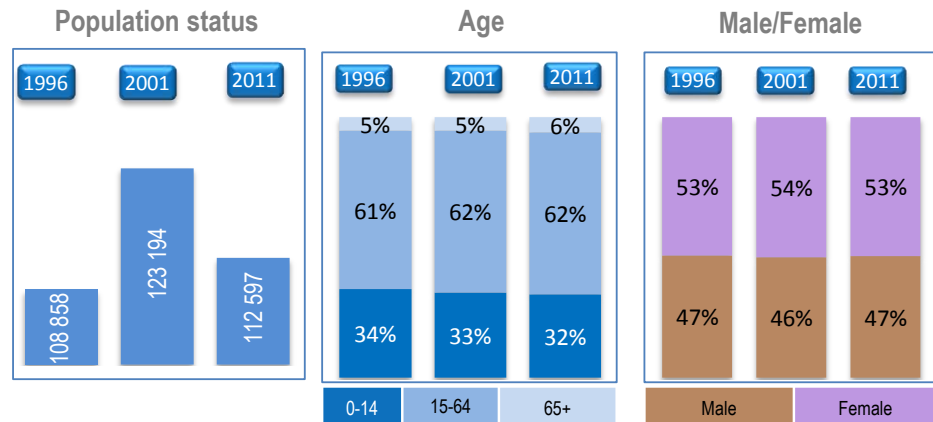
To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above.

We had three meetings with the mayor during the year and these oversight interactions had no impact on the audit outcome. The only commitment received from the mayor was on the filling of key vacancies. The CFO position was filled after year-end, but subsequently became vacant again, which is of concern. The municipality would benefit from the establishment of an MPAC to strengthen oversight of financial administration.

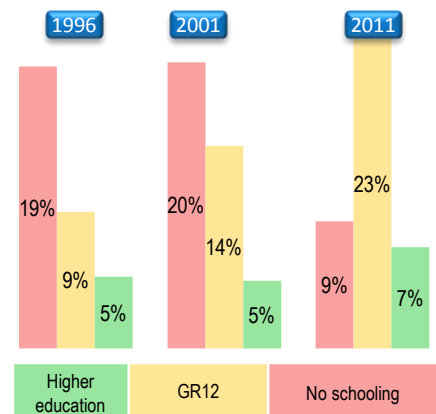
SETSOTO LOCAL MUNICIPALITY

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Population

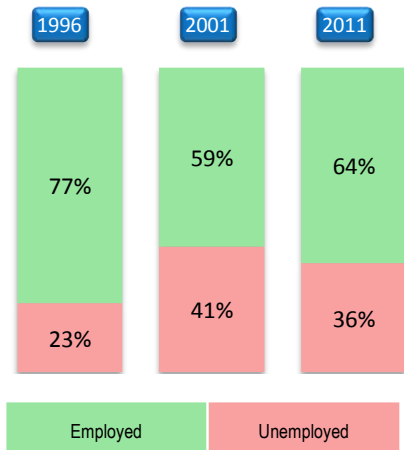


Education

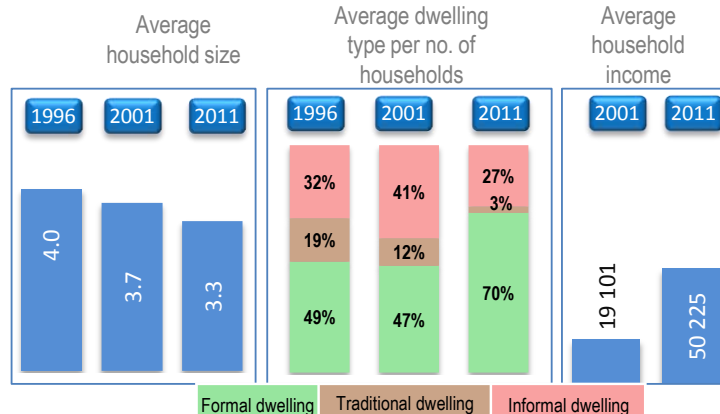


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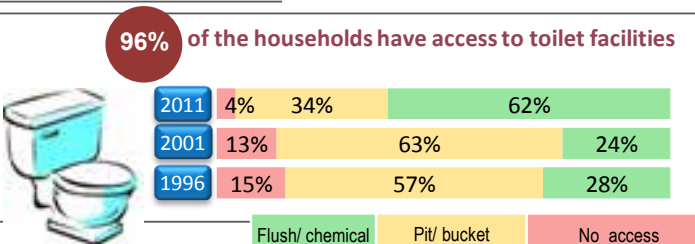
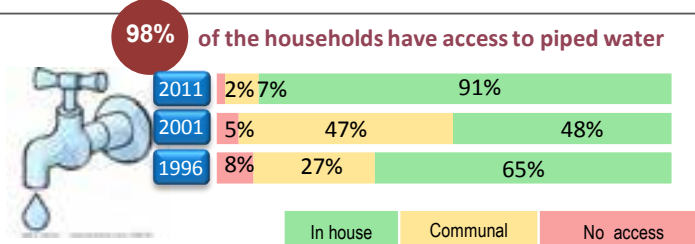
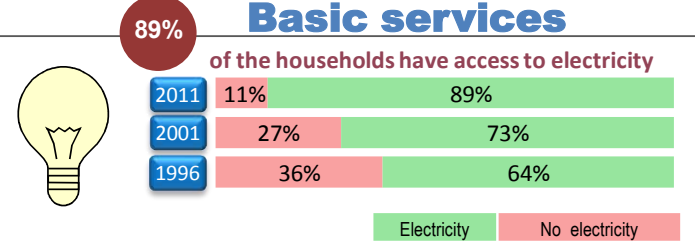
Labour

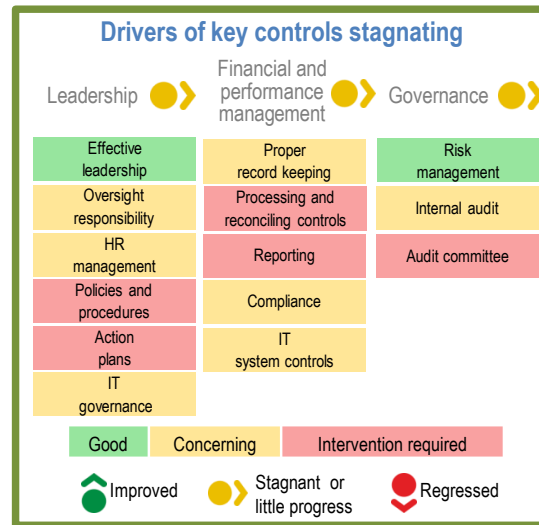
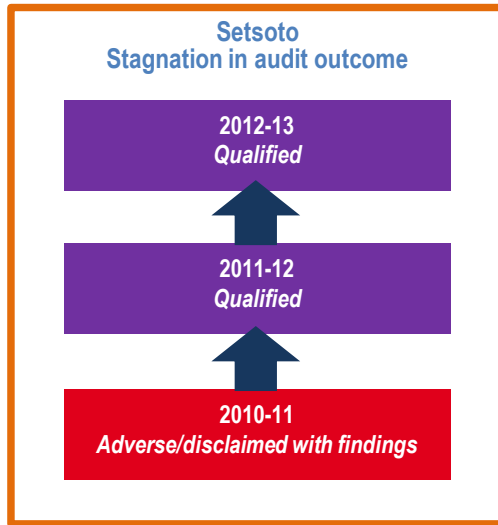


Households



Basic services

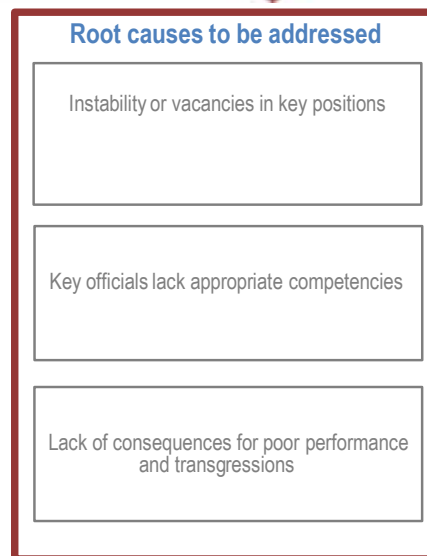
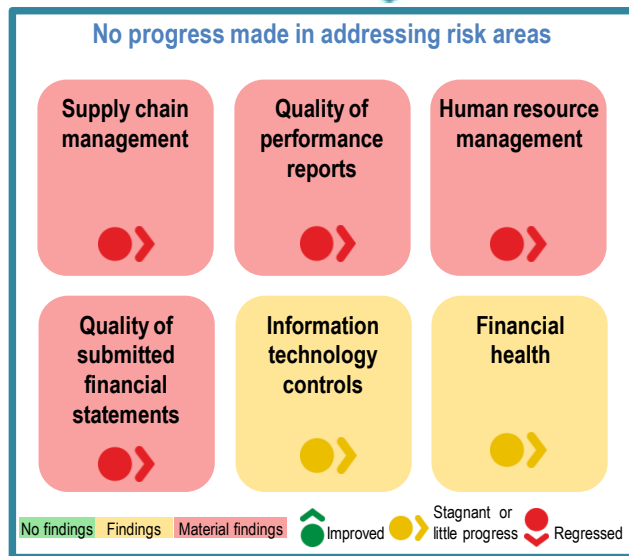




The current **audit outcomes** are the result of the attention given to the **six key risk areas**.

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**.



Setsotho Local Municipality

Current year audit outcome: *Qualified*

Stagnation in audit outcome

The stagnation in the audit outcome was caused by audit matters reported in the previous year not being addressed. However, although additional matters were identified, the number of qualified audit paragraphs in the audit report decreased considerably.

Six key risk areas

The municipality did not improve its audit outcome due to a lack of progress in addressing the findings in the six key risk areas reported in the previous year. CoGTA assisted the municipality by appointing consultants to compile its financial statements due to the lack of the required skills at the municipality. However, the financial statements were still not of an acceptable standard. Material corrections had to be made to the submitted financial statements, based on misstatements identified by the auditors.

110 The municipality appointed consultants for functions that could have been addressed by internal resources and, due to a lack of skills transfer, will remain dependent on consultants.

The controls and structures required for reporting on predetermined objectives were lacking as supporting documentation on actual performance could not be provided due to vacancies and a lack of skills in the units responsible for reporting on predetermined objectives.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations, a lack of consequences for poor performance and the vacancy of the position of head of SCM, which ultimately resulted in irregular expenditure of R68 023 036 (2012: R78 582 776) being incurred for the year. Despite this disclosure, material doubt remains regarding the completeness of the irregular expenditure that resulted in a qualification.

Ineffective oversight of IT and the controls that ensure its effective functioning, as well as the vacancy of the IT manager position contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective. Financial health remains a risk as expenditure exceeded the final approved budget by 24,8% due to the underbudgeting of depreciation and impairment of assets.

Key controls and root causes

The stagnation in the six key risk areas was the result of the overall stagnation in key controls. The main reasons for the stagnation were the slow response of leadership to the AGSA's message, critical vacancies as well as skills shortages, a lack of training and a lack of consequences for poor performance. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with laws and regulations:

- Effective HR management processes should be implemented to ensure that performance is monitored and competent staff is appointed.
- Unauthorised, irregular and fruitless and wasteful expenditure should be investigated to determine liability and take the necessary action.
- A full set of financial statements should be prepared and reviewed on a quarterly basis and it should be ensured that there is sufficient supporting documentation.

The accounting officer and senior management, with the oversight of the audit committee, should address the root causes of inadequate controls as follows:

- Oversight should be enhanced by regularly monitoring and evaluating supporting evidence for financial and performance reporting throughout the financial year and by promptly intervening where shortcomings are noted.
- Consequences should be instituted for poor performance and transgressions of laws and regulations, especially those relating to SCM regulations.
- Stability should be created in key positions and competent staff should be appointed and it should be ensured that staff receive training in areas where there are shortages of skills.

Impact of key role players on audit outcomes

The council did not implement all the previous year's commitments relating to the training of municipal staff, the filling of critical vacancies and the implementation of basic internal control measures.

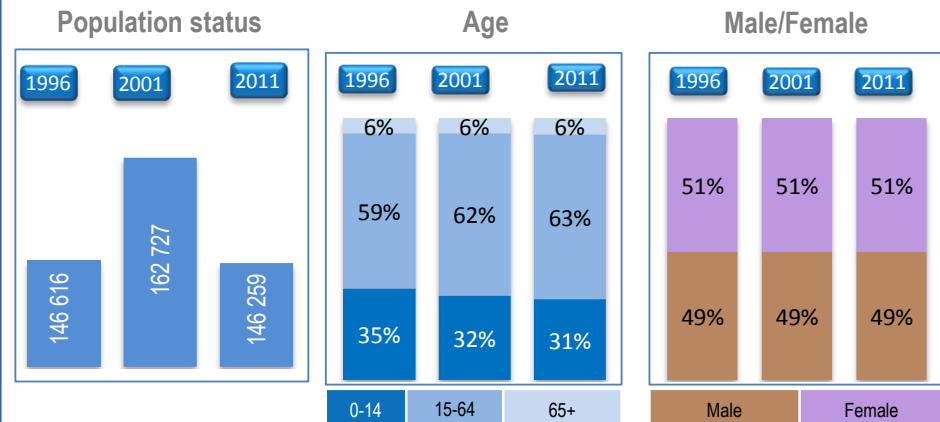
Although our four oversight interactions with the mayor did not lead to an improvement in the audit outcome, the number of qualified audit paragraphs in the audit report decreased considerably.

To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should continue to implement the recommendations made by the Auditor-General. The municipality would benefit from establishing a more effective MPAC to strengthen oversight of financial administration.

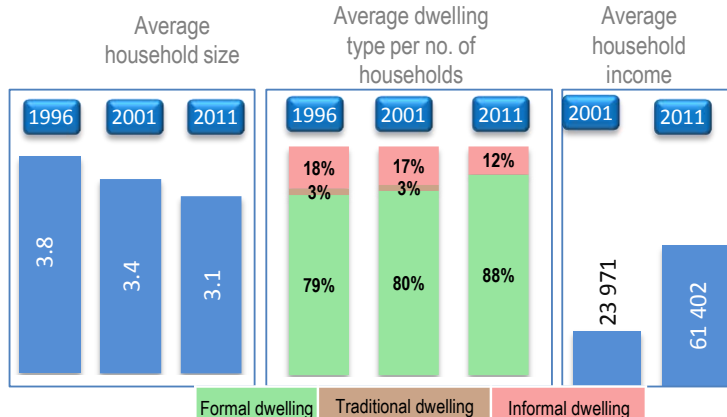
XHARIEP DISTRICT MUNICIPALITY

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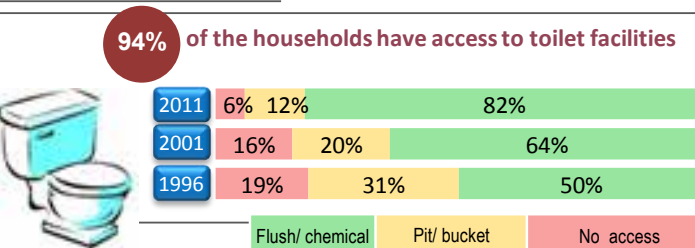
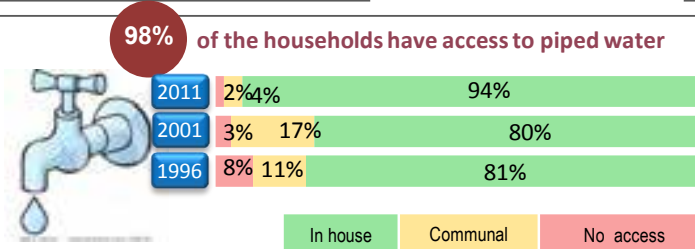
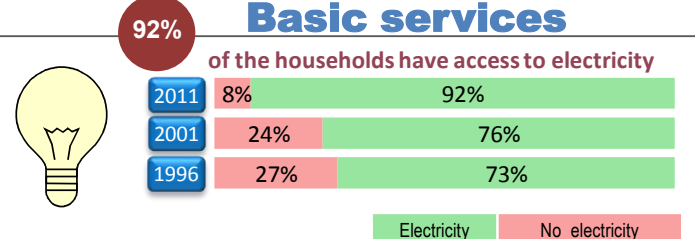
Population



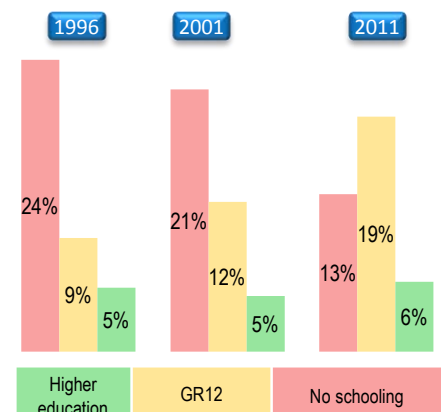
Households



Basic services

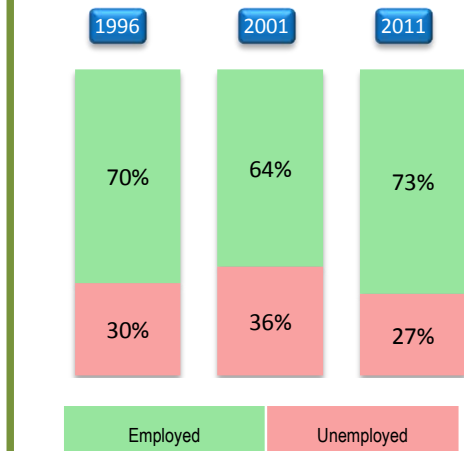


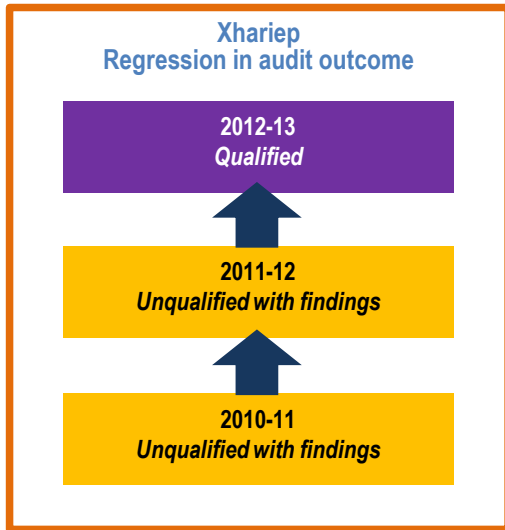
Education



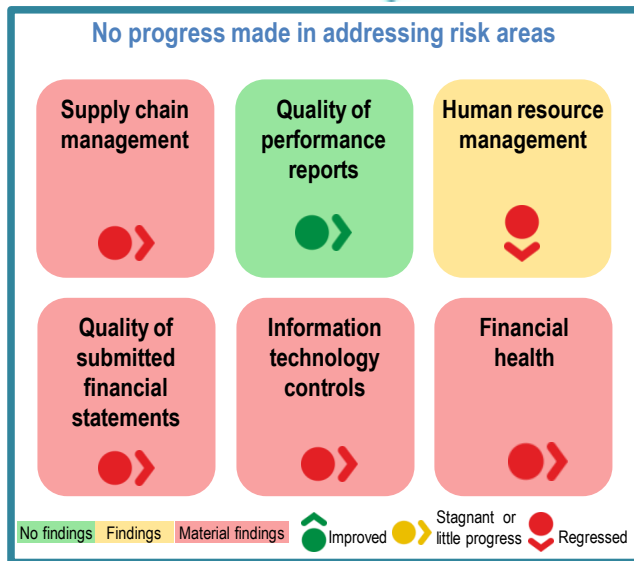
The statistics depicted above do not reflect persons who only have partial primary or secondary schooling. The graphic therefore does not add up to 100%

Labour

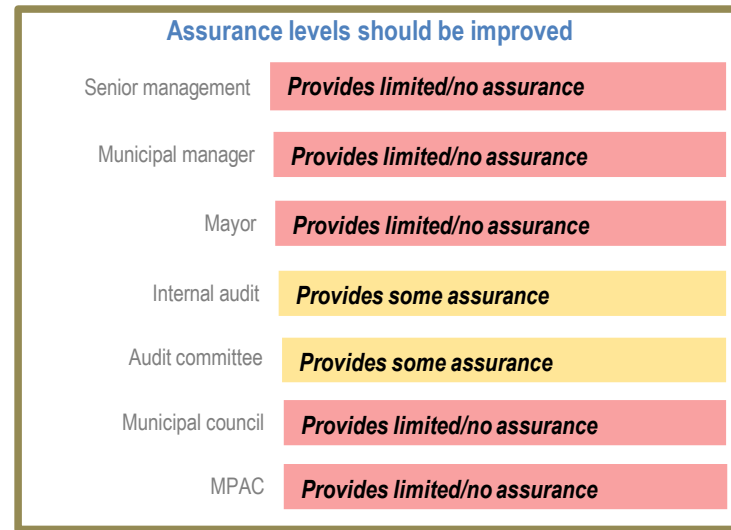
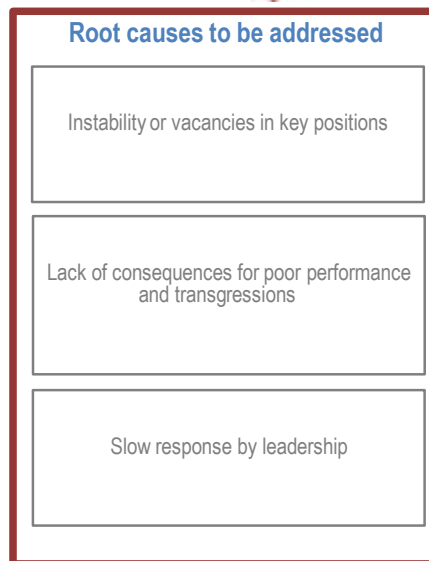




The current *audit outcomes* are the result of the attention given to the *six key risk areas*,



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*.



Khariep District Municipality

Current year audit outcome: Qualified

Significant regression in audit outcome

The regression in the audit outcome was caused by the district municipality not maintaining an accurate and reliable asset register and not providing sufficient and appropriate audit evidence for the commitments disclosed in the financial statements. This was a result of instability in the accounting officer position and the vacancy of the CFO position. The municipality has not had findings on performance information for the past three years.

Six key risk areas

The regression in the audit outcome was due to a lack of progress made in addressing the findings in the six key risk areas reported in the previous year. The financial statements submitted for audit purposes remained of poor quality, even though consultants were reappointed due to a lack of skills within the municipality. As a result, new matters that gave rise to qualifications were reported. The late appointment of consultants resulted in material corrections to the submitted financial statements, based on misstatements identified by the auditors.

Consultants were again engaged to provide financial reporting assistance at a cost of R670 000 (2012: R549 423). The municipality has become overdependent on consultants as a result of the instability in key positions and a lack of effective transfer of skills.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations and a lack of consequences for poor performance, which ultimately resulted in irregular expenditure of R15 422 892 (2012: R10 465 869) being incurred for the year.

Ineffective oversight of IT and the controls that ensure its effective functioning, as well as the vacancy of the IT manager position contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective.

The municipality has incurred a net loss of R29 390 104 during the current financial year, the unspent conditional grants (R1 992 053) exceed the cash balance (R1 819 068) held and the net cash flow from operating activities is negative to the amount of R11 886 257. This is indicative of material risk in terms of financial health and service delivery. The cash constraints at the municipality are also impacting on its ability to pay its suppliers within the prescribed period of 30 days.

Key controls and root causes

The lack of progress made in the six key risk areas was a result of the overall deterioration in the key controls, caused by the slow response of leadership, instability and vacancies in key positions and the lack of consequences for poor performance and transgressions. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The accounting officer should ensure that officials responsible for financial and performance reporting have the appropriate competencies.
- The municipality should implement effective HR management to ensure that an adequately staffed and sufficiently skilled workforce is in place and that performance is monitored.
- The municipality should review and monitor compliance with the applicable laws and regulations, especially SCM requirements.

The accounting officer, together with senior management, should address the root causes for the regression in the audit outcome and inadequate controls as follows:

- It should be ensured that the recommendations made by the Auditor-General, the audit committee and internal audit are implemented timeously.
- Officials who transgress the applicable laws and regulations and those who perform poorly should be held accountable.
- Vacancies in critical positions should be filled with competent staff.

Impact of key role players on audit outcome

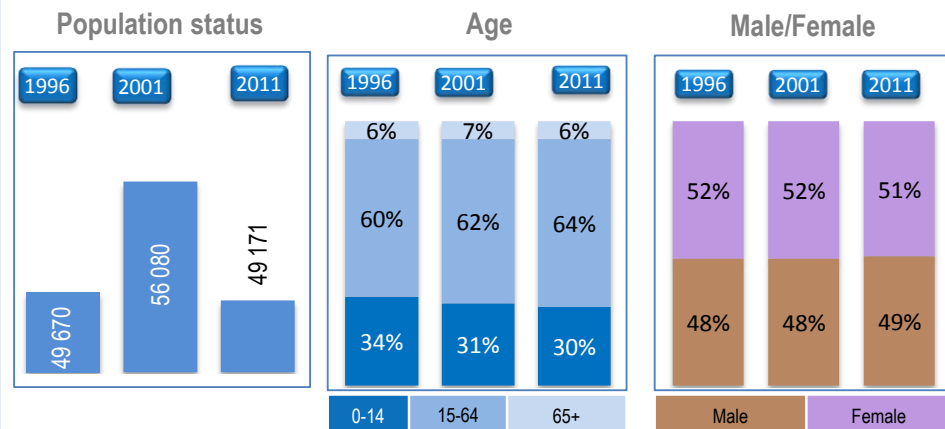
To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General and internal audit are timeously implemented.

We had four meetings with the mayor during the financial year and these oversight interactions had no impact on the audit outcome due to a lack of oversight by the mayor and failure to implement commitments made with regard to effective leadership and administration and good governance. The municipal council did not provide any assurance and made no impact on the audit outcome as they did not contribute effective oversight to assist in addressing the root causes listed above. The MPAC could strengthen oversight of financial administration at the municipality through regular, effective meetings.

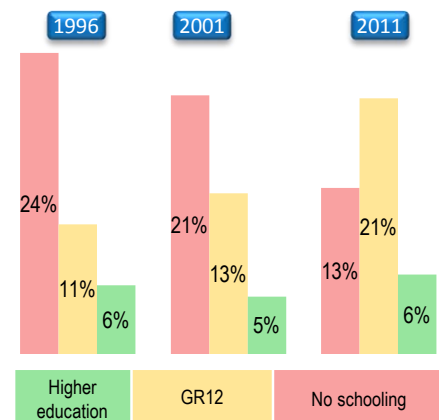
KOPANONG LOCAL MUNICIPALITY

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

Population

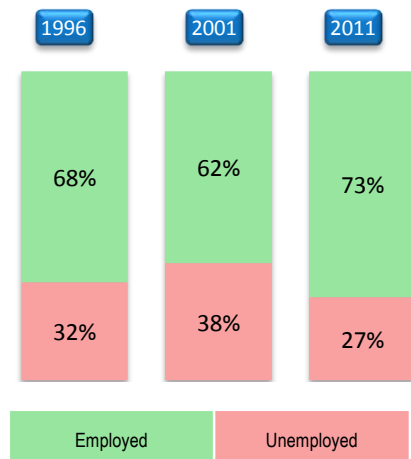


Education

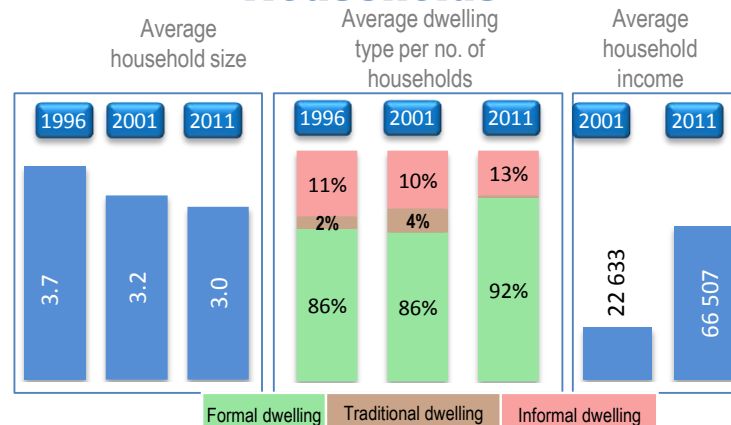


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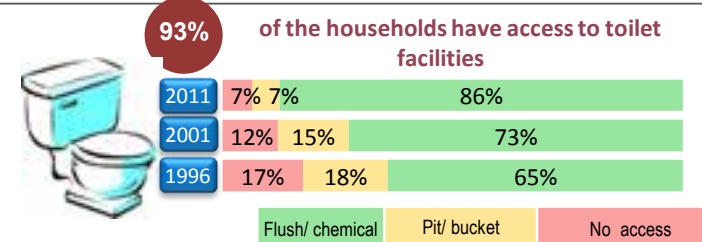
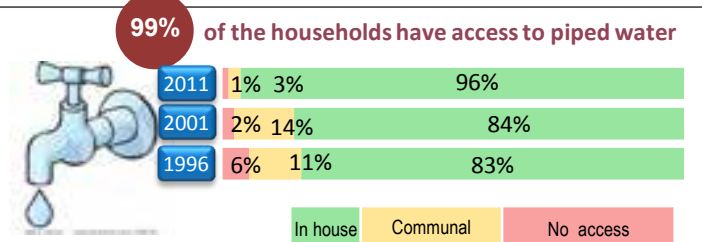
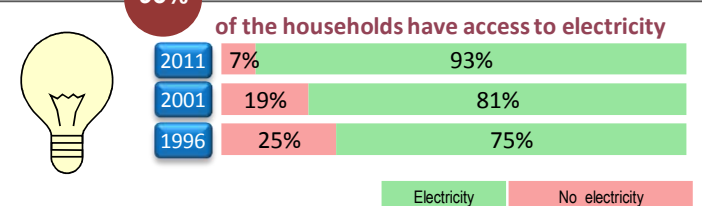
Labour

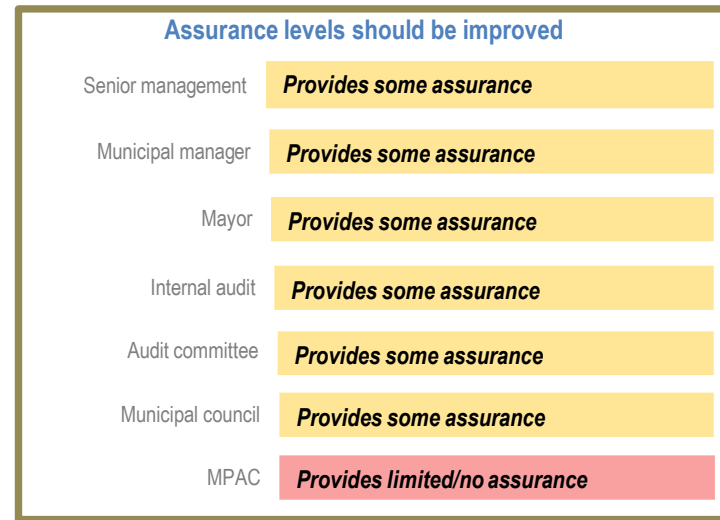
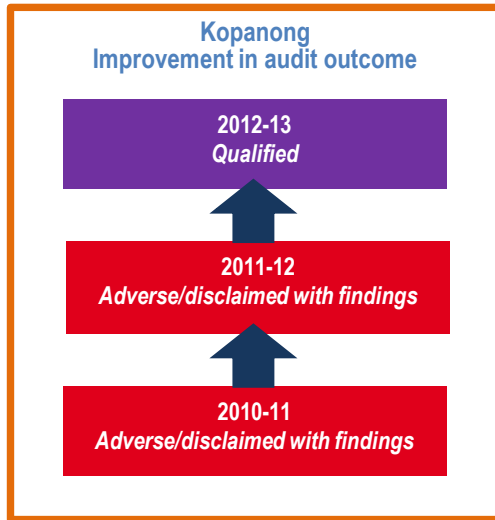


Households



Basic services

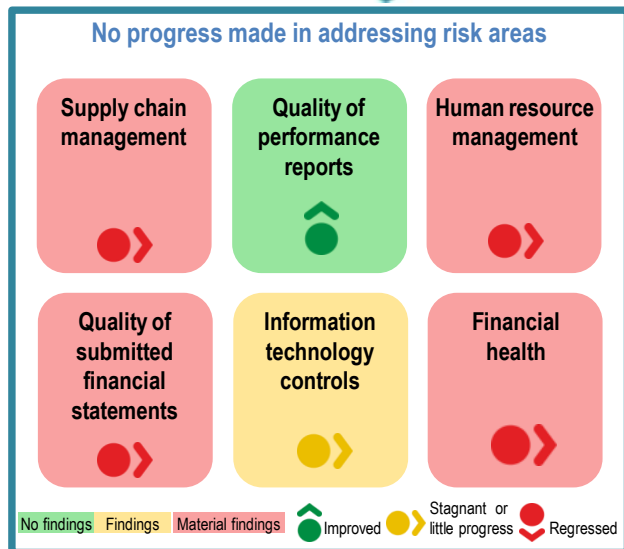




The current **audit outcomes** are the result of the attention given to the **six key risk areas**.

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**.



Kopanong Local Municipality

Current year audit outcome: *Qualified*

Significant movement in audit outcome

The improvement in the audit outcome was the result of the commitment and positive attitude of management and leadership in addressing the misstatements reported in the previous year, as well as the availability of documentation. No findings were reported on performance information in the current year.

Six key risk areas

The sustainability of the improved audit outcome is questionable as no progress has been made in addressing the findings of the previous year in the six key risk areas, except in the area relating to performance reporting. The financial statements submitted for audit purposes was of poor quality and material corrections were made based on misstatements identified by the auditors, which resulted in the improved audit outcome. The misstatements that occurred could be attributed to financial officials lacking a comprehensive understanding of the accounting standards.

The services of consultants were again required in the compilation of the asset register, especially in relation to the municipality's infrastructure assets, at a cost of R1 509 916 (2012: R5 704 334). The officials' lack of in-depth knowledge of financial accounting standards will necessitate continued assistance by consultants.

Although SCM processes improved and resulted in a reduction of irregular expenditure, the status of SCM remained unsatisfactory and ultimately resulted in irregular expenditure of R25 531 266 (2012: R59 806 579) being incurred for the year. Notwithstanding these challenges, the municipality has not provided for a SCM manager position on its establishment.

Ineffective oversight of IT and the controls that ensure its effective functioning contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective.

The municipality incurred a net loss of R43 897 013 (2012: R110 251 946) during its current financial year, which is indicative of material risk in terms of financial health and service delivery. It should be noted that the unspent conditional grants were not cash backed as the municipality had a net liability of R78 million. The cash constraints at the municipality due to debtors either not paying their bills on time or not paying in full also impacted on its ability to pay its suppliers within the prescribed period of 30 days.

Furthermore, 76% of the planned performance targets were not achieved due to cash constraints experienced by the municipality.

General report on the audit outcomes of Free State local government for 2012-13

Key controls and root causes

The slight improvement in key controls was the result of leadership taking action to address the deficiencies identified in the previous year as well as increased oversight to ensure that key controls operated effectively. The following controls should 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 competent and sufficiently skilled officials are appointed and retained and that performance is monitored.
- The municipality should prepare and review a full set of financial statements monthly and ensure that there is sufficient financial information to support the financial statements.
- The municipality should implement systems and processes to ensure that non-compliance with laws and regulations is prevented, backed by visible support from the council in institutionalising the platform for exceptional discipline.

Senior management should address the root causes of inadequate controls as follows:

- Leadership controls should be improved through enhanced oversight responsibility by implementing and monitoring critical policies and procedures and ensuring that officials have the required competence and skills, especially with regard to accounting standards and asset management.
- The daily and monthly reconciliations should be performed and reviewed and consequences should be implemented for poor performance.
- The recommendations made by internal audit and the audit committee should be implemented timeously.

Impact of key role players on audit outcomes

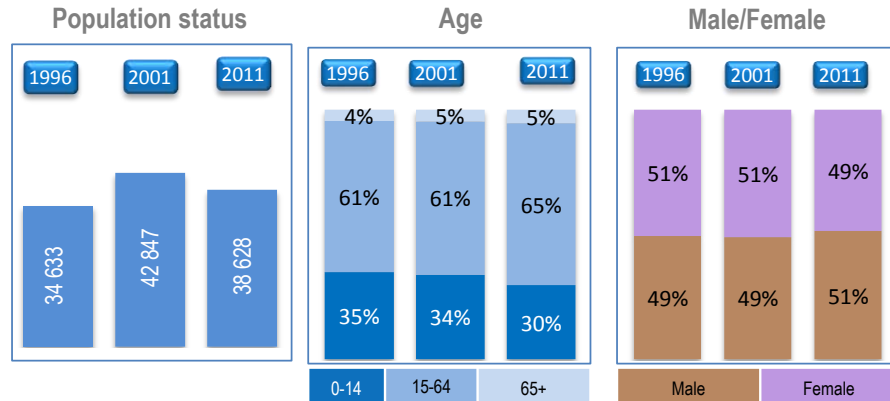
To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General and internal audit are timeously implemented.

We had seven meetings with the mayor during the financial year and these oversight interactions had a significant impact on the audit outcome, mainly because he held management accountable. The municipal council tasked leadership with investigating the issues identified by the Auditor-General that resulted in the previous year's disclaimer of audit opinion and to ensure that appropriate steps are taken to address these issues. The municipality would benefit from establishing a more effective MPAC to strengthen oversight of financial administration.

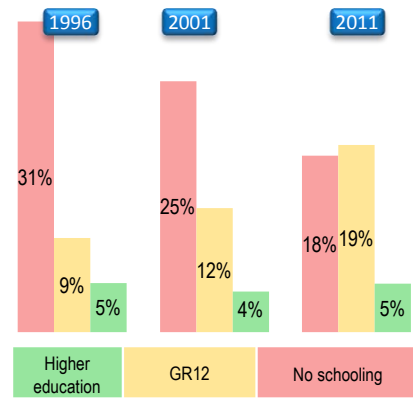
LETSEMENG LOCAL MUNICIPALITY

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Population

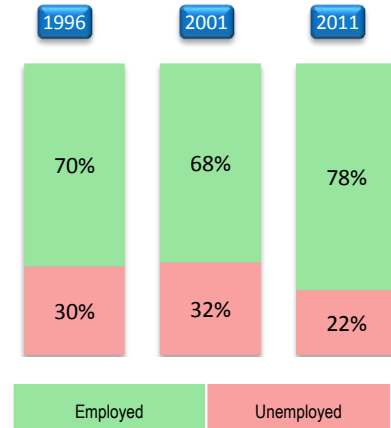


Education

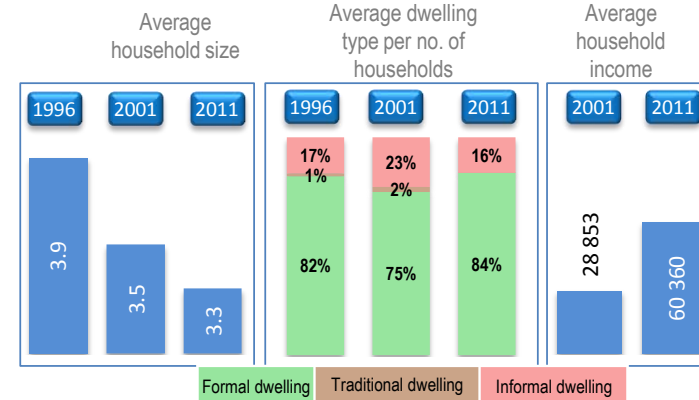


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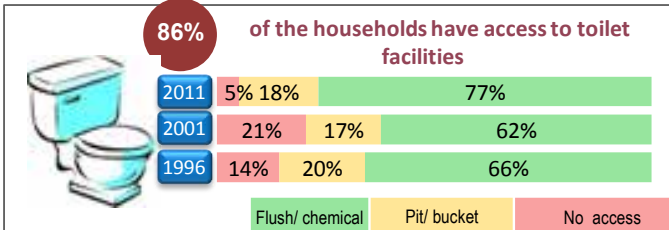
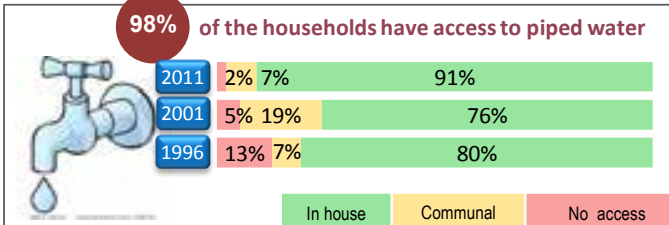
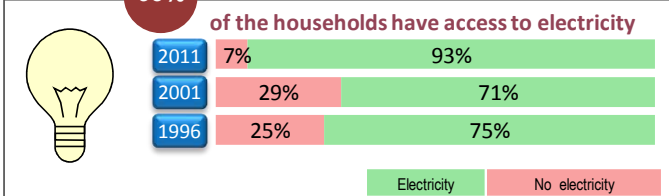
Labour

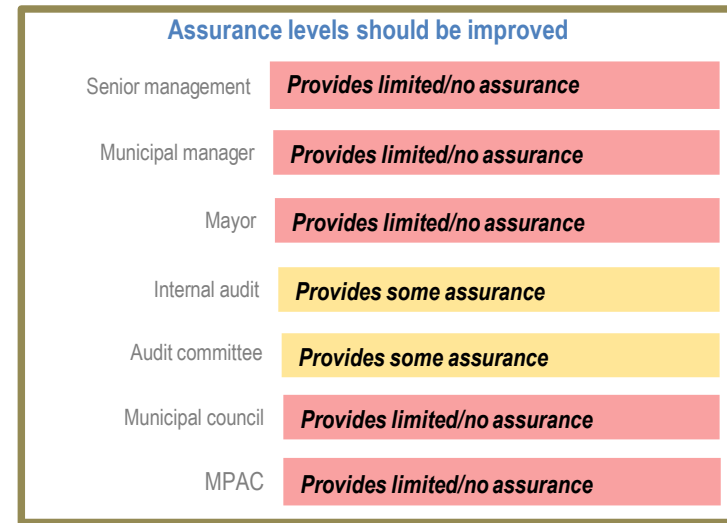
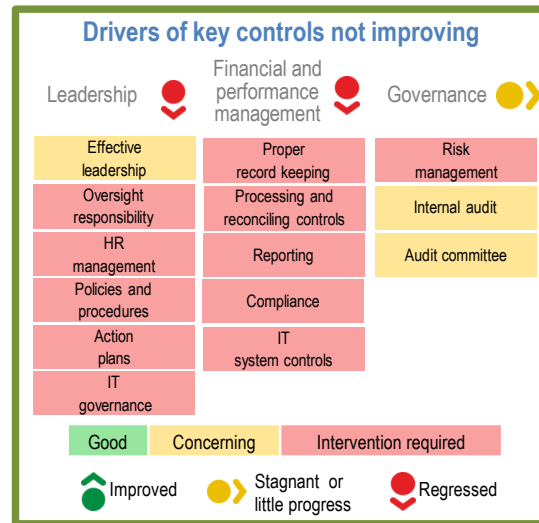
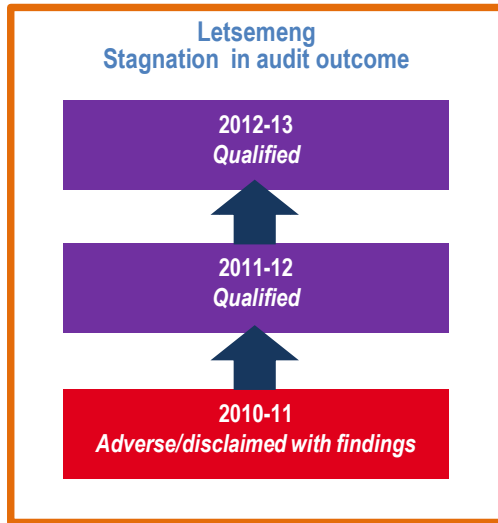


Households



Basic services

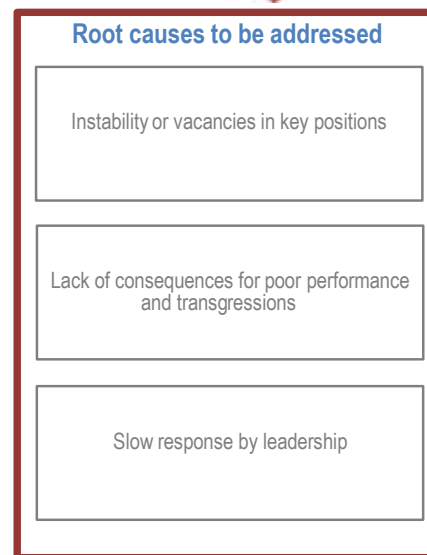
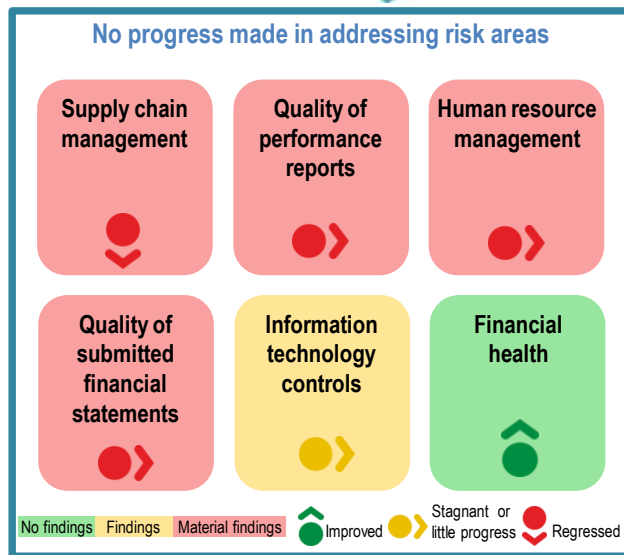




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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**.



Letsemeng Local Municipality

Current year audit outcome: Qualified

Stagnation in audit outcome

The stagnation in the audit outcome was caused by the municipal manager and the CFO not prioritising the audit matters reported in the previous year. The municipal manager was redeployed during November 2013 and the CFO position was vacant for the last three months of the financial year. The municipality again received a qualified audit opinion and various non-compliance matters and findings on performance information were also identified.

Six key risk areas

The municipality did not improve its audit outcome due to a lack of progress in addressing the findings in the six key risk areas identified in the previous year. The financial statements submitted for audit purposes remained of poor quality, even though consultants were reappointed, because senior management did not provide the necessary supporting documentation and information. Furthermore, material corrections were made based on misstatements identified by the auditors.

Consultants were engaged to provide financial reporting assistance at a cost of R3 986 483 (2012: R4 232 8594). Management remained overly dependent on consultants as a result of the vacancies and the consequent lack of skills transfer.

The controls and structures required for reporting on performance information were lacking. As a result, indicators were still not well defined and supporting documentation on actual performance reported could not be provided. These matters could be attributed to the instability and vacancies in senior management positions.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations, the vacancy of the SCM manager position and a lack of consequences for poor performance, which ultimately resulted in irregular expenditure of R22 326 413 (2012: R9 507 674) being incurred for the year.

Ineffective oversight of IT and the controls that ensure its effective functioning contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective.

Key controls and root causes

The lack of improvement in the key controls was caused by the lack of consequences for transgressions and poor performance, vacancies in key

positions, especially in the finance unit, and the slow response of leadership to key control weaknesses.

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

- Leadership should exercise its oversight responsibility to ensure that key controls are adhered to in all areas.
- The municipality should ensure that an adequate complement of sufficiently skilled resources is timeously established.
- The municipality should quarterly prepare accurate and complete financial and performance reports that are supported and evidenced by reliable information.

The accounting officer, senior management and the audit committee should address the root causes of inadequate controls as follows:

- Political leadership and administration should work together to achieve an improved audit outcome. Vacancies in the finance, SCM and IT units should be filled with competent and skilled staff and a retention policy should be compiled.
- Officials who do not uphold the applicable laws and regulations and perform poorly must be dealt with immediately, backed by visible support from the council.

Impact of key role players on audit outcome

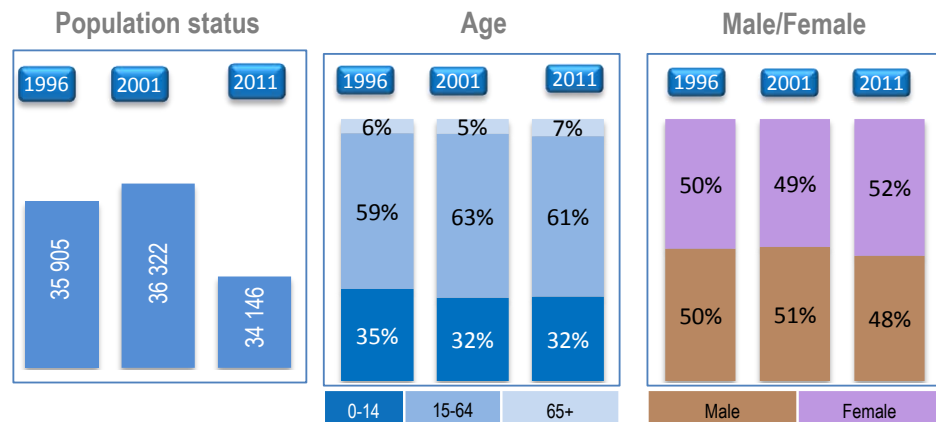
To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General and internal audit are timeously implemented and that the work of the audit committee is directed towards evaluating significant risks.

We had three meetings with the mayor during the financial year and these interactions had no impact on the audit outcome, due to the mayor's lack of interest and the fact that previous commitments were very general in nature and consequently not implemented. The commitment made by council to address the previous year's qualification areas was also not honoured. The municipality would benefit from establishing a more effective MPAC to strengthen oversight of financial administration.

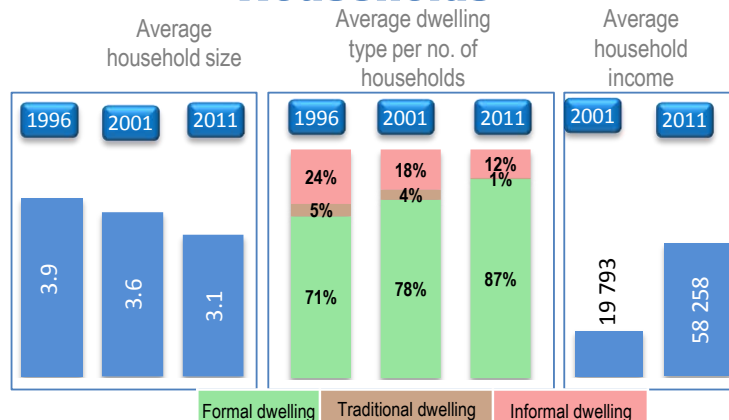
MOHOKARE LOCAL MUNICIPALITY

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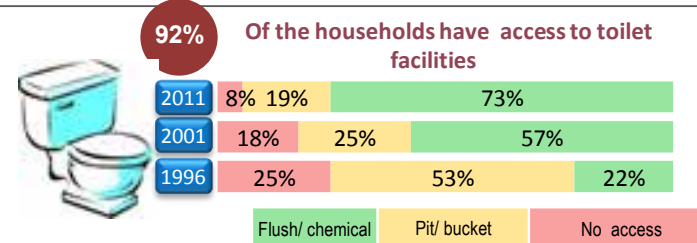
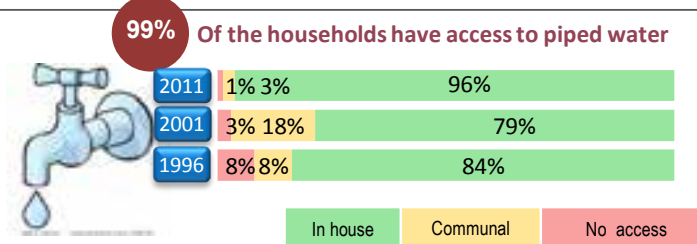
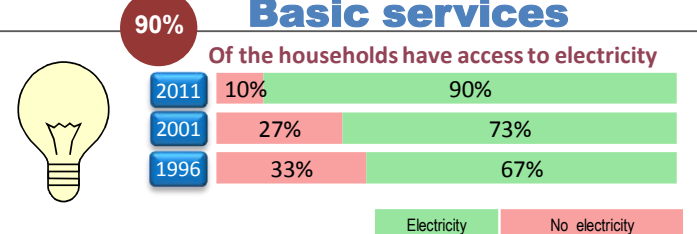
Population



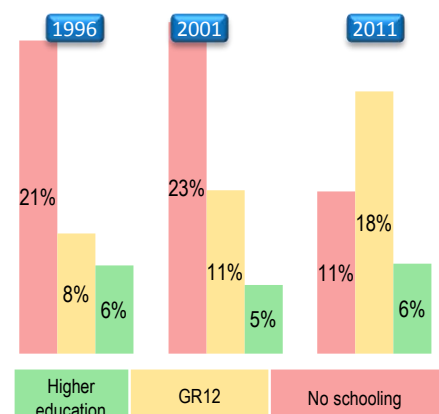
Households



Basic services

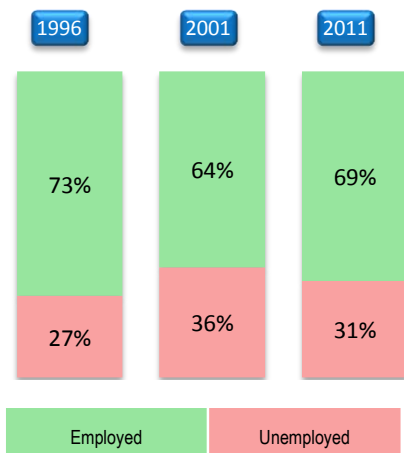


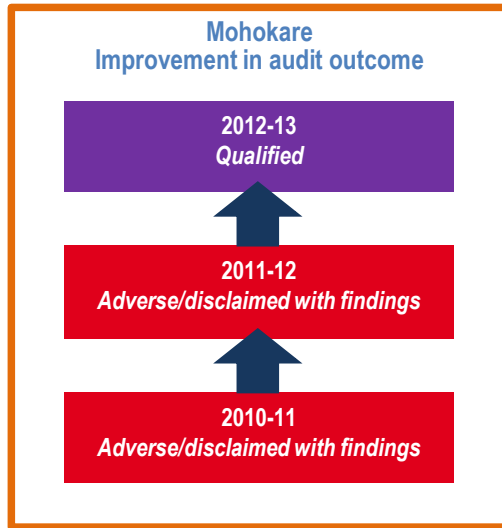
Education



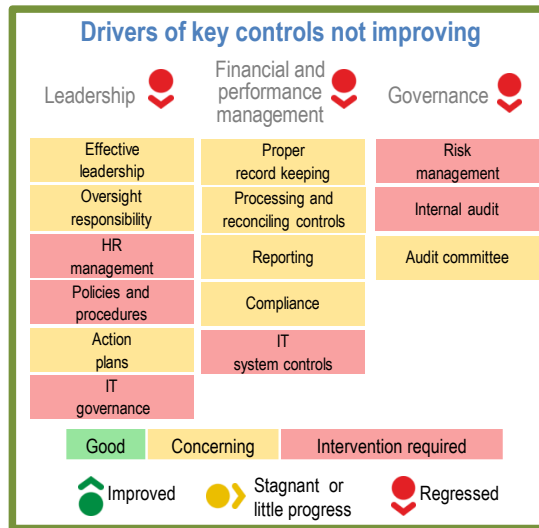
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Labour

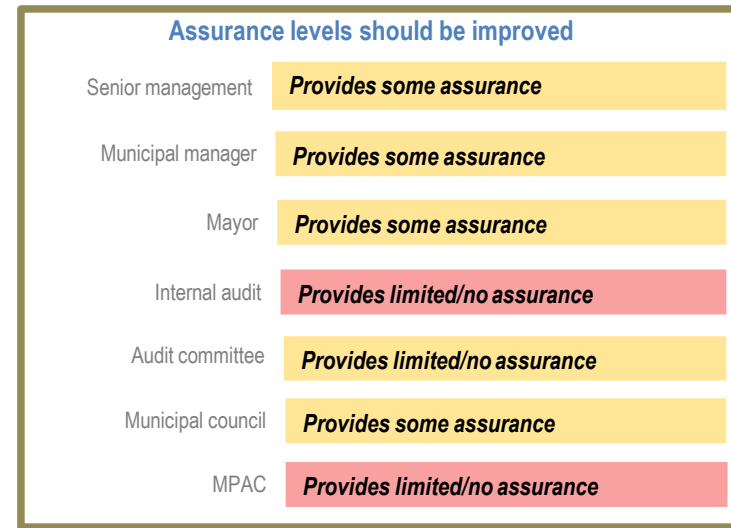




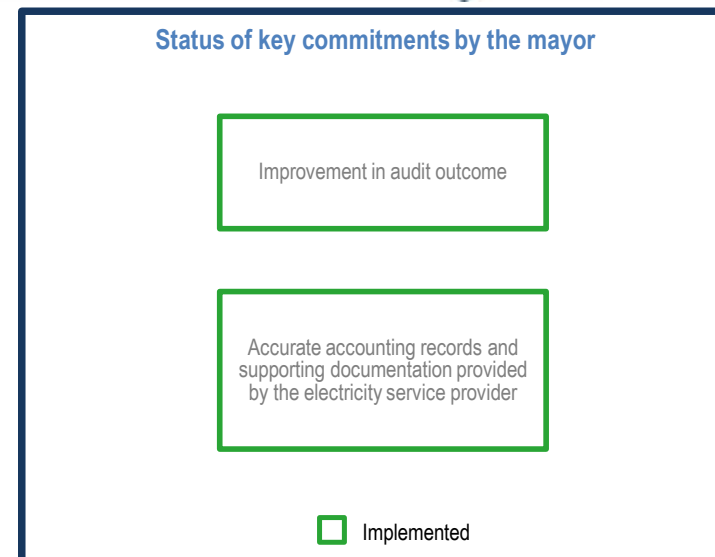
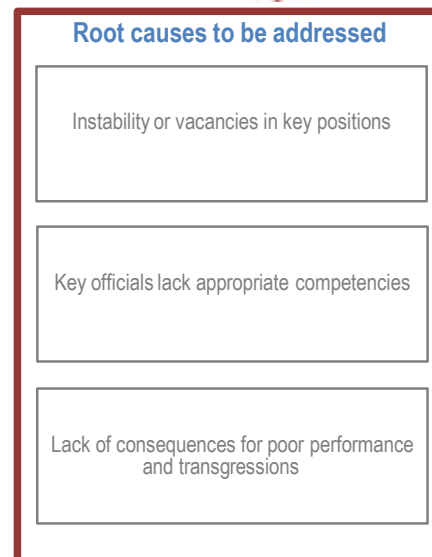
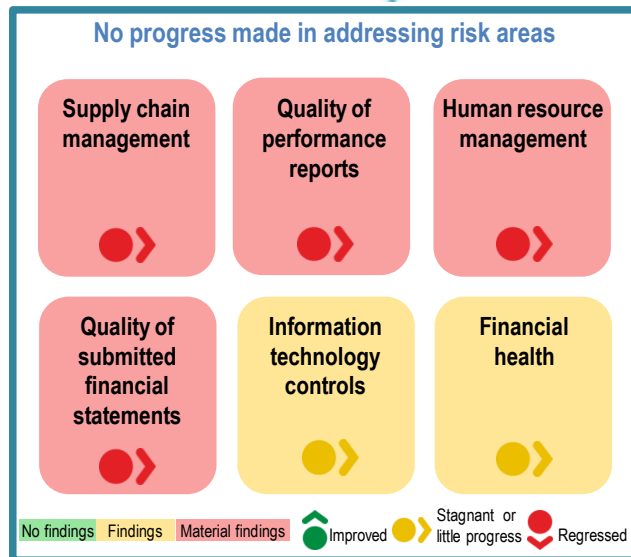
The current **audit outcomes** are the result of the attention given to the **six key risk areas**.



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



Mohokare Local Municipality

Current year audit outcome: *Qualified*

Significant movement in audit outcome

The improvement in the audit outcome was the result of the commitment and attitude of both management and the mayor (supported by council) in addressing the qualification on assets, expenditure, revenue, trade receivables, payables and other disclosure items, as well as the availability of documentation.

Six key risk areas

Although there was an improvement in the audit outcome, the sustainability thereof is questionable as no progress has been made in addressing the findings on the six key risk areas reported in the previous year. The financial statements submitted for audit purposes were of poor quality and material corrections were made as identified by the auditors. These misstatements occurred due to weaknesses in the support structures of the local municipality, most notably in the areas of HR capacity and the design and implementation of formal processes and systems to produce reliable information.

Consultants were again engaged to provide financial reporting assistance at a cost of R2 511 244 (2012: R2 115 475). The municipality may become overdependent on consultants as a result of vacancies in senior positions within the finance and SCM units.

The quality of the annual performance report had regressed as the controls and structures required for reporting on performance information were lacking due to a lack of commitment from management to take the required action. As a result, indicators and targets were still not well defined and supporting documentation on actual performance could not be provided.

The status of SCM remains unsatisfactory, primarily due to management's neglect to comply with SCM regulations, a lack of consequences for poor performance and the vacancy of the position of head of SCM. This ultimately resulted in irregular expenditure of R20 184 395 (2012: R13 576 851) being incurred for the year, as disclosed in the financial statements. We were, however, not able to obtain sufficient appropriate audit evidence to confirm this amount.

Ineffective oversight of IT and the controls that ensure its effective functioning, as well as the vacancy of the IT manager position contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective.

The municipality's unspent conditional grants (R2 855 790) exceeds the cash balance (R201 754) held. This is indicative of a material financial health and service

delivery risk. The cash constraints at the municipality are also impacting on its ability to pay its suppliers within the prescribed period of 30 days.

Key controls and root causes

Overall, the six key areas remained stagnant due to the regression in key controls. The slight improvement in the audit income is therefore mainly the result of better oversight by leadership. The following controls should 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 competent and sufficiently skilled officials are in place and that their performance is monitored.
- A full set of financial statements should monthly be prepared and reviewed and an effective performance management system should be implemented to improve the municipality's performance reporting.
- Formal controls should be designed and implemented for IT systems to ensure the reliability of the information generated and maintained.

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

- Leadership controls should be improved by implementing consequences for poor performance to enhance oversight responsibility.
- All vacancies should be filled and adequate training should be given to staff.
- It should be ensured that finance and SCM officials have the required level of technical skills, competence and qualifications to perform their functions.

Impact of key role players on audit outcomes

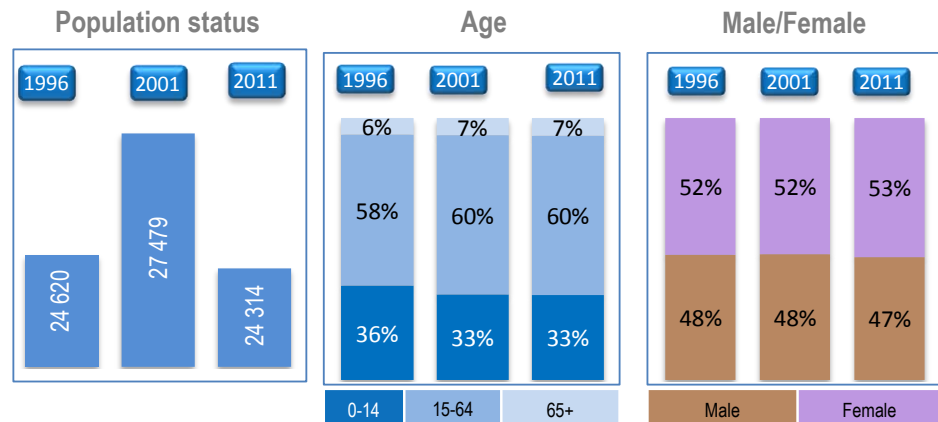
To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General are timeously implemented and that the work of the audit committee is directed towards evaluating significant risks.

We had five meetings with the mayor during the financial year and these oversight interactions had a significant impact on the audit outcome. The reason for our assessment is that the mayor set the right tone for the municipality and supported management in achieving the commitments previously given. The municipal council committed to fully implementing the previous year's commitments, which were to achieve an improved audit outcome and to ensure that the electricity service provider submits accurate accounting records and supporting documentation for audit purposes. The municipality would benefit from establishing a more effective MPAC to strengthen oversight of financial administration.

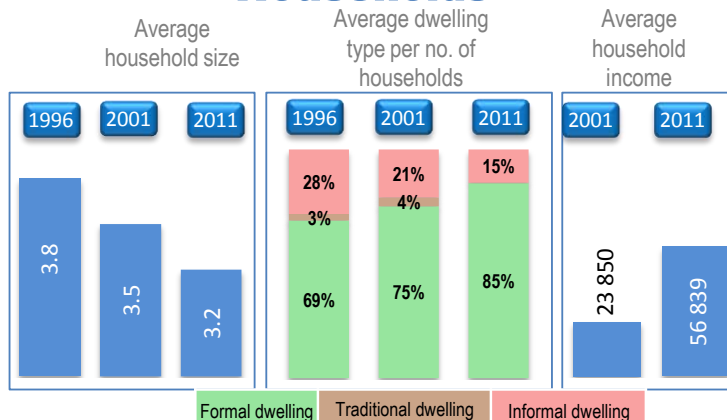
NALEDI LOCAL MUNICIPALITY

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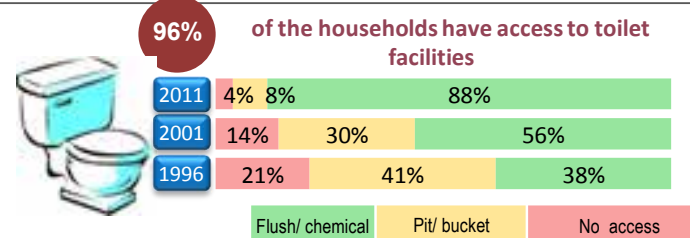
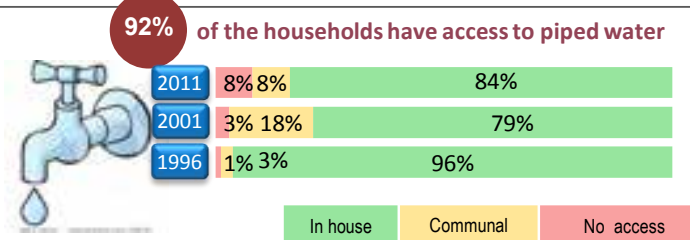
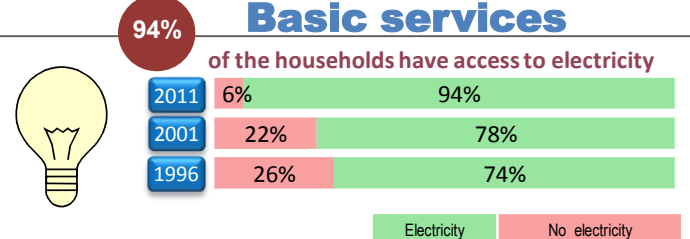
Population



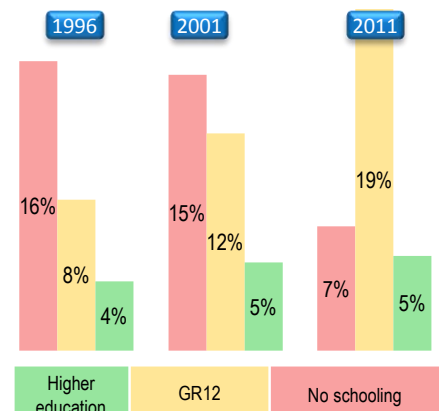
Households



Basic services

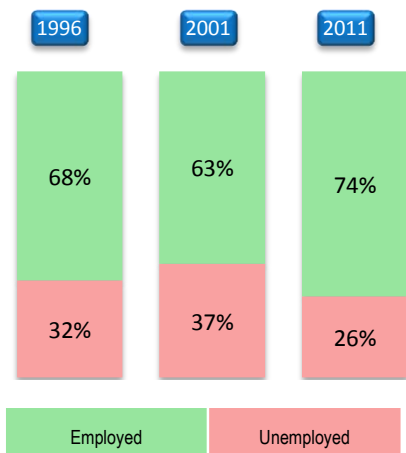


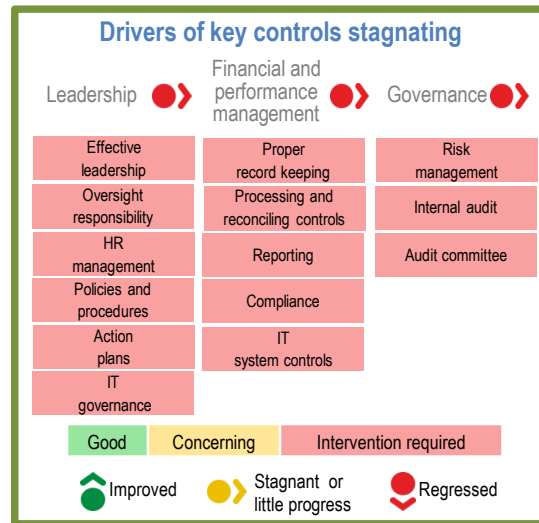
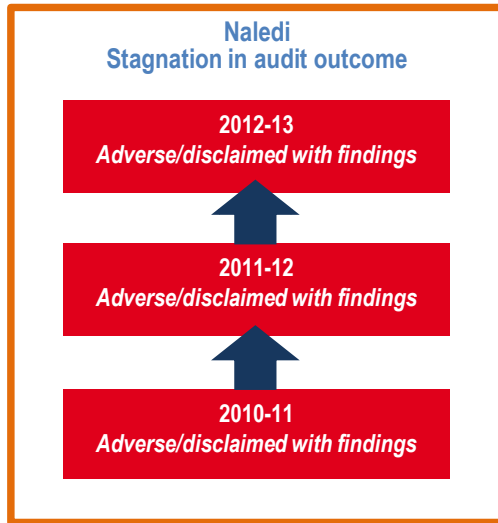
Education



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

Labour

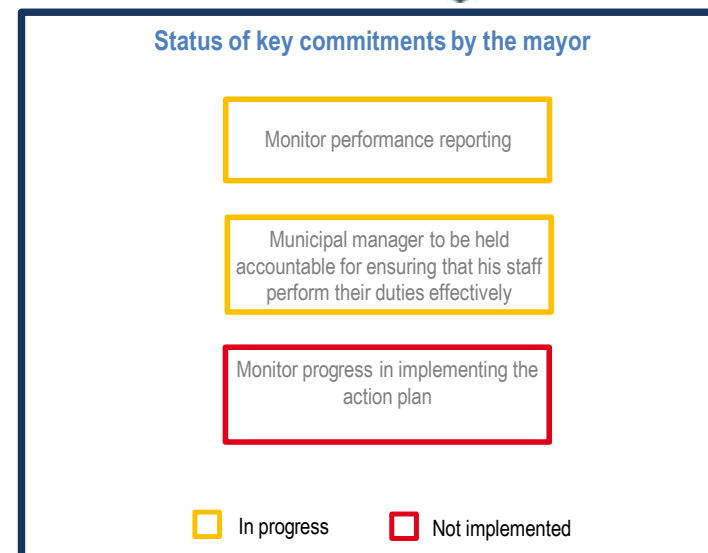
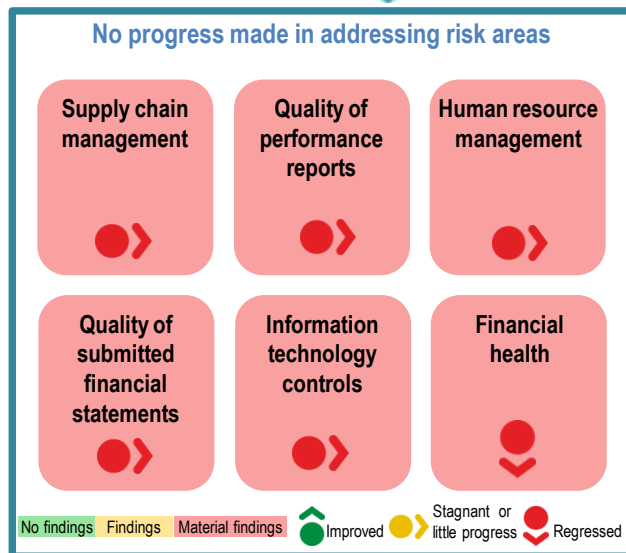




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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**.



Naledi Local Municipality

Current year audit outcome: *Disclaimer of opinion*

Stagnation in audit outcome

Since the amalgamation of the municipality 12 years ago there has been persistent stagnation in its audit outcomes, which could be attributed to failure to address the audit report matters of previous years due to a lack of skills and competencies.

These matters included qualifications on property, plant and equipment, receivables, payables and revenue, various non-compliance matters and findings on performance information. Urgent intervention on both provincial and political levels is needed to change the culture of repeated disclaimers.

Six key risk areas

The municipality did not improve its audit outcome due to the lack of progress in addressing the findings in the six key risk area reported in the previous year. The financial statements submitted for audit purposes were of poor quality, even though consultants were appointed due to a lack of skills within the municipality. The material corrections made to the submitted financial statements related to misstatements identified by the auditors, which resulted mainly from the late appointment of consultants to compile the financial statements.

Consultants were again engaged to provide financial reporting assistance at a cost of R566 968 (2012: R1 298 354). Our concerns relating to the continued assistance sought from consultants include the ineffective management of these consultants and a lack of transfer of skills.

The controls and structures required for reporting on performance information were lacking as indicators were still not well defined or verifiable and supporting documentation on actual performance could not be provided.

The status of SCM remains unsatisfactory due to the failure to establish an SCM manager position and management's disregard for and misinterpretation of compliance with SCM regulations, which ultimately resulted in irregular expenditure of R1 355 752 (2012: R108 442) being incurred for the year. Notwithstanding this disclosure, material doubt still existed over the completeness of irregular expenditure that resulted in a qualification.

Ineffective oversight of IT and the controls that ensure its effective functioning contributed to the lack of progress in the area of IT as management does not regard it as a strategic objective and has not established a position to manage this function.

We were unable to determine the status of the financial health of the municipality as

various account balances, classes of transactions and disclosures that would have an impact on the assessment are subject to material limitations.

Key controls and root causes

The stagnation in the six key risk areas was the result of the overall stagnation in key controls, caused by the slow response by leadership and the lack of consequences for transgressions and poor performance. The following controls should be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The accounting officer should ensure that officials responsible for financial and performance reporting have the appropriate competencies.
- The establishment of documented processes on monthly controls for financial and performance reporting should be prioritised to enhance the collection, verification and collation of information.
- An action plan should be implemented, responsibilities allocated and target dates set and remedial action should be taken against transgressors and poor performance.

The accounting officer, senior management and the audit committee should address the root causes of inadequate controls as follows:

- The critical vacancies and competency gaps, as well as instability within the municipality should be addressed.
- Leadership should implement consequences for poor performance.
- Leadership should take ownership and enhance oversight by regularly monitoring and evaluating the supporting evidence for financial and performance reporting.

Impact of key role players on audit outcomes

To improve the audit outcome the assurance level should be enhanced by establishing adequate capacity to address internal control weaknesses, as indicated above. Senior management should ensure that the recommendations of the Auditor-General are timeously implemented and that the work of the audit committee is directed towards evaluating significant risks.

We had five meetings with the mayor during the year and these interactions had no impact on the audit outcome due to the instability within the municipality. According to our assessment, the implementation of sound accountability principles failed at both mayor and council levels. The municipality's MPAC did not have any meetings during the year and did not execute its oversight role regarding financial administration.

Annexures

131

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

Auditee ID	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 amounts (R)												
		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	Aggregate misstatements	Reported information not	Information not submitted in time for audit	No annual performance	Material misstatement or limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional	Procurement management	HR management	Other	Procurement and contract management	Human resource management and	Information technology	Financial health	Unauthorised expenditure	Irregular expenditure	Fruitless and wasteful expenditure				
Financial audits																																												
Metropolitan municipalities																																												
629	Mangaung Metro	R	R	R	R	A	R	A	A	R	A	A	A	R	R	R	R	R	R	R	R	R	R	N	R	A	R	R	R	R	R	A	R	R	R	F	19.50	10.30	160					
District municipalities																																												
624	Fezile Dabi District	A	R	R	R									A			R		A						A										R	R	R	F	0.00	120	0.01			
621	Lejweleputswa District	R	R	R	R									R	R		R	R	R	N		R		N	N	R	R	R			A					R	R	R	F	0.23	20.70	0.00		
622	Thabo Mofutsanyana District	R	R	R	R												R	R	R			R		N	R	R				R	R	R					R	R	R	F	0.00	2.60	0.00	
623	Xhariep District	R	R	R	N					N							R	R		N		R	N	R			N			N	R					R	N	R	M	5.70	15.40	0.03		
Local municipalities																																												
636	Dihlabeng	R	R	R	R									R	N			R	R	R	R			R	R	A		N		R	R					R	R	R	F	126.10	48.40	6.40		
626	Kopanong	A	R	R	R	R	R	A	A	A	R	R	N	A			A	R	R	R	R	A	R	R	R	A	R	R	A	R	R					R	R	R	M	54.70	25.50	4.80		
625	Letsemeng	R	R	R	R			A			R	A	R	N	R	N		R	A	A		A	N	N	A		R	R	N	N	R	A	R	R	R					5.40	22.30	0.36		
641	Mafube	R	R	R	R	R	R	R	R	R	R	R	R	A		N	R	R	R	R	N	R	R	R	R	R	R	R	R	R	R	R	A	R	R	R					1130	120.10	5.60	
644	Maluti-A-Phofung	R	R	R	R	R	R	A	R	R	R	R	R	R	N	A		R	R	R	R		R	R	R	R	R	R	R	R	R	R	R					R	R	R	M	0.00	3.60	17.00
630	Mantsopa	R	R	R	R	R	R	R	R	R	N	N	R	R	N			R	R	R	R	A	R	R	A	R	A	R	N	R	R	A	R	R	R					102.50	55.80	0.79		
631	Masilonyana	R	R	R	R									N	N		A	R	R	R	R		R	R	R	R	R	A	R	N	N	R	R	R	R					38.20	3150	0.54		
634	Matjhabeng	R	R	R	R	R	R	N	R	R	R	N					R	R	R	R		R	R	A	R	R	R	R	N	R	R						R	R	R	M	830.10	96.20	24.00	
640	Metsimaholo	R	R	R	R			A	A	A		N	A	R	N			R	R	R	A	N	A	R	A			N		R	N						R	R	R	F	7.20	102.80	120	
627	Mohokare	R	R	R	R	R	R	A	A	A	R	A	R	A	R			R	R	R	A		A	R	R		R	R	R	R	R	R	R					R	R	R	F	4150	20.20	2.20
639	Moghaka	R	R	R	R	R	R	N	R	N	N	R	R	N	N	A		R	R	N	R		R	R	R	R	R	R	R	R	A	R	R	A	R	R					156.00	48.00	6.20	
906	Naledi	R	R	R	R	R	R	R	R	R	R	R	R	N	R	R			R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	A	R	R					0.00	5.60	4.90	
647	Ngwathe	R	R	R	R	R	R	A	R	R	R	R	R	N	N	A		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R					R	R	R	M	187.20	17.40	2100

Annexure 2 Municipalities' five-year audit opinions

Auditee ID	Auditee	GR Location	Audit outcome 2012-13			Audit outcome 2011-12			Audit outcome 2010-11			Audit outcome 2009-10			Audit outcome 2008-09		
			Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings	
				PDO	Compliance		PDO	Compliance		PDO	Compliance		PDO	Compliance		PDO	Compliance
Financial audits																	
Metropolitan municipalities																	
629	Mangaung Metro	FS	Qualified			Qualified			Disclaimer			Disclaimer			Disclaimer		
District municipalities																	
624	Fezile Dabi District	FS	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
621	Lejweleputswa District	FS	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
622	Thabo Mofutsanyana District	FS	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Disclaimer		
623	Xhariep District	FS	Qualified			Unqualified with findings			Unqualified with findings			Qualified			Disclaimer		
Local municipalities																	
636	Dihlabeng	FS	Unqualified with findings			Unqualified with findings			Qualified			Qualified			Disclaimer		
626	Kopanong	FS	Qualified			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
625	Letsemeng	FS	Qualified			Qualified			Disclaimer			Adverse			Disclaimer		
641	Mafube	FS	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
644	Maluti-A-Phofung	FS	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
630	Mantsopa	FS	Disclaimer			Disclaimer			Qualified			Qualified			Disclaimer		
631	Masilonyana	FS	Qualified			Qualified			Disclaimer			Disclaimer			Disclaimer		
634	Matjhabeng	FS	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
640	Metsimaholo	FS	Qualified			Qualified			Disclaimer			Disclaimer			Disclaimer		
627	Mohokare	FS	Qualified			Disclaimer			Disclaimer			Disclaimer			Adverse		
639	Moghaka	FS	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
906	Naledi	FS	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Adverse		
647	Ngwathe	FS	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
637	Nketoana	FS	Unqualified with findings			Unqualified with findings			Unqualified with findings			Qualified			Disclaimer		
638	Phumelela	FS	Disclaimer			Disclaimer			Adverse			Disclaimer			Disclaimer		
648	Setsoto	FS	Qualified			Qualified			Adverse			Qualified			Qualified		
632	Tokologo	FS	Qualified			Qualified			Disclaimer			Disclaimer			Disclaimer		
633	Tswelopele	FS	Unqualified with findings			Unqualified with findings			Qualified			Qualified			Unqualified with findings		
Municipal entities																	
620	Centlec (Soc) Ltd	FS	Qualified			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
643	Lejwe Le Putswa Development Agency (Pty) Ltd	FS	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Qualified		
645	Maluti-A-Phofung Water (Pty) Ltd	FS	Unqualified with findings			Disclaimer			Qualified			Disclaimer			Disclaimer		
Consolidation audits																	
Metropolitan municipalities																	
629	Mangaung Metro	FS	Qualified			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
District municipalities																	
621	Lejweleputswa District	FS	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			New auditee		
Local municipalities																	
644	Maluti-A-Phofung	FS	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		

Annexure 3 Assessment of municipalities' key controls at the time of the audit

Auditee	Leadership							Financial and performance							Governance																								
	Movement		Effective leadership culture		Oversight responsibility		HR management		Policies & procedures		Action plans		IT governance		Movement		Proper record keeping		Processing and reconciling controls		Reporting		Compliance		IT system controls		Movement		Risk management		Internal audit		Audit committee						
	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
Metropolitan municipalities																																							
Mangaung Metro	↑	↑	↑																																				
District municipalities																																							
Fezile Dabi District	↑	↑	↑										↔	↑	↑																↑	↑	↑						
Lejweleputswa District	↔	↔	↔																												↔	↔	↔						
Thabo Mofutsanyana District	↑	↑	↑										↑	↑	↑																								
Xhariep District	↓	↓	↓										↓	↓	↓																↓	↓	↓						
Local municipalities																																							
Dihlabeng	↔	↔	↔										↔	↔	↔													↔	↔	↔									
Kopanong	↑	↑	↔										↑	↑	↔													↔	↔	↔									
Letsemeng	↓	↓	↓										↓	↓	↓													↔	↔	↔									
Mafube	↓	↓	↓										↔	↔	↔													↔	↔	↔									
Maluti-A-Phofung	↓	↓	↓										↔	↔	↔													↓	↓	↓									
Mantsopa	↔	↔	↔										↓	↔	↔													↔	↔	↔									
Masilonyana	↑	↔	↑										↑	↔	↔													↑	↔	↑									
Matjhabeng	↔	↔	↔										↔	↔	↔													↑	↑	↑									
Metsimaholo	↑	↑	↑										↑	↑	↑													↑	↔	↔									
Mohokare	↑	↑	↑										↑	↑	↑													↔	↔	↔									
Moghaka	↔	↔	↔										↔	↔	↔													↔	↔	↔									
Naledi	↔	↔	↔										↔	↔	↔													↔	↔	↔									
Ngwathe	↔	↔	↔										↔	↔	↔													↔	↔	↔									
Nketoana	↑	↑	↔										↔	↔	↔													↔	↔	↔									
Phumelela	↑	↑	↑										↔	↔	↔													↔	↔	↔									
Setsoto	↔	↔	↔										↑	↔	↔													↔	↔	↓									
Tokologo	↑	↑	↔										↑	↑	↑													↓	↓	↔									
Tswelopele	↔	↔	↔										↔	↔	↔													↔	↔	↔									
Municipal entities																																							
Centlec (Soc) Ltd	↑	↔	↔										↑	↔	↔													↑	↔	↔									
Lejwe Le Putswa Development Agency (Pty) Ltd	↔	↑	↔										↔	↑	↔													↔	↔	↔									
Maluti-A-Phofung Water (Pty) Ltd	↔	↑	↔										↔	↑	↔													↓	↑	↑									

Legend					
Good	↑	In progress	↔	Intervention required	↓
Improved	↑	Unchanged	↔	Regressed	↓
Financial	F	Performance	P	Compliance	C

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.

140

IT user access management

The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.

Internal control / key controls

The process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable legislation.

It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.

Irregular expenditure

Expenditure incurred without complying with applicable legislation.

Key drivers of internal control

Leadership (as one of the drivers of internal control)

The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance (which are defined elsewhere in this glossary.)

The administrative leaders of an auditee, such as municipal managers and senior management.

It can also refer to the political leadership (including the mayor and the council) or the leadership in the province (such as the premier).

Material finding (from the audit)

An audit finding on the quality of the annual performance report or non-compliance with legislation that is significant enough in terms of either its amount or its nature, or both these aspects, to be reported in the audit report.

Material misstatement (in financial statements or annual performance reports)

An error or omission that is significant enough to influence the opinions or decisions of users of the reported information. Materiality is considered in terms of either its rand value or the nature and cause of the misstatement, or both these aspects.

Misstatement (in financial statements or annual performance reports)

Incorrect or omitted information in the financial statements or annual performance report.

Net current liability

The amount by which the sum of all money owed by an auditee and due within one year exceeds the amounts due to the auditee within the same year.

Net deficit (incurred by auditee)

The amount by which an auditee's spending exceeds its income during a period or financial year.

Operational budget / operating budget

A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as service delivery costs, administration and salaries.

Oversight structures as well as coordinating and monitoring departments

Oversight structures consist of the provincial legislatures, the portfolio committees on local government and the National Council of Provinces.

Coordinating or monitoring departments include the Department of Performance Monitoring and Evaluation, the National Treasury and provincial treasuries, the national and provincial departments of cooperative governance as well as the offices of the premiers.

Property, infrastructure and equipment (in financial statements)

Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.

Qualified audit opinion (on financial statements)

The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.

Receivables / debtors (in financial statements)

Money owed to the auditee by persons, companies or organisations that have procured goods or services from the auditee.

Reconciliation (of accounting records)

The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.

Root causes (of audit outcomes)

The underlying causes or drivers of audit findings; in other words, why the problem occurred. Addressing the root cause helps ensure that the actions address the real issue, thus preventing or reducing the incidents of recurrence, rather than simply providing a one-time or short-term solution.

142 *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



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