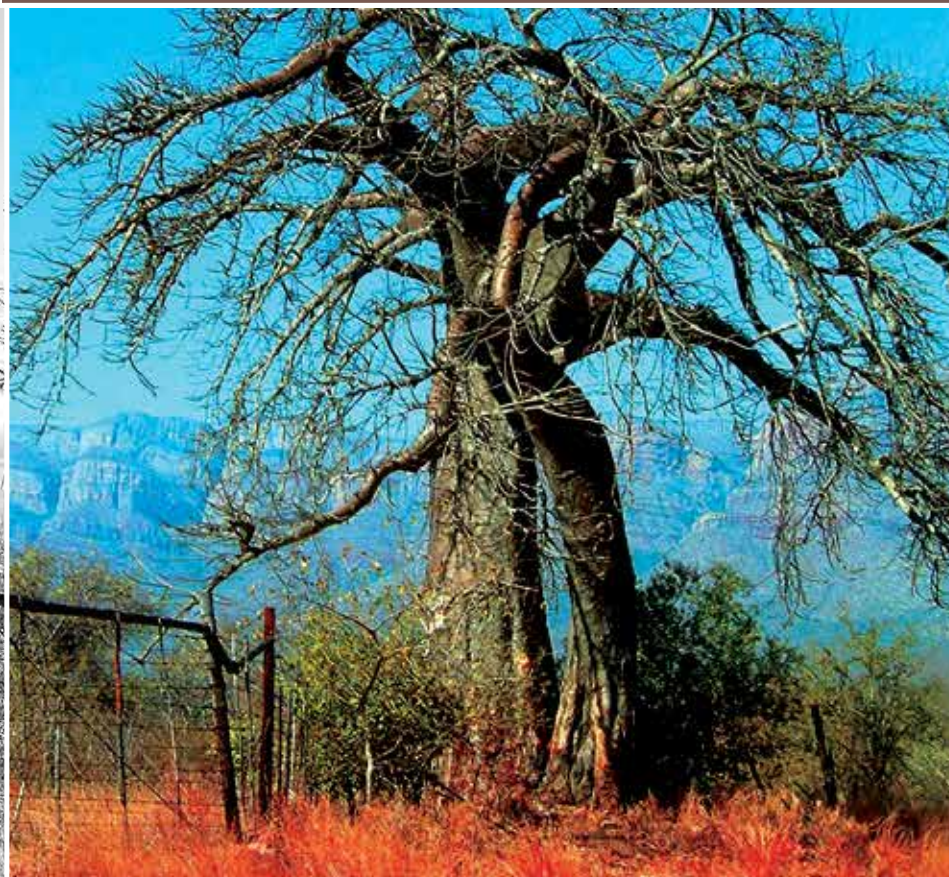


**Limpopo**



**AUDITOR - GENERAL  
SOUTH AFRICA**

## **General report**

on the audit outcomes of local government

MFMA 2012-13



## Our reputation promise/mission

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



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

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

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

Kimi Makwetu  
**Auditor-General**



AUDITOR - GENERAL  
SOUTH AFRICA

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## MUNICIPALITY

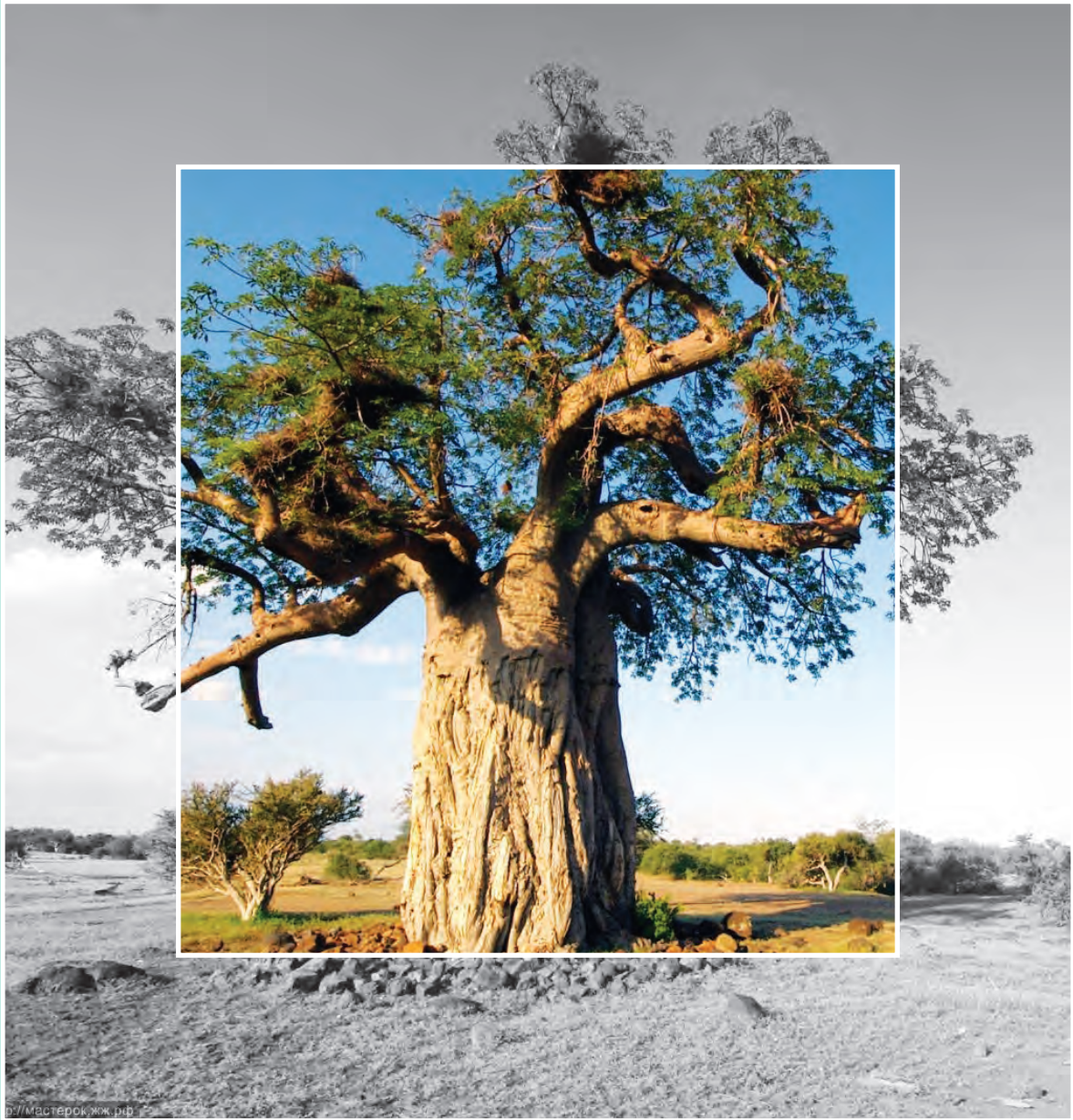
None



## MUNICIPAL ENTITY

None





# FOREWORD

# FOREWORD

I hereby present to the legislature of the Limpopo province my 2012-13 general report analysing the results of the audit outcomes of the district and local municipalities, as well as municipal entities for the financial year ended 30 June 2013.

The local government audit outcomes in Limpopo reflect a regression for the third year in a row. For the year under review no municipality received either an unqualified audit opinion with no findings or an unqualified opinion with findings. At the date of finalising this report, the audit results of only one of the three municipal entities in the province was known and that had improved from a qualified opinion in the prior year to unqualified with other matters. The results of six municipalities and one municipal entity were not yet available for inclusion in this report.

Despite efforts made by the municipalities, as well as the coordinating departments [the provincial treasury and Cooperative Governance, Human Settlements and Traditional Affairs], the same root causes for poor results identified in prior years are still relevant. The most significant matter for a number of years is that, in 88% of the municipalities, some of the key officials lack minimum competencies and skills [including 52% of CFOs] and there are vacancies in key positions (16% of chief financial officer positions were vacant at year-end). The impact of these key vacancies and shortfalls in skills and competencies is illustrated by the fact that 24 out of 25 (96%) sets of annual financial statements reported on contained material misstatements. Furthermore, unauthorised, irregular as well as fruitless and wasteful expenditure remains high and in

this respect we see that 20% of the municipalities did not have supply chain heads at year-end and at another 60% of the municipalities these officials were not competent to perform the required functions. There have been attempts to compensate for the skills deficit through the deployment of consultants to municipalities to provide support as resident accountants. However, this measure has achieved mixed results and cannot be regarded as an overall success. The absence of basic key controls, clearly specified daily and monthly activities and adequate supervision, contributed to the low level of assurance that senior management, accounting officers and mayors provide for the quality of financial information. This shortcoming also contributed to virtually no return on the investment of R56,4 million for the use of consultants during the year under review. It is critical that strategies be put in place to attract and retain staff with the requisite skills and competencies. Where positions are filled with incumbents that do not possess the required skills, efforts should be made to address the training needs of identified staff members.

In the prior year, we identified the lack of consequences for poor performance and transgressions which is largely driven by an ineffective performance management system as a root cause. During the year under review, officials were still not held accountable for poor performance and/or transgressions (in 76% of the municipalities) despite having signed performance agreements. I noted some effort, especially from the provincial leadership, to address the issue of consequences, but it was introduced at the end of the financial year and did not have a



Kimi Makwetu  
**Auditor-General**

significant impact on the results. The announcement after year-end of consequences for the leadership in cases of continued poor results had an impact on the audit and contributed to a delay in finalising audits timeously. While the delay in the accountability process is regrettable, it is not necessarily undesirable since it demonstrates that the leadership is now taking audit outcomes seriously and intend to address the situation going forward. For this intent to realise into improved outcomes it will be necessary for leadership to focus on the sustained implementation of daily discipline and control systems.

This correlates with the third of the previously identified root causes, namely slow response by the leadership (68%) to the Auditor-General of South Africa's messages and not taking ownership of key controls. While the leadership in some municipalities did take ownership, this is not yet transversal. Furthermore, it appears that there is no correlation between effort and results, which indicates that efforts are not always focused. This also explains the inconsistency in achieving commitments made by the leadership at auditee level. We found that the leadership readily made commitments to improve at this level, but we seldom saw them carried through to achieve an actual improvement in outcomes. We acknowledge the change in leadership at provincial level soon after the end of the financial year under review and we observed steps taken by the new leadership to address the issues at hand. If this momentum can be maintained I am convinced that the downward trend in outcomes can be arrested and reversed.

Ultimately, the extent to which municipalities are successful in addressing all three mentioned root causes will be determined by the leadership at local level. We already see a direct correlation between effective and involved leadership at that level and improved outcomes at municipalities such as

Aganang, Blouberg and Makhado. Therefore I encourage the municipal leadership across the province to follow the sterling example provided in these cases.

Municipal public accounts committees exist at all municipalities and have been meeting to interrogate the audit reports and the issues which led to reported findings. The prior year commitment with regard to the capacitation of municipal public accounts committees is an ongoing process with training provided by the provincial legislature, the provincial department of Cooperative Governance, Human Settlements and Traditional Affairs and the Auditor-General of South Africa, while the Auditor-General of South Africa staff also participated in and provided guidance during the hearings. To date, the impact of the municipal public accounts committees on the results has been minimal since an effective process for follow-up on and ensuring compliance with MPAC recommendations is not in place. In many municipalities it is evident that there is insufficient appreciation for the benefits of having a strong municipal public accounts committee.

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

*Auditor-General*

**Auditor-General  
Pretoria  
July 2014**



# SUMMARY OF AUDIT OUTCOMES AND KEY RECOMMENDATIONS FOR IMPROVEMENT

## Our audit and reporting process

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

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

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

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

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




We further identified the following **six key risk areas** that need to be addressed to improve audit outcomes and financial and performance management, and we specifically audit these so that we can report on their status: ■ quality of submitted financial statements ■ quality of annual performance reports ■ supply chain management (SCM) ■ 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 corporative governance, human settlements and traditional affairs as well as the provincial legislature. We are convinced that their involvement and oversight should play a crucial role in the performance of local government in the province. We share our messages on key controls, risk areas and root causes with them and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

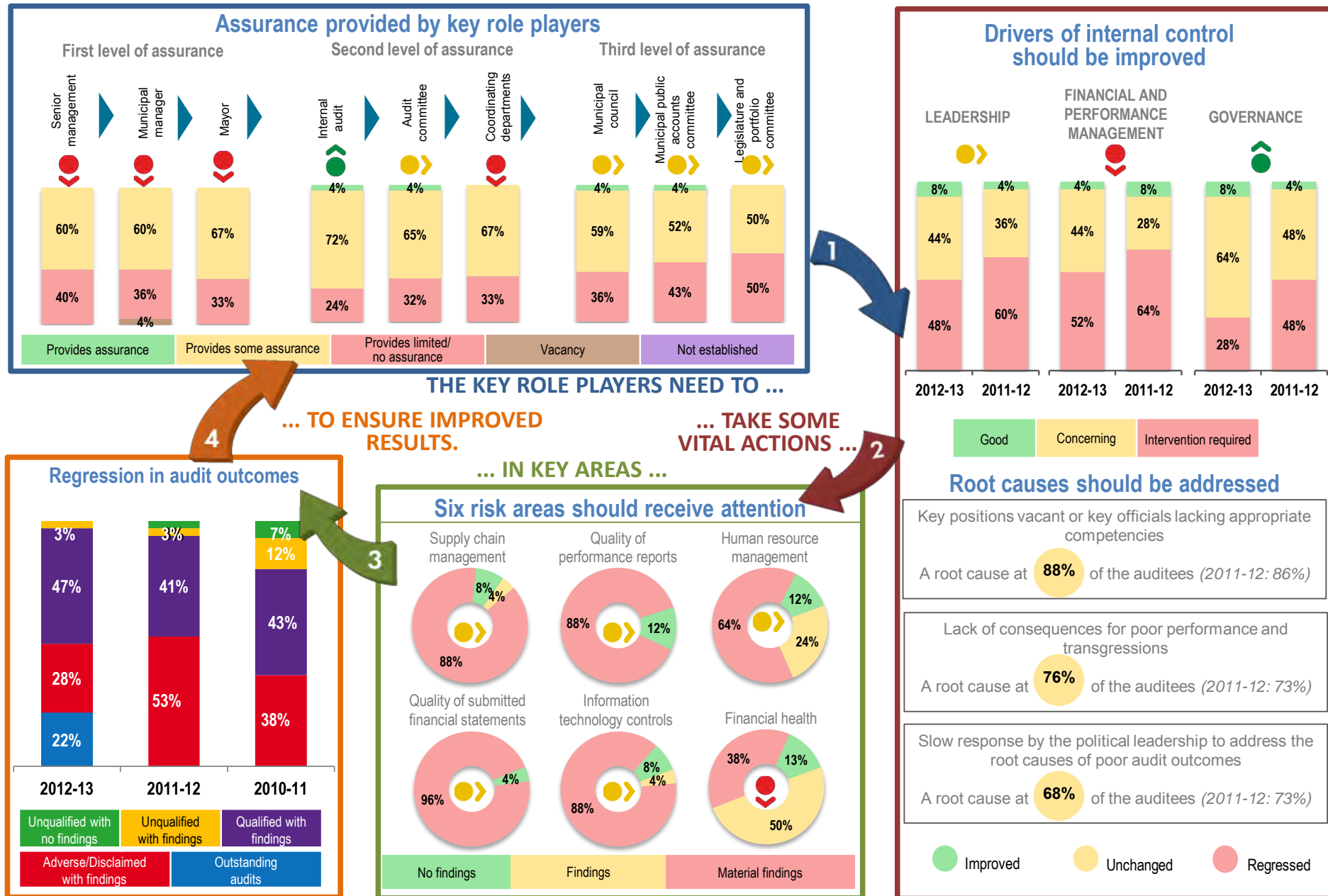
Figure 1 that follows gives an overview of our message on the 2012-13 audit outcomes, which is a continuation of what we had reported and recommended in our last report on the audit outcomes of local government in the province. Please note the following about the figure and when reading the rest of the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

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

 Improved  Stagnant or little progress  Regressed

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

There has been an overall regression in the audit outcomes of local government. Due to auditees' late submission or non-submission of financial statements, the inability of the Auditor-General of South Africa (AGSA) to complete audits on time, and a dispute between the AGSA and an auditee, we had not finalised the audits of seven auditees (Sekhukhune District Municipality, Mopani District Municipality, Greater Giyani municipality, Greater Tzaneen municipality, Molemole municipality, Polokwane municipality and the Sekhukhune Development Agency) by 15 February 2014, which was the cut-off date for the inclusion of audit outcomes in this general report.

In our analysis of the audit outcomes, we have also excluded all the outstanding audits in the year under review from the prior year comparatives.

Significant aspects of the 2012-13 audit outcomes of the 24 municipalities and one municipal entity shown in figure 1 are listed below.

- The slow response by the political leadership in addressing the items that has a potential impact on the financial statements resulted in three transversal matters affecting the outcomes of most municipalities in the province. The first relates to the non-disclosure of a contingency arising from a court case between the South African Local Government Association (SALGA) (representing all municipalities) and labour organisations in local government. Municipalities apparently did not understand the implication of SALGA acting on their behalf and consequently did not provide for the contingency. This issue caused a qualification on the audit opinion of 24 of 25 auditees reported on (96%). The second relates to the incorrect disclosure of certain roads which (in terms of relevant legislation) fall under the control of district municipalities. Limpopo is the only province where roads were classified in terms of the definition of district roads. This issue resulted in a qualification at 10 auditees (40%) which included the three district municipalities reported on. This matter is currently being attended to by the provincial department of roads and transport and the Member of the Executive Council (MEC) committed to address the issue before the next reporting cycle for municipalities. The third transversal item affecting seven auditees (28%) can be referred to as legacy issues. These are instances where, for various historical reasons, sufficient supporting evidence for material balances in the annual financial statements can no longer be provided. In many of these cases the responsible officials are no longer employed as a result of the instability at local government level. The provincial treasury is attending to the matter with the assistance of the National Treasury and the accounting standards board in order to determine an accounting solution to deal with these items.

- The risks relating to the above matters were known to the municipalities but were ignored and not attended to during the financial year.
- No municipality obtained an unqualified opinion. The Polokwane Housing Association, a municipal entity improved from a qualified opinion to an unqualified opinion with findings. One auditee regressed from unqualified with findings to a qualified opinion. The Waterberg District municipality who obtained a clean audit opinion for the past two years regressed to a qualified opinion. The regression was due to the two transversal issues as stated above as well as non-compliance with laws and regulations. Proper oversight by leadership, audit committee and internal audit could have prevented the regression. Three auditees also regressed from a qualified to a disclaimed opinion. Four auditees improved on their disclaimed opinion from the previous year.

### *The quality of annual performance reports has remained stagnant*

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**

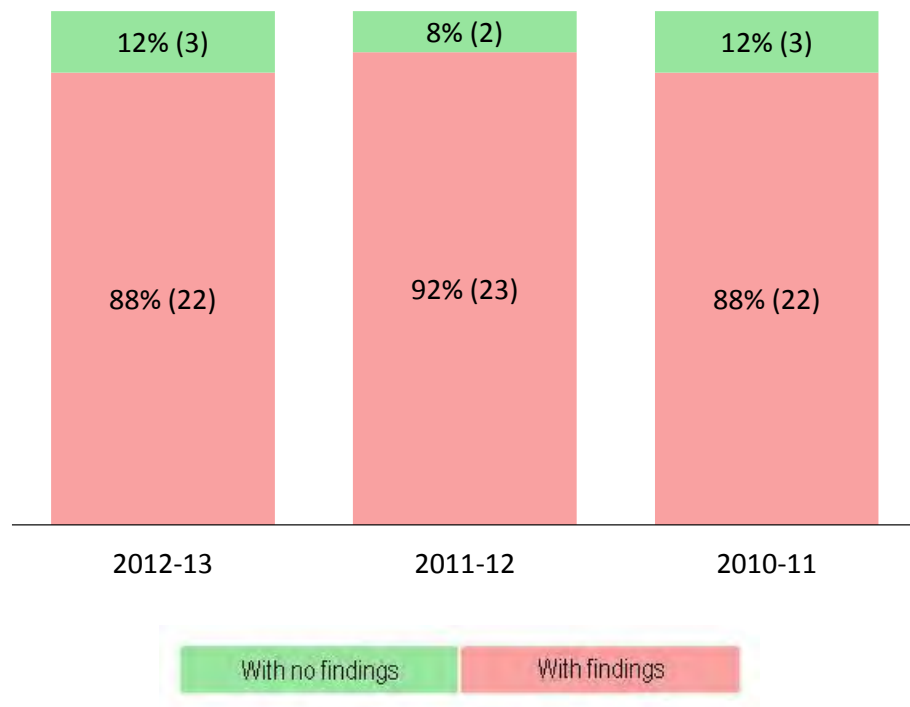


Figure 2 shows the number of auditees in the province with material findings in this regard over the past three years, including those auditees that did not prepare an annual performance report or submitted the report too late for auditing. Fetakgomo Municipality cleared its findings on performance reporting from the previous years. Contrary to the prior year, most municipalities could submit source documentation which is an improvement from the previous years. However, findings on the validity, accuracy and completeness of performance targets, indicators and performance information have increased. This is because senior management and audit committees did not review performance information.

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 remained the same since the previous year. The most common findings on usefulness were the following:

- Measures to improve performance were not disclosed in the annual performance report (48%)
- Reported information was inconsistent with planned objectives, indicators and/or measures and targets (36%)

- Performance indicators/measures were not well defined (44%).

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

- Reported information was not accurate when compared to source documentation (64%)
- Source information for reported performance information was not complete (44%)
- Reported performance information was not valid (68%).

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

- Sixty per cent of auditees had material findings on non-compliance with the legislation that regulates strategic planning, performance management and reporting.
- Sixteen per cent of auditees made amendments to the annual performance report submitted for auditing to correct material misstatements identified during the audit process. The poor quality of the performance reports of the other municipalities did not allow for any amendments to be made.
- Of the 18 auditees with reliable annual performance reports, only five auditees managed to achieve 20% or more of the planned targets they reported on. We only report on the achievement of planned targets for auditees with reliable performance management systems that did not receive adverse or disclaimed opinions on reliability. Seven auditees received an adverse or disclaimed opinion on the reliability of their performance reports, which could increase the number of auditees who did not reach their planned targets<sup>1</sup>.

The province witnessed some service delivery protests. In our assessment, there is a direct link between poor service delivery and the quality and transparency of performance information. To prevent future service delivery protests, it is crucial for the leadership to regularly monitor the progress made in achieving the objectives contained in their integrated development plans (IDPs) and intervene where necessary.

We noted with satisfaction that all municipalities invited the public to participate in the discussion of their IDPs.

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.

<sup>1</sup> Opinions on predetermined objectives are expressed in the management reports

## The level of compliance with legislation has not improved

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

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

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

**Figure 3: Status of compliance with legislation**



Figure 3 shows the number of auditees with material findings in this regard over the past three years. The number of auditees with non-compliance findings increased steadily over the previous two years. In 2012-13, all 25 auditees reported on had findings on non-compliance with legislation.

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

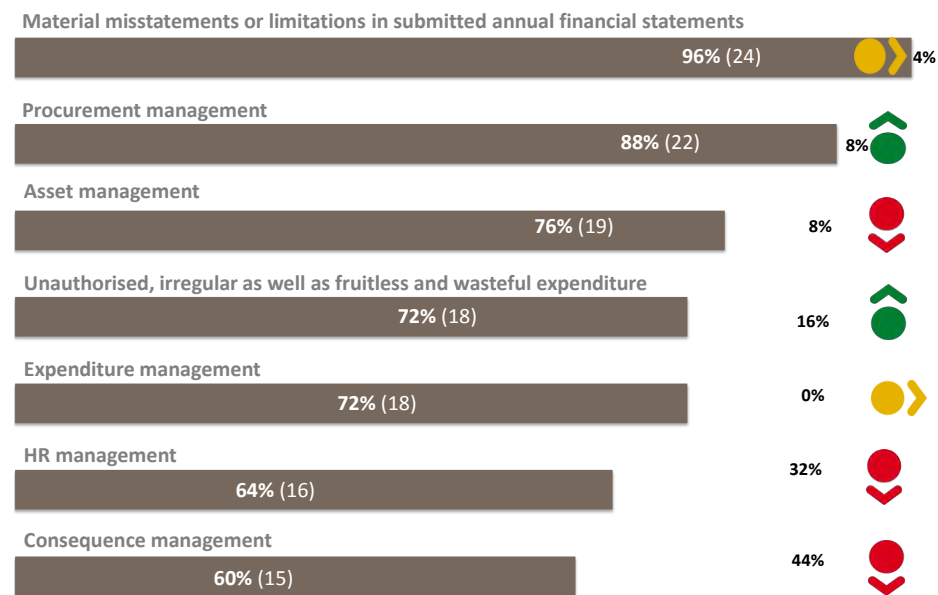


Figure 4 shows the compliance areas with the most material findings and the progress made by auditees in addressing these findings. Although most auditees had findings on procurement management, there has been a slight improvement in the number of findings. The number of auditees with findings on unauthorised, irregular as well as fruitless and wasteful expenditure has also decreased. The change can be attributed to officials having a better understanding of budgeting processes. Furthermore, councils have implemented their mandate to investigate unauthorised/irregular/fruitless and wasteful expenditure before recommending either the writing off or recovery of such expenditure. Since the bulk of irregular expenditure relates to SCM, it is encouraging to see action being taken. The number of findings on human resource management and consequence management increased since the previous year. However, the number of findings on material misstatements in the financial statements submitted for audit remained unchanged.

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

- Material misstatements or limitations in the financial statements. Auditees corrected some misstatements, but they were not enough to affect the audit outcomes of the 24 municipalities analysed.
- Irregular expenditure was not prevented by the accounting officer at 18 municipalities

- Ineffective systems of internal control relating to asset management were identified at 19 municipalities.

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

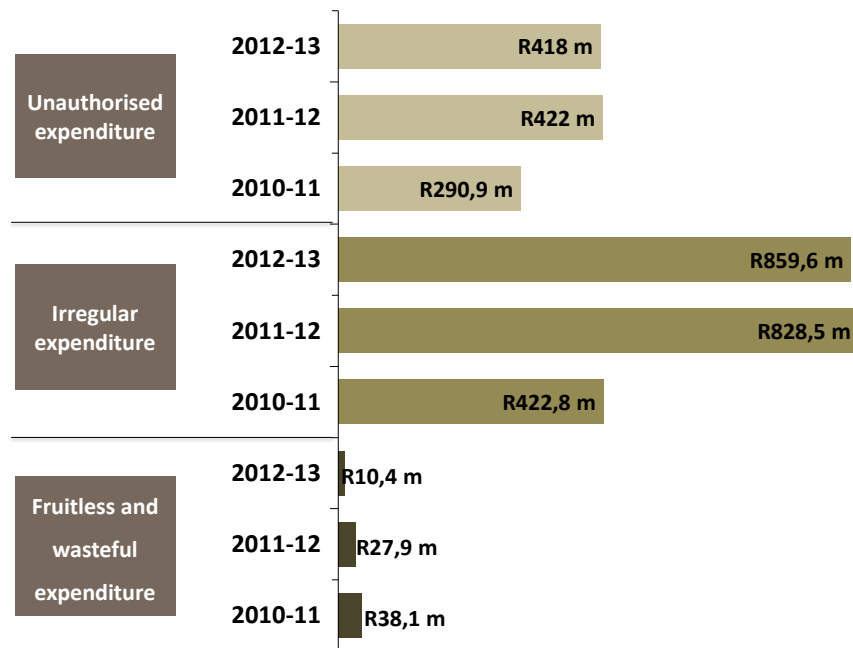


Figure 5 reflects the three-year trend in unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees.

**Unauthorised expenditure** is expenditure that was not spent in accordance with the approved budget. The reduction in the unauthorised expenditure incurred in 2012-13 is insignificant when compared to 2011-12.

Of the R418 million unauthorised expenditure incurred in 2012-13, most (88%) was a result of overspending the budget. Fifty-three per cent of the expenditure was identified by the auditees. The lack of skills in the finance unit and the dependence on the audit to identify unauthorised expenditure remain a concern.

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

misconduct, fraud or losses that should be recovered. Irregular expenditure remained at the same high level, with the bulk being incurred due to poor procurement management.

Of the R859,6 million irregular expenditure incurred in 2012-13, 100% was a result of non-compliance with SCM regulations. Eighty-six per cent of irregular expenditure was identified by the auditors, which shows that most auditees were unable to identify irregular expenditure when it occurred. Once again, there is a great reliance on the audit to identify irregular expenditure.

**Fruitless and wasteful expenditure** is expenditure that was made in vain and that would have been avoided had reasonable care been taken. Fruitless and wasteful expenditure has steadily decreased, with a significant improvement since the previous year.

Of the R10,4 million fruitless and wasteful expenditure, 68% was identified by the auditees. The bulk of fruitless and wasteful expenditure incurred was due to interest and/or penalties on late payment of suppliers.

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

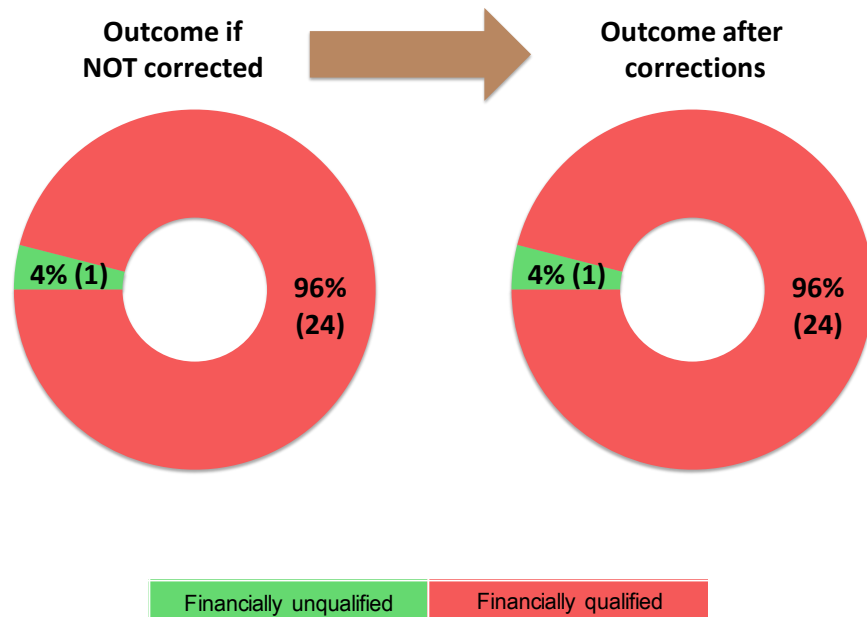
Our audits of the six risk areas show that our recommendations to address these risks to financial and performance management have not yet been implemented. Significant aspects of five of these risk areas are summarised below, while the quality of performance information is discussed as part of the section 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 with an opinion on whether the financial statements fairly present, in all material respects, the key financial information for the reporting period in accordance with the financial framework and applicable legislation. The audit provides the users with reasonable assurance on the degree to which the financial statements are reliable and credible, on the basis that the audit procedures performed did not identify any material errors or omissions in the financial statements. We use the term *material misstatement* to refer to such material errors or omissions.

While most auditees submitted their financial statements on time for auditing, figure 1 shows that the Polokwane Housing Association was the only one auditee (4%) that submitted financial statements that did not contain material misstatements. The two auditee's, namely Waterberg District Municipality and Mogalakwena Local Municipality, that submitted financial statements without material misstatements in the previous year regressed, while the municipal entity improved to submit quality financial statements. The lack of skills in finance units and a great reliance on consultants to compile financial statements remain a concern. Furthermore, auditees had still not implemented controls over the most basic functions that are used in everyday tasks in financial and performance management as well as compliance with laws and regulations. The culture of preparing financial statements and performance reports merely as a year-end process rather than an ongoing process throughout the year remains embedded. In-year reporting helps to prevent misstatements in the year-end reports and to detect non-compliance with legislation. It also ensures proper financial and performance management throughout the year.

**Figure 6: Quality of submitted financial statements**



Even though we reported the material misstatements to management for correction, none of the auditees (2011-12: 2) could make the necessary corrections to the financial statements, which resulted in qualified, adverse and disclaimer of audit opinions. This is due to the lack of skills and competencies in the finance unit to identify and address errors in the financial statements. This is

depicted in figure 6. The Polokwane Housing Association, which received a financially unqualified opinion, did not have any material misstatements in their financial statements submitted for auditing. The following were the three most common financial statement qualification areas:

- Contingent liabilities, 23 (92%) auditees (2011-12: 11). This was due to the potential liability from the wage curve dispute that was not disclosed in the financial statements
- Property, infrastructure, plant and equipment, 21 (84%) auditees (2011-12: 21). Due to non-compliance with the provisions in the applicable accounting standards as well as the uncertainty of the ownership of roads between local and district municipalities.
- Receivables, 13 (52%) auditees (2011-12: 14).

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

### Supply chain management

As part of our audits of supply chain management (SCM), we tested 675 contracts (with an approximate value of R1,84 billion) and 1 695 quotations (with an approximate value of R79,75 million), also referred to as *awards* in this report.

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

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

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

The continued high number of auditees with findings on SCM remains a concern. Findings on uncompetitive or unfair procurement processes remained the most common.

**Figure 7: Findings on SCM**

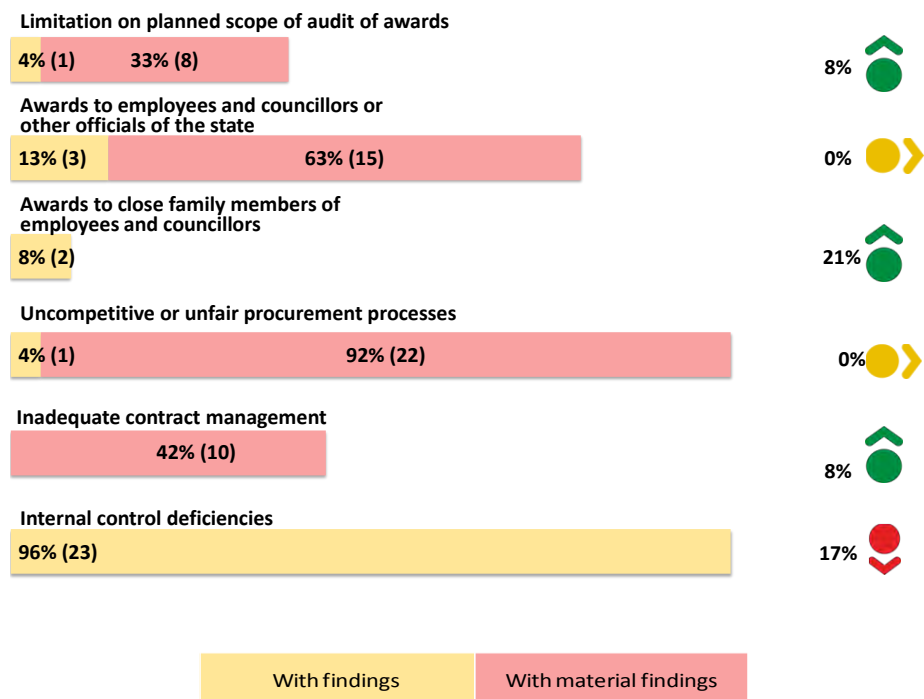


Figure 7 indicates the extent of findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- It is of great concern that this year we again experienced limitations in auditing SCM. We could not audit awards with a value of R19, 88 million at nine auditees, as they could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation. The main reason for the limitations was missing documentation caused by inadequate management and filing systems. There were no alternative procedures that we could perform to obtain reasonable assurance that this expenditure was not irregular
- There were 15 instances of awards with an overall value of R11,1 million to suppliers in which other state officials had an interest. In all of these instances, the supplier did not declare the interest or submitted a false declaration.
- The most common findings on uncompetitive and unfair procurement processes were that: three written price quotations were not obtained and the deviations were not approved (54%); a preference point system was not

applied (33%); bids were advertised for a shorter period than required without approval (21%); and suppliers were without a valid tax clearance certificate (25%).

- The most common findings on contract management were that: contractors' performance was not monitored monthly (13%); contract performance and monitoring measures were inadequate (21%); and contracts were amended or extended without the reasons being tabled (8%).
- The most common findings on internal control deficiencies were: controls to ensure that interest is declared were inadequate (42%); poor or no record keeping (25%); and training of staff was inadequate (21%).

### Human resource management

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

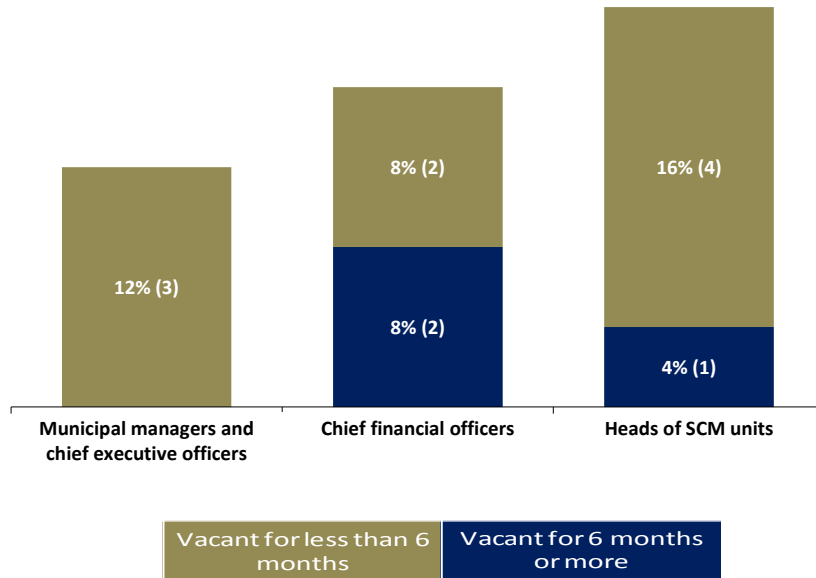
Our audits included an assessment of human resource management that focused on the following areas: ■ human resource planning and organisation ■ management of vacancies ■ appointment processes ■ performance management ■ acting positions ■ management of leave, overtime and suspensions.

Furthermore, our audits specifically concentrated on the management of vacancies and stability in key positions, competencies of key officials, performance management and consequences for transgressions.

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

Figure 1 shows that there has been no improvement in the number of auditees that had audit findings on human resource management since the previous year. Areas of concern such as the management of vacancies and the management of leave, overtime and suspensions have not been addressed adequately. While there has been some improvement at certain municipalities in the area of skills and competencies of officials in the finance units, this issue still requires dedicated attention from the leadership. The lack of appropriate support has, in turn, led to an overreliance on consultants. For the province to show sustainable improvement in their audit outcomes, it is critical that strategies be put in place to attract and retain staff with the requisite skills and competencies.

**Figure 8: Vacancies in key positions**



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

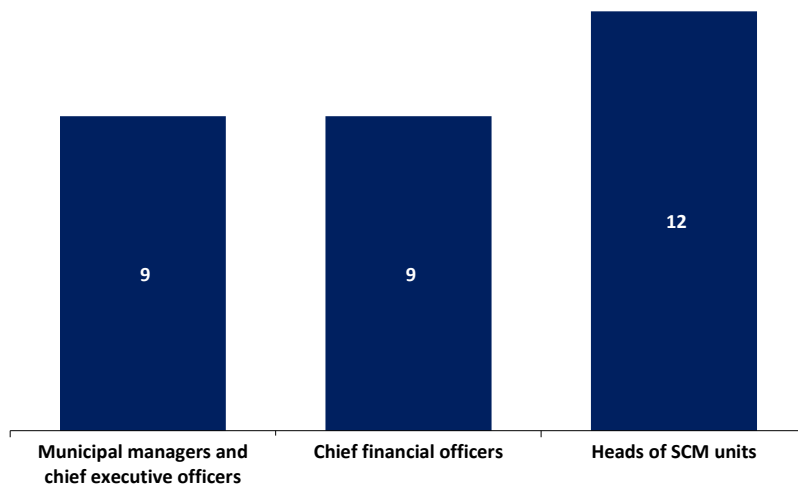


Figure 8 shows the number of auditees where the positions of municipal manager or chief executive officer (CEO), CFO and head of the SCM unit were vacant at year-end and indicates the period that the positions had been vacant. Figure 9 shows the average number of months key officials had been in their positions. This reflects the instability at local government level as the key personnel had, on average, been in their positions less than two years.

The most common findings on the management of vacancies and acting positions were the increase in the vacancy rates of senior managers since the previous year, and senior manager positions being vacant for more than 12 months.

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

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

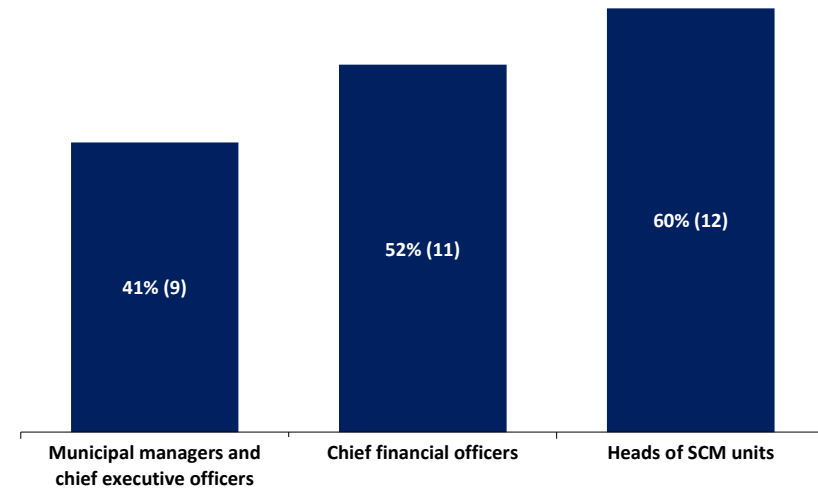


Figure 10 shows the percentage and number of auditees where key officials did not meet the competency levels defined in the regulations at year-end.

The impact of inadequate competencies was poor audit outcomes and service delivery. The extension on phasing in the amendments to the Municipal Systems Act regarding the minimum competencies of senior management had been approved by the National Treasury, and expires in July 2014.

One of the root causes for the regression in the audit outcomes was that key officials at 88% of the auditees lacked minimum competencies and skills. The

need for competent and skilled staff to support the municipal manager, specifically at CFO level, is critical to improving the audit outcomes, producing quality financial and performance information and implementing basic controls. Training and development initiatives should also be implemented to address the gaps in the competency levels of officials already appointed in key positions.

The most common finding on the competencies of key officials in the finance units was their inability to implement controls over basic everyday functions in financial and performance management as well as in compliance with legislation. The basic elements of internal controls must be effectively incorporated and implemented into the daily operations of all auditees, including:

- a clear segregation of duties
- internal checks and monitoring
- the maintenance of continuous records
- regular reconciliations
- physical asset management activities.

The implementation of these basic elements of key controls can only be achieved by appointing skilled and competent officials in the finance unit.

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. Even though officials at municipalities had performance agreements, it appears that they were signed for compliance purposes only as there were no consequences for poor performance and no rewards for good performance.

Other findings on human resource management were human resource planning and organisation, where the gap between existing and required needs was not addressed. Employees also received paid overtime for more than the maximum hours allowed.

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

- Continued high level of irregular expenditure related to supply chain
- Non-submission of supporting documentation due to poor record keeping
- Poor quality of annual financial statements

The province was unable to curb the increase in irregular expenditure since the previous year. The lack of the requisite skills and competencies of the heads of

SCM units at more than half of the auditees was one of key drivers of this trend. Furthermore, even though all the appointed heads of SCM units had signed performance agreements, it was evident that their performance was not monitored and they were not held accountable for the continuous irregular 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:

	<b>Financial information</b>	<b>Performance information</b>
Municipal officials lacked the required skills	80%	100%
Combination of lack of skills and vacancies	10%	0%
Not skills or vacancy related	10%	0%

The cost of consultants assisting with financial reporting was R56,4 million (2011-12: R45,8 million). This includes amounts, as far as could be determined from available information, spent by the National Treasury, provincial treasuries and the national Department of Cooperative Governance and Traditional Affairs on consultants assigned to assist municipalities. The cost of consultants assisting with performance information was R6,2 million (2011-12: R4,3 million). Twenty auditees made use of consultants to assist with financial reporting and/or compilation of an asset register, while two auditees appointed consultants to assist with reporting on performance information. These two auditees' consultant costs have been included in the total cost of consultants.

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

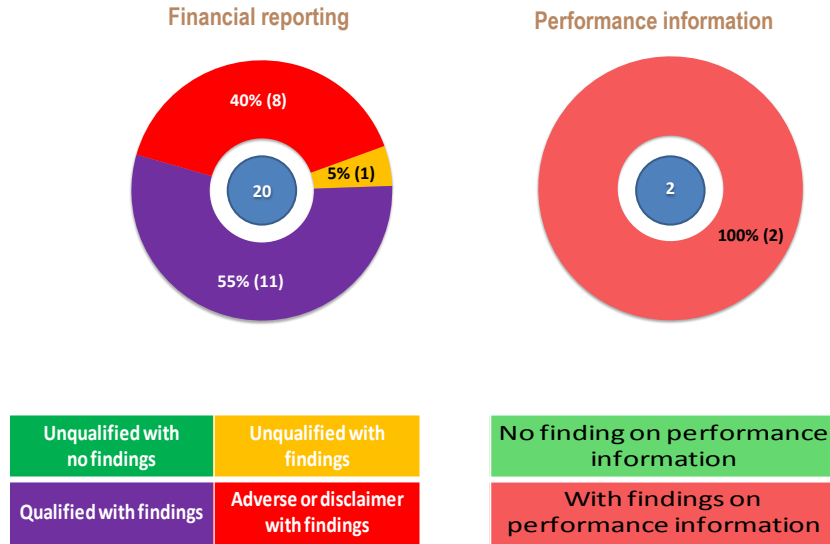
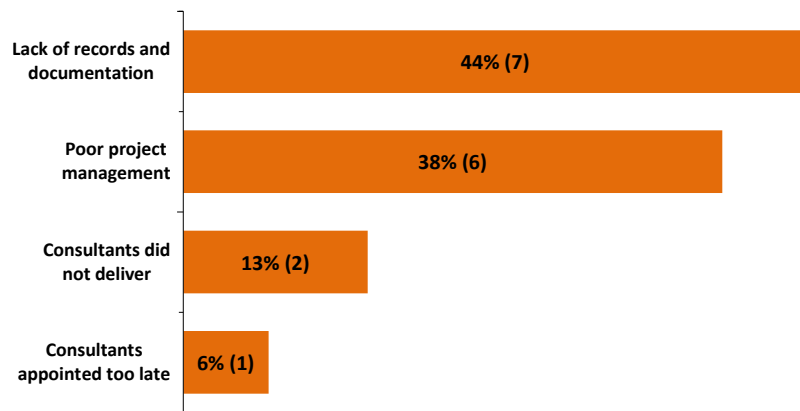


Figure 11 shows the audit outcomes of 20 auditees (80%) that had been assisted by consultants and the occurrence of findings on financial and performance information at those auditees assisted by consultants. The reasons why consultants did not have a positive impact on the audit outcomes of some auditees are shown below.

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



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

- Some auditees did not have policies or strategies that clearly define the main purpose and objectives of appointing consultants. This, together with the lack of transfer of skills, led to consultants being appointed for recurring tasks for which a qualified and skilled official could be permanently appointed.
- Measures to monitor contract performance and delivery are not defined and/or implemented.
- Conditions or clauses relating to the transfer of skills were not included in some contracts. Where these conditions were included, the consultancy project was not evaluated at the end to determine whether skills and knowledge were transferred as per the terms of reference and the contract.
- Records and documents were, in some instances, not available to support and validate the financial and performance reports prepared with the help of consultants. This was due to a lack of proper record keeping at the affected auditees.

Specific oversight on the use of consultants should be performed by the audit committees and council committees, focusing on:

- **Economy** – The economical acquisition of consultancy-related resources includes a competitive procurement process for the appointment of consultants and the creation and maintenance of a permanent staff capacity for recurring tasks.
- **Efficiency** – The efficient use of consultants requires the achievement of an optimal relationship between the outputs produced by consultants and the resources expended by auditees to remunerate these consultants. The management of the process to achieve this relationship should also be a key consideration.
- **Effectiveness** – The use of consultants is considered to be effective if the objectives that informed the appointment of consultants are met. Audit committees should evaluate whether these objectives have been met, especially those including training and the transfer of skills.

It is not possible for an auditee to produce information that is credible in an environment where the elements of basic internal controls are lacking. This ultimately results in the data used by, or provided to consultants to prepare financial information, being unreliable.

The work performed by consultants was inadequately managed by auditees at six municipalities. However, this finding is also a reflection of the poor quality of services that the consultants rendered. During our engagements, there were instances where the consultants could not sufficiently justify the work performed and reports produced. In addition, as a result to the lack of skills and



competencies in the finance units, officials often found themselves unable to proactively identify errors or inconsistencies in the reports produced by the consultants.

## Information technology controls

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

Our audit included an assessment of the information technology controls that focus on information technology governance, security management, user account management and information technology service continuity. The analysis that follows is based on IT audits conducted at all municipalities.

Figure 1 shows that little improvement has been made in the number of auditees with audit findings on information technology controls since the previous year. An analysis of the audit outcomes indicated that the majority of municipalities still experienced challenges with the design and implementation of information technology controls. The following classification of findings was applied in determining the red, orange and green elements of the pie graph included in the foreword graphic, in all assessments the focus areas used were security management, user access controls and IT service continuity:

- If it were identified that a municipality had **design** weaknesses in the IT controls over two or more of the IT focus areas, it was classified as having material (red) IT findings.
- If it were identified that a municipality had control **implementation** weaknesses in two or more of the IT focus areas it was classified as having significant (orange) IT findings.
- If no findings were identified relating to the design or implementation of IT controls over any of the three focus areas it was classified as having no IT findings (green).
- IT governance findings had no impact on the foreword graphic on the management of information technology controls.

Figure 13: Status of information technology controls

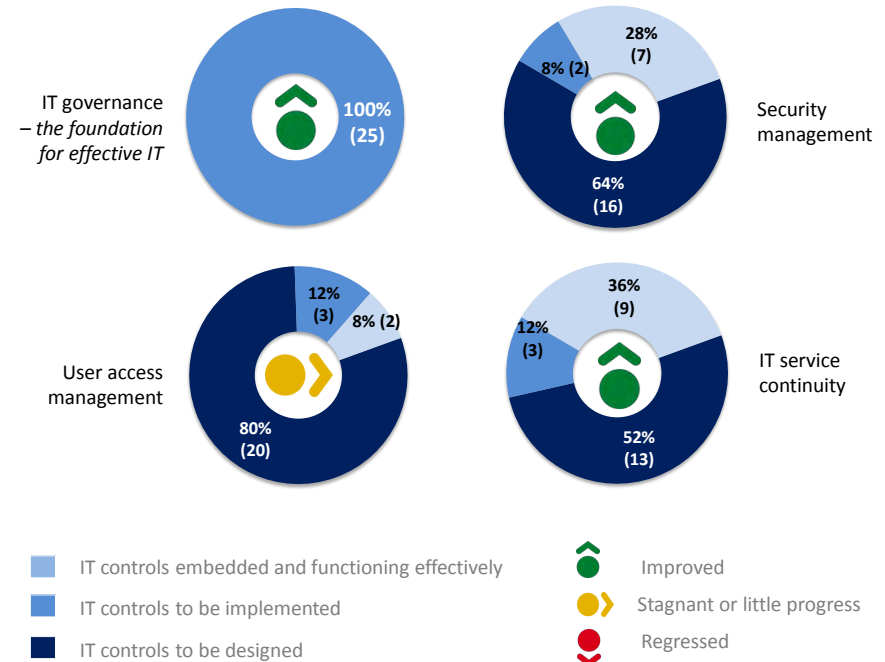


Figure 13 above indicates the status of the information technology controls in the areas we audited and the movement since the previous year. It shows the number of auditees where information technology controls were either not in place (not designed) or not implemented, as well as those where information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

Effective **information technology governance** ensures that the auditee's information technology control environment functions well and enables service delivery. The information technology governance framework developed for government has not yet been implemented. However, all auditee's were 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 (CoGHSTA) to guide municipalities in, among others, implementing the governance framework.

The majority of auditees did not have adequately designed and implemented information technology controls for security management, user access

management and information technology service continuity. The most common findings were the following:

- **Security management:**

There was a lack of formally documented and approved security management policies and procedures. Furthermore, municipalities did not have appropriately skilled resources to implement adequate information technology security controls. However, there was an improvement at seven auditees where the information technology security management controls were embedded and functioning effectively. These were Aganang, Waterberg District, Mookgophong, Thulamela, Greater Letaba, Fetakgomo and Vhembe District.

- **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 privileged accounts.

- **Information technology service continuity:**

There was a lack of backup standards and procedures. Business continuity and disaster recovery plans were not always established to ensure the continuity of the municipalities' information technology services in the event of system disruptions. However, there was an improvement at nine auditees where the information technology service continuity controls were embedded and functioning effectively. These were Makhudutamaga, Aganang, Waterberg District, Bela-Bela, Mookgophong, Thulamela, Vhembe District, Ephraim Mogale and Maruleng.

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 and incomplete data, as well as the unavailability of information technology systems in the event of major system disruptions or data loss.

## Financial health

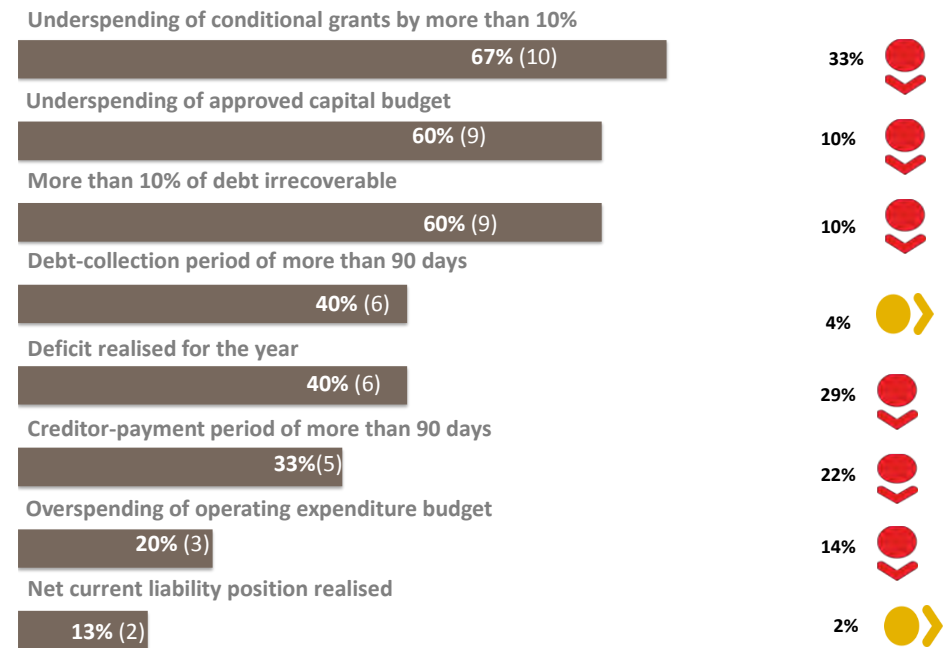
Our audits included a high-level analysis of auditees' financial health indicators to provide management with an overview of selected aspects of their current financial management and to enable timely corrective action where the auditees' operations and service delivery may be at risk. We also performed procedures to

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

Figure 1 indicates the number of auditees that had more than two of the indicators shown in figure 14 below (with findings) and auditees with material going concern uncertainties or adverse or disclaimed audit opinions (with material findings). There has been an increase in the number of auditees that had findings on financial health since the previous year.

As in the previous year, the financial health analysis excluded nine auditees who obtained a disclaimed or adverse audit opinion as their financial statements were unreliable. As long as auditees produce unreliable financial statements, the reflection of the status of financial health at local government will be flawed.

**Figure 14: Areas of financial health concerns**



Conditional grants and capital budgets are intended to enhance specific service delivery objectives. Municipalities that have difficulty compiling credible operational budgets, or are unable to manage their operational expenditure according to their budgets, are at financial risk. Where either of these failures occurs within the context of limited cash resources and poor revenue collection rates, the financial risk is greatly magnified. The underspending of capital budgets in municipalities is mainly attributed to difficulties with planning and executing capital projects. Current trends indicate that the capital budgets

continue to be underspent while municipalities overspend on operating budgets. Contributing factors include:

- poorly prepared budgets that lack credibility
- over-ambitious capital programmes that, in many instances, are unidentified
- liquidity and cash flow challenges
- weak revenue management
- non-priority spending driven by operating budget.

The overspending of the operating budget has a direct relation to the high level of unauthorised expenditure incurred at the municipalities. In addition, the poor management of capital budgets could be associated with the high level of irregular expenditure incurred at the municipalities. The following municipalities overspent their operating budget:

- Bela Bela
- Blouberg
- Musina

The following municipalities underspent their approved capital budgets:

- Capricorn District municipality
- Waterberg District municipality
- Aganang
- Blouberg
- Lephalale
- Makhado
- Makhudutamaga
- Mogalakwena
- Thulamela

Linked to the underspending of the capital budget is the underspending of the conditional grants. The reasons for persistent underspending on infrastructure projects could include delays in project registration, absence of project management units, lack of capacity, delays with contractors, limited multi-year budgeting and political interference in the capital procurement processes. The following municipalities underspent their capital grants:

- Capricorn District municipality

- Waterberg District municipality
- Blouberg
- Lephalale
- Makhado
- Makhudutamaga
- Mogalakwena
- Mookgophong
- Musina
- Thulamela.

Six municipalities had debt collection periods of more than 90 days. These were Aganang, Blouberg, Lephalale, Makhudutamaga, Mookgophong and Thulamela. The underperformance of actual collections can be attributed, in part, to the affordability of municipal services. The ongoing economic slowdown and substantial increases in electricity tariffs began to have an impact on affordability and, subsequently, the ability of consumers to pay for services. It is important to note that the growth in the level of consumer debtors may also be attributed to the following:

- Failure of mayors and municipal councils to provide political backing to revenue enhancement programmes
- Failure of municipal managers to allocate sufficient staff/capacity to the revenue collection function, thus compromising the implementation of policies to enhance revenue
- Poorly designed revenue management, and indigent and debtor policies
- Resistance among certain communities to pay for certain types of services (or to be billed in a particular way)
- Rate-payer boycotts, sparked by deteriorating service delivery, and perceptions that the municipality is unresponsive to community concerns.

Five municipalities had a creditor payment period of more than 90 days. This increased by 22% compared to 2011-12. The creditor payment period was high and a further indication of local municipalities depleting their cash and reserves to fund extensive and overly ambitious capital programmes and/or compiling unfunded budgets. In many instances, municipalities spent more than they generated, which resulted in an increase in outstanding creditors. Another contributing factor is that municipalities overestimated their collections and overspent on their operating expenditure budget. Poor collection of debtors' payments has also resulted in delayed payment to creditors.

The risk associated with the current state of municipal finances in the province fall into the following categories:

- Bulk services do not get paid for
- Contractors and suppliers do not get paid
- All of the above, which would ultimately result in poor service delivery

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

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

Figure 15: Status of drivers of key controls

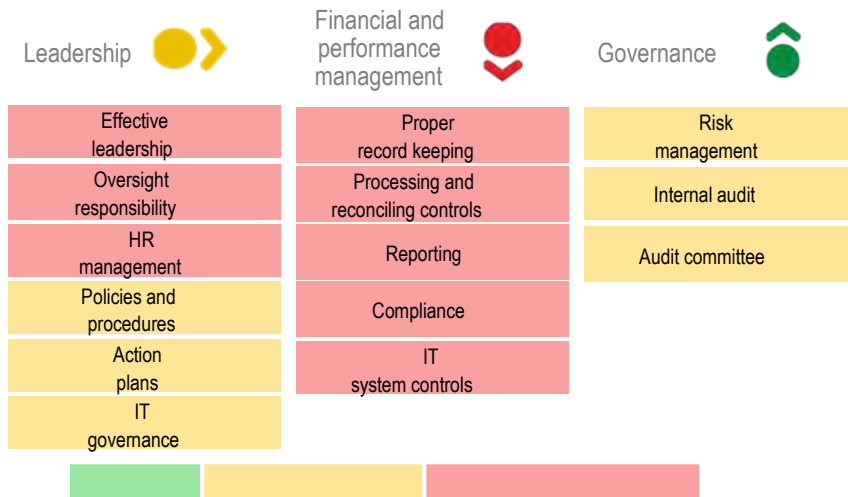


Figure 1 above shows the status of the different areas of control and the overall movement since the previous year. There has been no improvement in leadership, which is reflected in the audit outcomes. The lack of consequences for poor performance and transgressions and the political leadership's slow response were identified as root causes for the stagnation in audit outcomes. Financial and performance management in the province is poor. The lack of necessary competencies and skills in the finance units, SCM units and

information technology departments had a negative impact on the goal of clean audits in the province. Governance structures improved, with the internal audit and audit committees executing their duties in a manner that adds some value to the municipalities' ability to address risk areas in time. This is due to audit committee members being more experienced as well as efforts by CoGHSTA and the National Treasury through various training programmes, to capacitate the members. Internal audits are also addressing their high vacancy rates which enables them to increase the scope of their audits,

Many auditees did not get a clean audit opinion 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, and recommendations to address them are listed below.

- **Key officials lack appropriate competencies.** The provincial treasury and the department of CoGHSTA should monitor adherence to the requirements of the Municipal Systems Act when appointing municipal and senior managers. Furthermore, the minimum competency levels for all municipalities in the province have still not been assessed.
- **Lack of consequences for poor performance and transgressions.** Commitments made by the leadership to deal with poor performers must be honoured. Each municipality should implement an effective and efficient performance management process. These recommendations were also made in the previous year's general report, but no significant impact was noted during the 2012-13 financial period.
- **Slow response by political leadership.** The leadership should strengthen their resolve to address the root causes of poor outcomes by ensuring that the weaknesses in internal controls are addressed in a sustainable manner. Councils should increase their support for MPACs very important oversight role.

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

The management and the leadership of the auditee and those that perform an oversight or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the six key risk areas, thereby providing assurance on the quality of the financial statements and performance reports as well as compliance with legislation.

Based on our assessment as shown in figure 1, these role players are not providing the necessary assurance. The following is an overview of the assurance provided by each of the assurance providers.

### *Senior management*

Senior management, which includes the CFO, chief information officer and head of the SCM unit, provides assurance by implementing basic financial and performance controls. The level of assurance has regressed since the previous year. The limited level of assurance provided can be seen from the poor quality of financial statements and performance management that is submitted year after year. This highlights the risk that decisions taken by municipal managers, mayors and councils could be based on incomplete and incorrect information provided by the municipal management. The senior management vacancies need to be filled, competence should be obtained at the required levels and senior managers should be held accountable for the execution of their duties through a strict system of performance management. Furthermore, senior management should improve their supervision of staff to ensure that the basic key controls are implemented.

### *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 assurance provided by municipal managers has regressed since the previous year. The municipal manager is responsible for establishing an effective control environment. The status of the various drivers of internal control has either regressed or remained stagnant. The lack of skills and competencies of accounting officers prevents them from providing the necessary level of assurance. An environment should be created to improve these controls by providing effective and ethical leadership, and exercising oversight of financial and performance reporting as well as compliance with legislation. Policies and procedures should be established to enable sustainable internal control practices. Further, the implementation of action plans should be monitored.

### *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.

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

As with the senior management and accounting officers, the level of assurance provided by mayors has also regressed. This is linked to a root cause for regression in the audit outcomes: leadership was slow to respond to our messages and did not take ownership of key controls. Mayors must show a keen interest and get involved in the key operations of municipalities to improve the level of assurance they provide. It is unfortunate that at the majority of the municipalities the mayors become involved very late in the audit process and reacted to the potential regression in the audit outcome. At that late stage, it was almost impossible to turn the situation around.

### *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.

Assurance provided by internal audit has improved since the previous year. This was due to internal audit units becoming more stable and operating according to their legislated mandate. There were still a number of municipalities that did not have an internal audit unit or where internal audit had no impact. Of concern is that many municipalities ignore the findings and recommendations of internal audit, which restricts their effectiveness. Internal audit units can only be effective if municipal managers and senior management cooperate and respond to their advice and recommendations. Internal audit units should be adequately resourced and audit committees must oversee and support their operations.

### *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.

The assurance provided by audit committees has not improved since the previous year. An audit committee is dependent on the level of assurance provided by senior management, the municipal manager and the mayor. With the limited assurance provided by these three critical role players, it has been challenging for the audit committee to make accurate assessments of the municipality's control environment. Some audit committees were not effective due to shortcomings in the availability and competencies of people serving on

these committees. A well-capacitated internal audit unit and senior management, municipal managers and mayors with the necessary competence and skills will increase the level of assurance provided by audit committees.

### *Provincial treasury, premier's office and provincial department of CoGHSTA*

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 to monitor financial and performance management in compliance with these acts.

The provincial departments that have a direct role to play in supporting and monitoring local government, and thereby providing a level of assurance, are the provincial treasury, CoGHSTA and the office of the premier. Our assessment of the assurance provided by these departments is based on their initiatives to support and monitor local government and the impact they have had on improving the internal controls of auditees.

The level of assurance provided by coordinating departments has regressed. This is evidenced by the findings on the wage curve agreement and municipalities' responsibility for roads. Had these departments been proactive, the necessary corrective actions could have been taken to prevent the overall regression in audit outcomes. The Municipal Systems Act's requirements regarding the appointment and competency levels of senior management have not been implemented and monitored, and a skills audit at all municipalities has still not been completed. The capacity of, and cooperation between, the three coordinating departments should be strengthened to improve their ability to guide, support and monitor local government.

Capacity constraints at the treasury and CoGHSTA also prevented them from providing the required level of assurance to municipalities. As highlighted in the previous year's general report, for these coordinating departments to provide the level of support and assurance at local government, it is critical that their officials are kept up to date with technical developments (accounting standards, laws and regulations, etc.) affecting municipalities. Officials from these departments tasked with providing assistance to municipalities still lack the will to stay abreast of changes in the local government environment, including proactively identifying emerging risks that could potentially affect the audit outcomes. The post of the provincial accountant general has remained vacant for some time, which has an impact on the level of assurance that treasury provides.

The majority of prior year commitments and initiatives by the coordinating departments were still in progress at the time of writing this report. The commitment made by the leadership to carry out a skills audit with regard to incumbents of key positions by 31 March 2013, is yet to be implemented.

### *Municipal council and municipal public accounts committee*

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

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

MPACs have been established at all municipalities and public hearings are held to hold officials to account. However, the MPACs have only been operational since 2012 and members are still lacking structures, processes, skills and experience required to perform an effective oversight function. Capacity building for members is a continuous process and the Association for Public Accounts Committees (APAC) also plays a crucial role in enhancing the roles and responsibilities of MPACs.

The political leadership's slow response to AGSA messages and their not taking ownership of key controls was again identified as one the root causes for the regression in the year under review. This was a concern at 68% of the auditees.

As long as local government continues to struggle with poorly skilled staff, the key controls will not receive the required level of attention. This in turn creates an environment in which fraud and other undesirable activities can flourish, leading to the continued increase in, among others, irregular expenditure.

Weak oversight from councillors who lack the knowledge to ask the right questions, and the lack of consequences for poor performance and transgressions, made the situation worse. This was identified at 76% of auditees. The council and the MPAC, through their oversight role, should ensure that consequences for poor performance and transgressions are strictly enforced.

The continuous poor quality of the service delivery reports presented for auditing also raises concerns about the assurance that the municipal councils are able to provide on non-financial performance results. The MPAC and speaker must play

a more active role in ensuring that information presented to the council is credible and can be relied upon to make informed decisions.

### 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 CoGHSTA and other executives involved in local government, such as the member of the executive committee for finance. The mechanism used to conduct oversight is the portfolio committee on local government.

Limited assurance was provided by the legislature and the portfolio committee, as was the case in the previous year. The portfolio committee should intensify its efforts to ensure that CoGHSTA's commitments to address audit outcomes are honoured. The impact of its resolutions, actions and initiatives was very limited. Once again, there was a reliance on credible and timely information. With the limited assurance provided by senior management, municipal managers as well as the coordinating departments, the work of the committee can be rendered ineffective.

A Speaker's Forum under the chairmanship of the speaker of the provincial legislature meets quarterly to discuss matters relating to good governance. The provincial business executive uses this platform to inform speakers of matters of concern and successes at the municipalities in the province.

### District municipalities

We do not assess the assurance provided by district municipalities, but we are convinced that their support can assist in improving audit outcomes. The role and responsibilities of district municipalities regarding their local municipalities are not consistent in the province. The Waterberg District Municipality has delegated all its responsibilities to the local municipalities under its control and therefore plays no role at the local municipality. The other district municipalities had varied responsibilities in their local municipalities.

District municipalities not only have to coordinate development and delivery in the whole district, but also need to play a vital supporting role in the financial management of their local municipalities. They should serve as an example of accountability and reporting. This was not the case at all district municipalities in the province.

However, as the audit outcomes of district municipalities were just as bad as those of the local municipalities under their control, they could not play their oversight role and assist by sharing best practices. The role of a district

municipality should be clarified and rolled out with the assistance of the provincial treasury and CoGHSTA.

## 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 MPACs through our reports and interactions with them.

Figure 16: Interactions with mayors

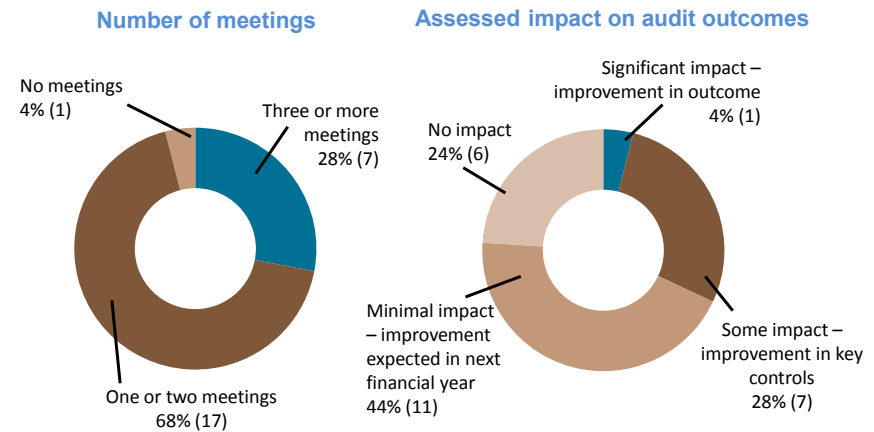


Figure 16 shows the number of meetings we had with mayors during 2012-13 and our assessment of the impact of these interactions. At most municipalities we had one or two meetings with mayors, but their impact on audit outcomes has been very limited. It is encouraging that there are mayors who influenced the improvement of key controls.

Throughout the year, we obtain and monitor the commitments of mayors, councils and MPACs to implement initiatives that can improve audit outcomes. The progress of such commitments in response to the previous year's audit outcomes and new commitments are included in the section on the results of municipalities. Overall, mayors made very few commitments. This can be ascribed to the fact that very few mayors were actually involved in the audits of their municipalities. As a result, some mayors contested our findings due to ignorance and a lack of insight into our final audit outcomes. In addition, the following commitments were made:

- The premier committed to ensure that there will be consequences for poor performance and transgressions at all municipalities.
- The provincial treasury will manage the process of addressing and solving the transversal matters that had such a huge impact on the audit outcomes of the province. The provincial treasury will also liaise with the National Treasury on these issues. Furthermore, the provincial treasury will liaise with the provincial department of roads and transport to solve the shortcomings relating to ownership of roads between the Limpopo Roads Agency (Pty) Ltd and the municipalities.

The following initiatives were implemented in the province:

- The initiative implemented by CoGHSTA in the 2011-12 financial year, to compensate for the skills deficit by deploying consultants to municipalities to provide support as resident accountants has achieved mixed results and cannot be regarded as successful. The lack of commitment and cooperation from officials at the municipalities is a challenge that has to be addressed for this initiative to be successful. The premier also expressed his concern over the lack of progress by the municipalities in the implementation of the Municipal Minimum Competency Regulations and the provincial treasury has been tasked with tracking and monitoring the progress made by the municipalities in this regard.
- The provincial CFO's forum and the Operation Clean Audit (OPCA) forum driven by the provincial treasury and CoGHSTA, respectively, are not taken seriously in the province, as it is not always attended by the target audience (CFOs and/or municipal managers). CFOs and municipal managers delegate attendance to officials who do not have the required knowledge, skills and competencies to make any meaningful contribution at this forum.

With the change in the provincial leadership during the year under review, the progress of the commitments and initiatives will be tracked in the next financial year.

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

- Municipalities should regularly prepare and review the financial statements, including improving the controls over the daily and monthly processing and reconciliation of transactions
- Leadership should ensure the implementation, review and monitoring of action plans to address internal control deficiencies and to avoid repeat findings

- Daily and monthly controls and reviews must be established and/or institutionalised across all disciplines within municipalities.
- The finance units must be capacitated with adequately skilled and competent officials
- Officials must be held accountable for poor performance and transgressions of laws and regulations.

In general, most assurance providers have remained stagnant. With committed and inspired leadership, the assurance providers will improve. The provincial office will embark on door-to-door visits to all mayors in the province to share individual audit outcomes, risks and corrective actions that need to be taken.

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

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

### *Water and sanitation*

According to the Constitution, every person has the right to clean water. Government thus set a target to provide access to basic water and sanitation to all the people in South Africa by 2014. More than 5%<sup>2</sup> of people countrywide are currently still without clean water.

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

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

We identified 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

<sup>2</sup>State of the Nation Address by His Excellency Jacob G Zuma, President of the Republic of South Africa on the occasion of the Joint Sitting of Parliament, Cape Town, 13 February 2014



proper sanitation. The following need urgent attention to ensure that government's objectives relating to water and sanitation are achieved:

- The backlog in the provision of basic water and sanitation services will not be eradicated in 2014
- Municipalities not meeting their targets for the provision of basic water and sanitation services to households

## Roads infrastructure

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

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

We identified warning signs that could have a serious impact on municipalities' ability to provide people with proper roads. The following need urgent attention to ensure that government's objectives relating to roads are achieved:

- Municipalities did not have approved policies on roads infrastructure
- There were no roads maintenance plans to indicate the strategy to be followed
- Municipalities did not have a road asset management system
- Municipalities did not have plans to address backlogs relating to roads infrastructure
- The municipalities did not achieve targets for the construction of new roads, as well as maintenance and upgrading of roads.

The ownership of roads in the province and accounting for them was a huge challenge that resulted in the majority of the municipalities receiving qualified opinions in the year under review.

Section 84(1)(f) of the Municipal Structures Act, which deals with the division of powers and functions between the district and local municipalities, states that *a district municipality shall perform the function relating to municipal roads which form an integral part of a road transport system for the area of the district municipality as a whole*. Furthermore, *Provincial Gazette No. 1041*, dated 28 September 2004, provides a list of roads that have been declared as provincial roads under the management and ownership of the Roads Agency Limpopo and roads that are under the management and ownership of the district municipalities.

Municipalities have argued that the gazette is not valid or legally binding. However, the gazette can only be invalid if it has been repealed. At the finalisation of the audit reports, the gazette had not been repealed and was, therefore, still valid and legally binding.

The auditees' failure to comply with the provisions of the Municipal Structures Act and the government gazette resulted in a transversal qualification. We have engaged with the MECs of CoGHSTA and Roads and Transport on this matter. They have acknowledged the problem and have committed to addressing this matter in the 2013-14 financial year.



# AUDIT OUTCOMES OF INDIVIDUAL MUNICIPALITIES

## Introduction

This section of the report is divided into two sections for each municipality which analyses the following:

- Municipal demographics to provide context to the environment of each municipality. This is illustrated by way of a graphic of general statistics relating to the population and basic services at each municipality. Please note that the statistics used to populate these graphics were obtained from the 2011 census report as prepared by Statistics South Africa and have not been audited by the AGSA.

It should be noted that the demographics for the five district municipalities are an aggregation of the municipalities making up each district. Each district municipality comprises the following local municipalities:

### ***Mopani District Municipality (audit outstanding)***

Greater Giyani Local Municipality  
Ba-Phalaborwa Local Municipality  
Maruleng Local Municipality

### **Vhembe District Municipality**

Mutale Local Municipality  
Thulamela Local Municipality  
Musina Local Municipality  
Makhado Local Municipality

### **Capricorn District Municipality**

Blouberg  
Aganang  
Lepelle-Nkumpi

### **Waterberg District Municipality**

Thabazimbi  
Lephalale  
Mookgophong  
Modimolle  
Bela-Bela  
Mogalakwena

### ***Greater Sekhukhune District Municipality (audit outstanding)***

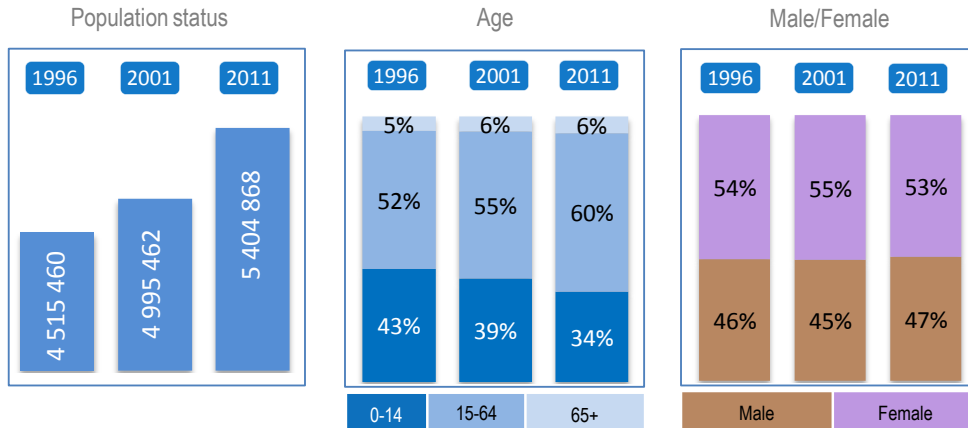
Ephraim Mogale  
Elias Motsoaledi  
Makhuduthamaga  
Fetakgomo  
Tubatse

- A one-page graphic supported by a narrative overview of the status of the municipality from an audit perspective.

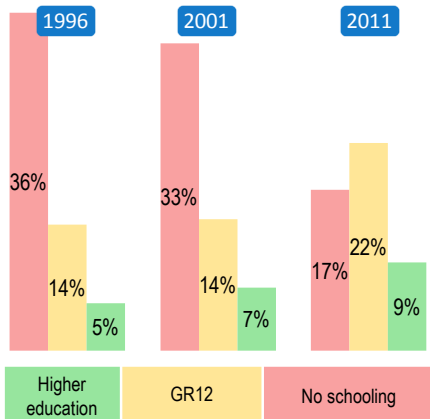
# Provincial overview LIMPOPO

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 the report

## Population

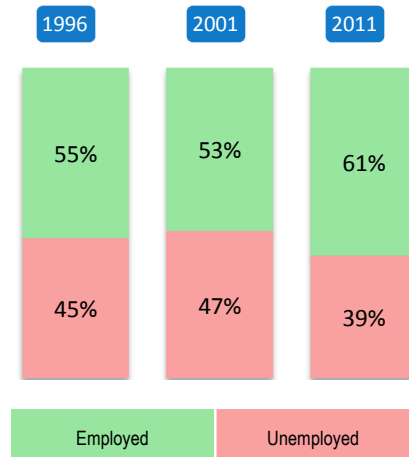


## Education

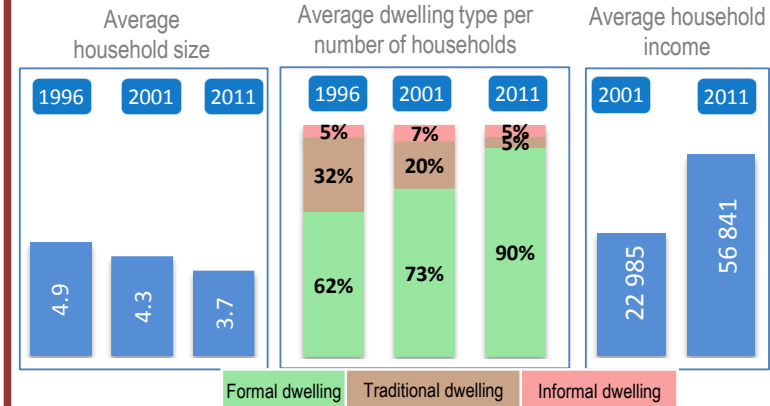


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

## Labour

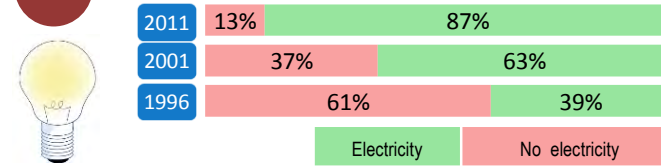


## Households

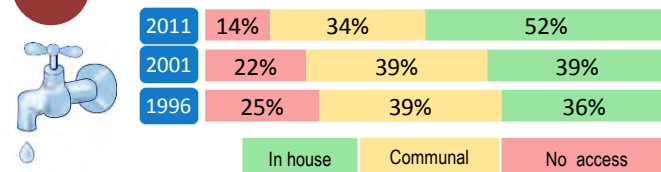


## Basic services

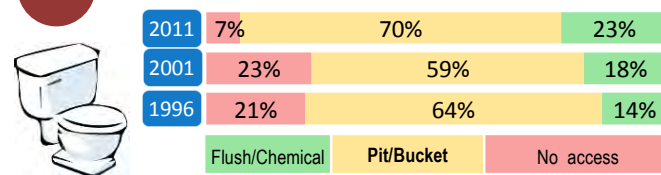
**87%** of the households have access to electricity



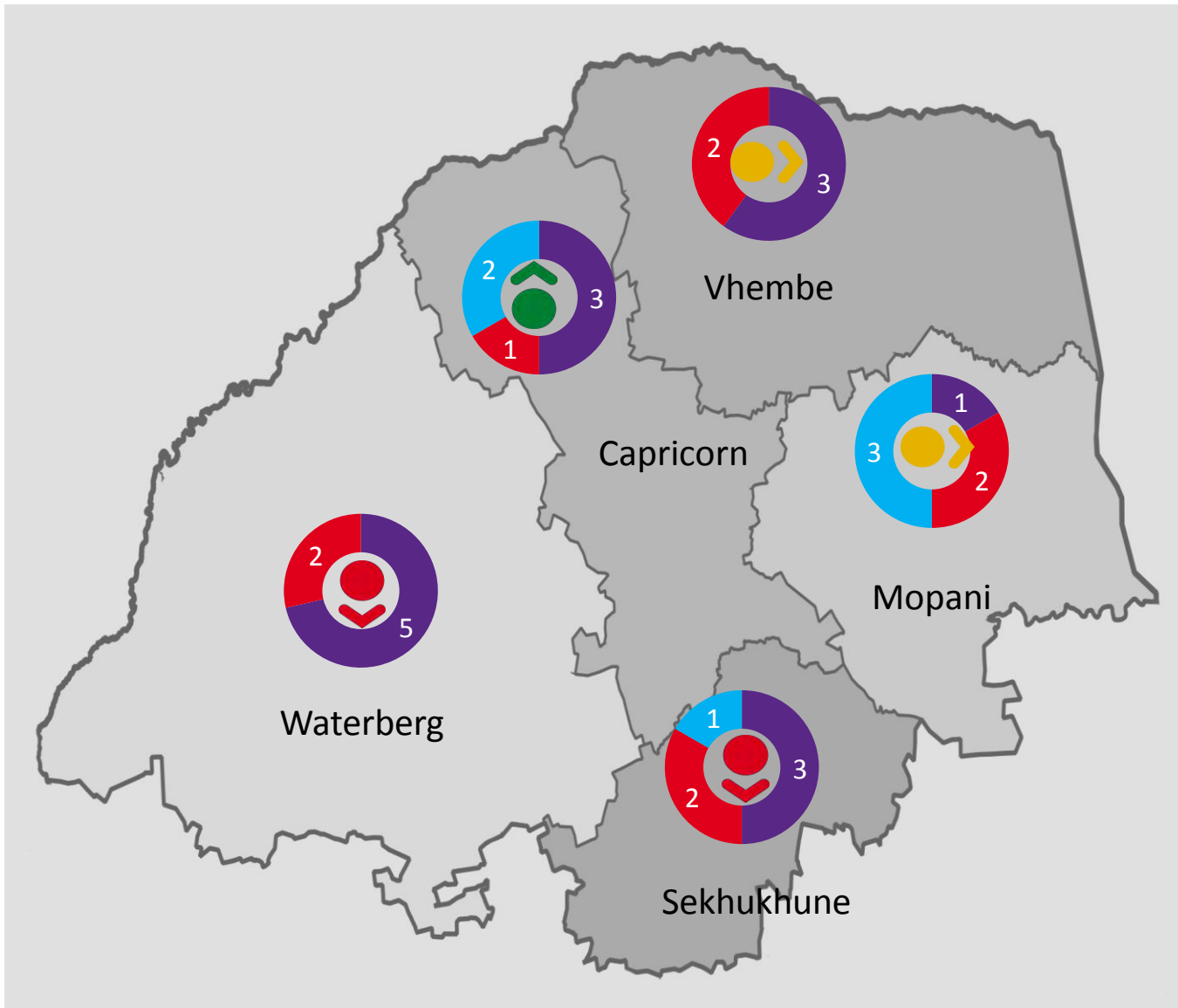
**86%** of the households have access to piped water



**93%** of the households have access to toilet facilities



# Municipal audit outcomes per district



- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse or disclaimer with findings
- Audits outstanding
- ▲ Improved
- ▶ Stagnant or little progress
- ▼ Regressed

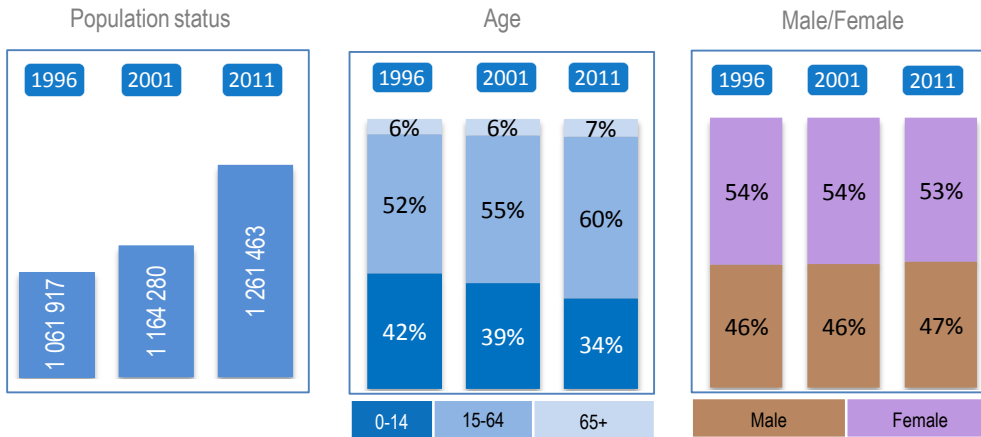
## Capricorn District

37

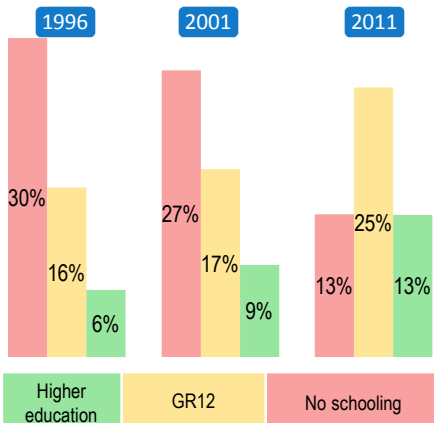
# CAPRICORN DISTRICT MUNICIPALITY

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## Population

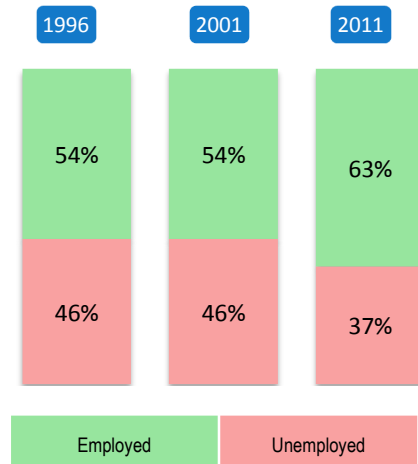


## Education

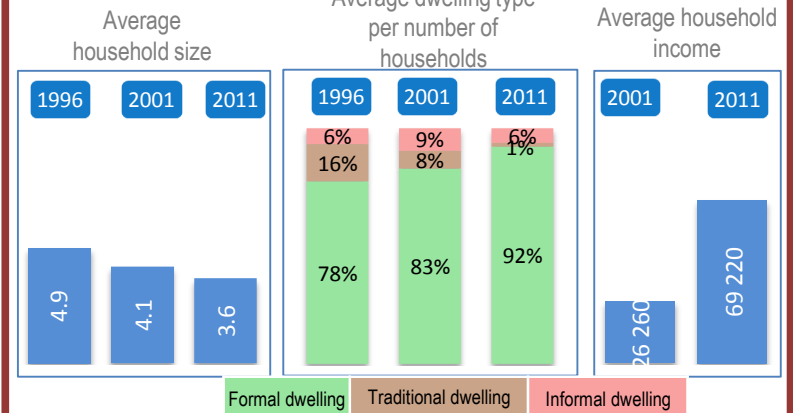


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

## Labour

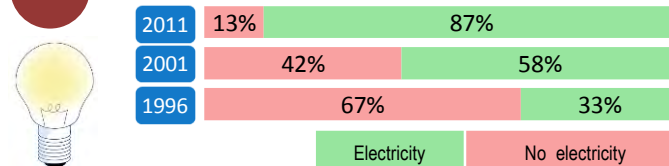


## Households

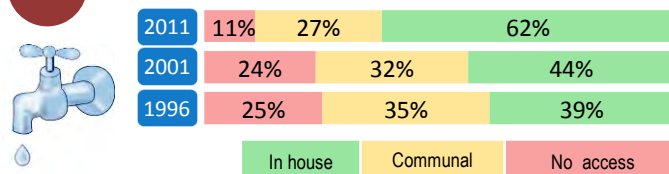


## Basic services

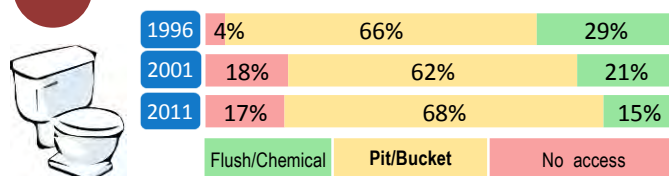
**87%** of the households have access to electricity



**89%** of the households have access to piped water

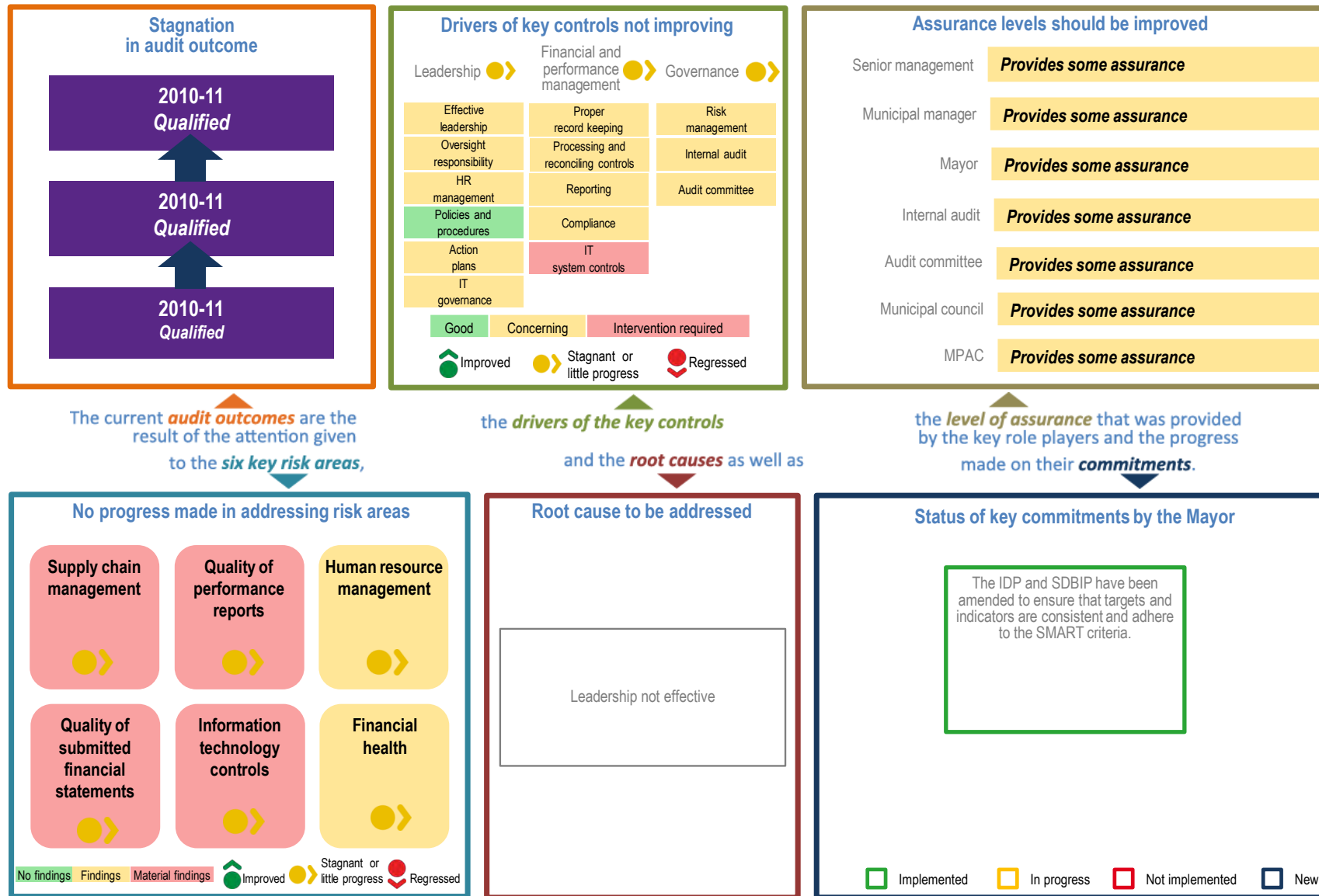


**95%** of the households have access to toilet facilities





# Capricorn District Municipality



# Capricorn District Municipality

## *No movement in audit outcome*

The municipality received a qualified opinion for three consecutive years. Although progress has been made in addressing the previous year's audit findings, the progress has not been sufficient to have an impact on the audit opinion. The municipality addressed two of the qualification findings since the previous year. However, two new qualification findings were raised in the year under review.

## *Six key risk areas*

Although there has been some progress in addressing the key risk areas of SCM, the quality of performance reports and the quality of the submitted financial statements was not sufficient to improve the audit outcome. No significant progress has been made in the other key risk areas of human resource management, information technology controls and financial health.

The municipality continued to rely on the services of consultants to assist with resolving the previous year's audit findings for the district municipality and its local municipalities at a cost of R1 million in 2012-13.

The municipality did not ensure that the performance information is supported and evidenced by reliable information to address the material findings on the reliability of its performance report.

The status of SCM has remained unchanged; however, the municipality is introducing compliance checklists to address gaps in the procurement process. Irregular expenditure amounting to R23 million was incurred during the year under review. This was due to an award being made to a bidder that did not have the highest points as per the Preferential Procurement Policy Framework Act (PPFA) and awards made in 2011-12 that contravened the new regulations effective from 7 December 2011. Fruitless and wasteful expenditure amounting to R97 241 and unauthorised expenditure amounting to R18 058 547 were identified by the municipality.

## *Key controls and root causes*

The key controls for leadership, financial and performance management and governance remained stagnant.

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

- Implement proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
- Review and monitor compliance with applicable laws and regulations.

The accounting officer and CFO should address the root causes of audit findings as follows:

- Implement an efficient record keeping system to ensure that documentation is easily retrievable and available at all times
- Review the financial statements rigorously to avoid material corrections to submitted financials
- Implement adequate measures to monitor compliance with legislation and enforce consequences for non-compliance

## *Impact of key role players on audit outcomes*

For improved audit outcomes the assurance levels should be improved by all key role players. The level of assurance that the audit committee and internal audit can provide is dependent on the reliability of the assurance provided by senior management and their recommendations being taken seriously by the municipality.

We met with the mayor twice during the audit; however, as no commitments were made, these interactions had no impact on the audit outcome. The commitment made in the prior year on reporting on performance information has been implemented, as the findings on the usefulness of performance information have been addressed

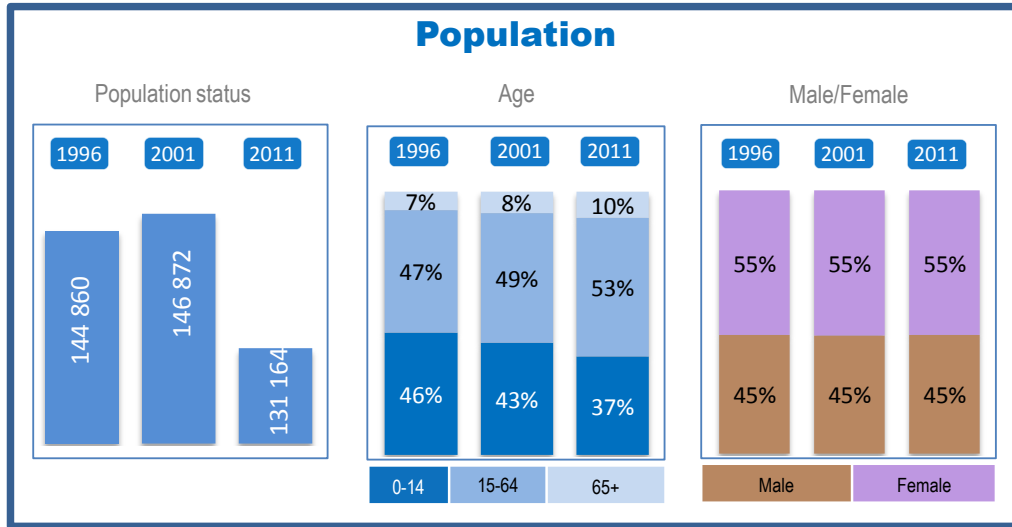
We also met with the audit committee three times and once with the MPAC; however, these interactions had a minimal impact on the audit outcomes. Improvements are expected in the next financial year.



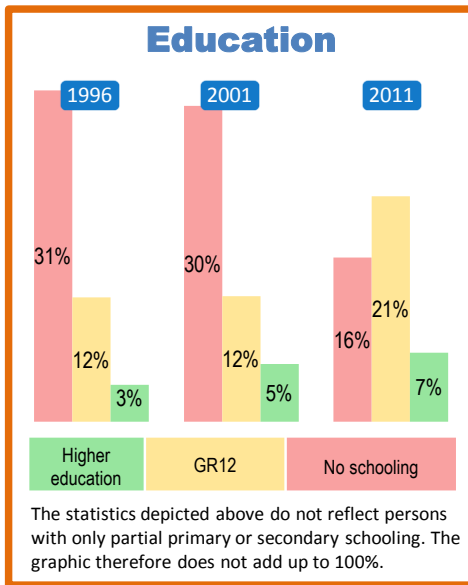
# AGANANG MUNICIPALITY

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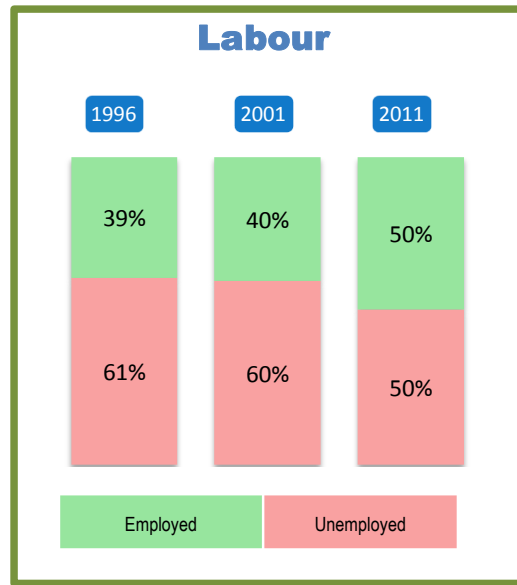
## Population



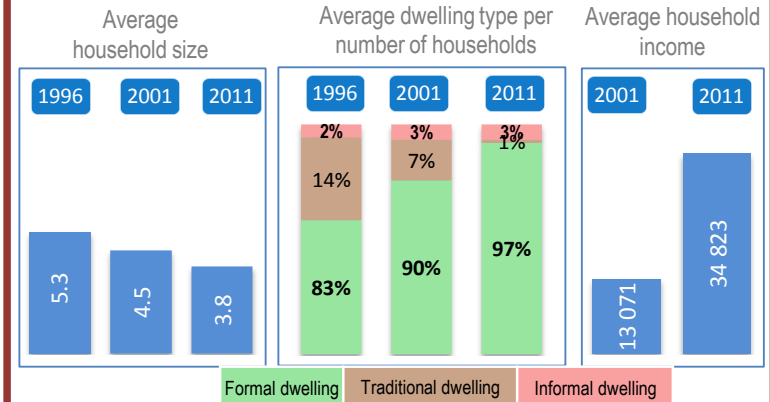
## Education



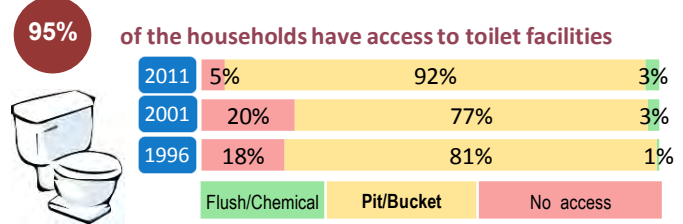
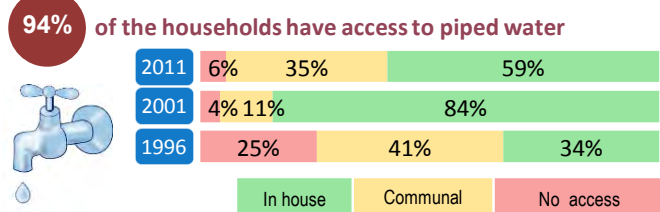
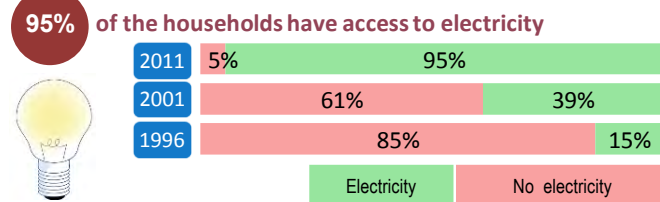
## Labour



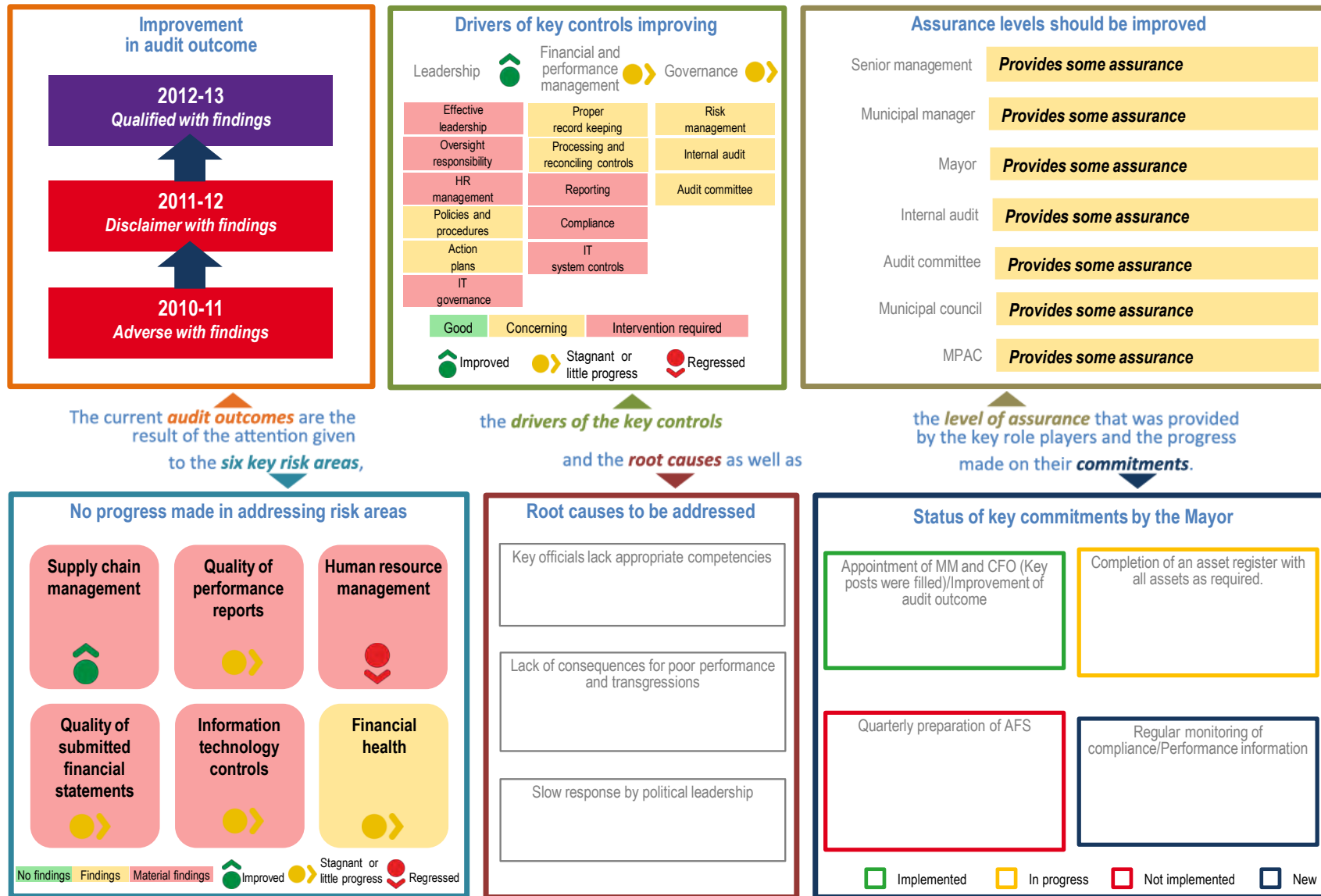
## Households



## Basic services



# Aganang Local Municipality



# Aganang Local Municipality

## Improved audit outcome

The municipality improved its audit outcome from a disclaimed to a qualified opinion. The municipality addressed most of the qualification paragraphs from the previous year.

## Six key risk areas

With the exception of SCM, the municipality has not improved in the other risk areas. There are financial health concerns, specifically on revenue collection, that require attention.

Although there was an improvement in irregular expenditure, from R20,1 million in 2011-12 to R3,9 million in 2012-13, attention is still required as goods and services have been procured in contravention of SCM regulations.

The quality of the financial statements had not improved since the previous year due to a lack of competencies and skills. The post of the CFO was also vacant during the financial year. An action plan has been developed to address internal and external audit findings, adherence to the plan was not monitored regularly by the appropriate level of management.

The poor quality of performance information reporting recurred from the previous year. The municipality also did not achieve 39% of its planned targets in the year under review.

As far as human resource management is concerned, senior managers acted in positions for more than six months and vacant posts were not filled within 12 months. The municipality did not have a formal information technology governance framework in place and the position of the information technology manager was vacant. With a vacant CFO position, the district appointed consultants to assist the municipality in preparing financial statements. Unfortunately, the financial statements still needed adjustments as the underlying financial information did not meet the required standard as a result of a poor control environment.

## Key controls and root causes

Key controls for financial and performance management and governance remained stagnant, while there was improvement in the key controls for leadership. The improvement was due to the municipality appointing a municipal manager during the financial year, after the position had been vacant for more than a year. The municipal manager played a role in monitoring the

implementation of the action plans. The municipality should strengthen the following to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls
- Implement effective human resource management to ensure adequate and sufficiently skilled resources, and performance is monitored
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

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

- Capacitate the finance unit with adequately skilled officials
- Prepare and review quarterly financial statements. The council should be briefed on the status of the control environment and the progress made by the municipality in addressing prior year audit findings
- Hold officials accountable for poor performance and transgressions

## Impact of key role players on audit outcomes

The skills and competency constraints in the municipality prevented senior management from providing the desired level of assurance. This also had an impact on the assurance that the municipal manager and mayor could provide. The post of the CFO was vacant during the financial year. The level of assurance that the audit committee and internal audit could provide was dependent on the reliability of the assurance provided by senior management.

We met with the mayor five times in the past year and these interactions had some impact on the audit outcomes. The mayor monitored the implementation of the action plan, which contributed to the improvement in the audit outcome. The newly appointed municipal manager and CFO were quick to attend to and monitor all the findings raised by external audit. Further improvements are expected in the next financial year.

The mayor committed to strengthening the internal control environment, risk management processes and the asset management unit.

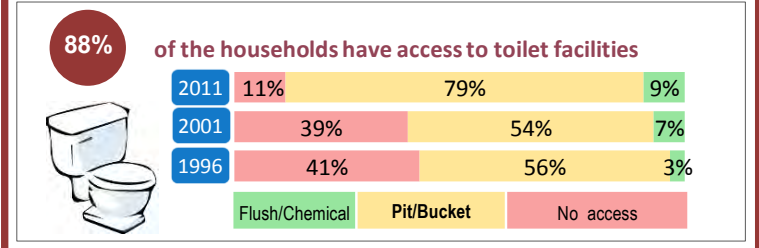
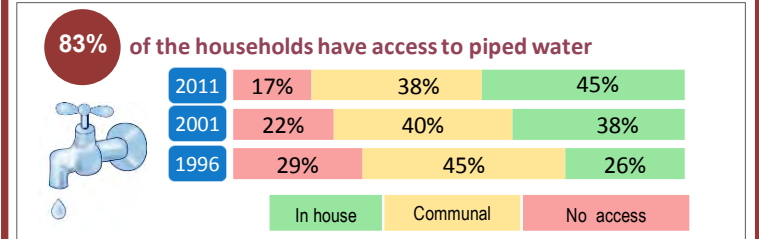
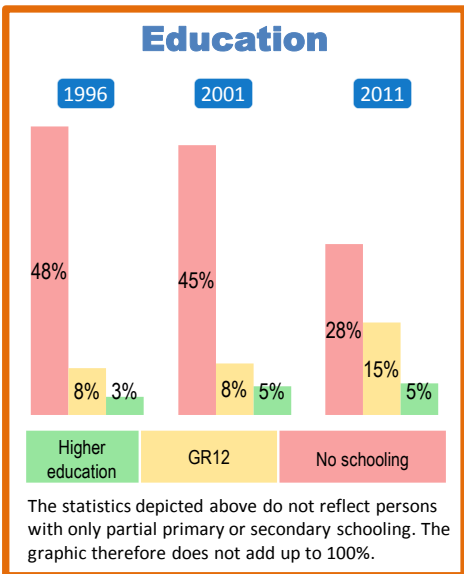
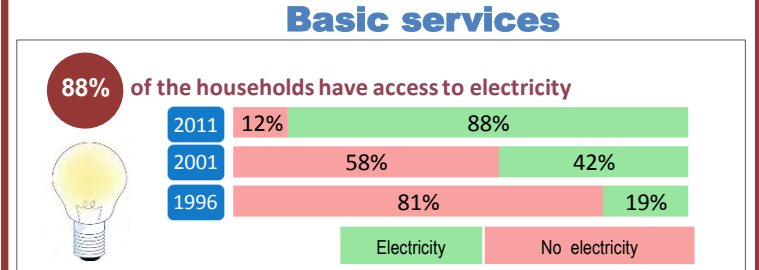
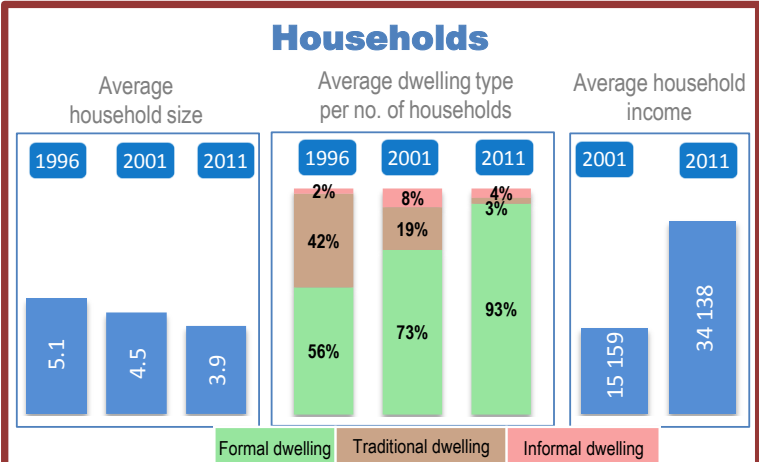
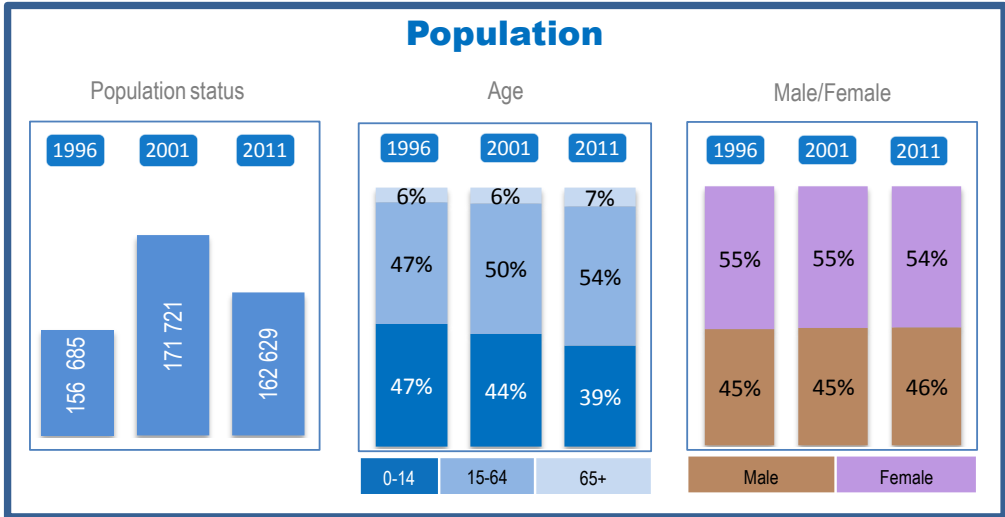
We met the MPAC twice during the year. It committed to fully implementing the previous year's commitments to prevent irregular expenditure and made the following new commitment:

- Action will be taken against officials for transgressions of legislation.



# BLOUBERG MUNICIPALITY

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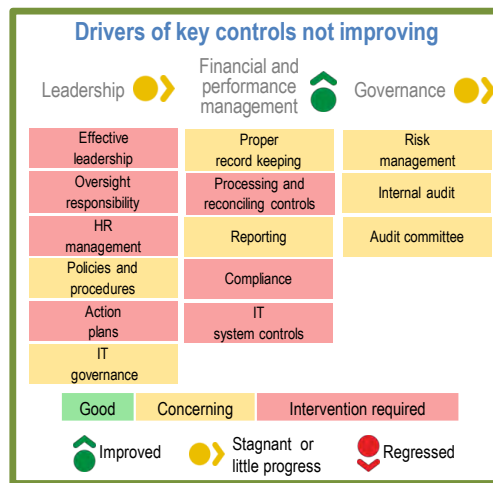




# Blouberg Local municipality



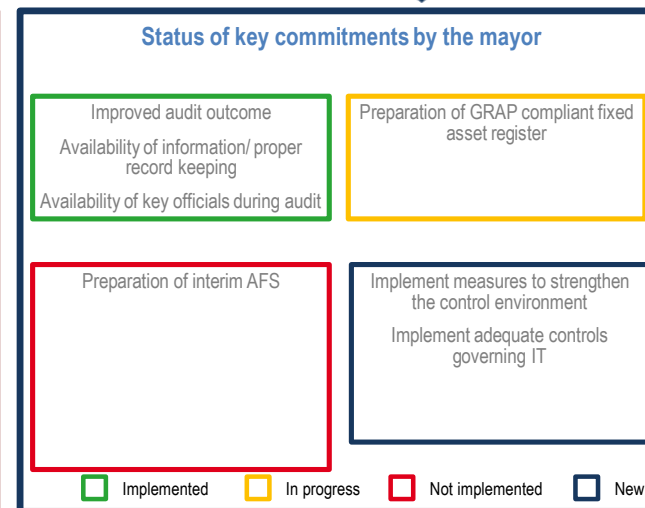
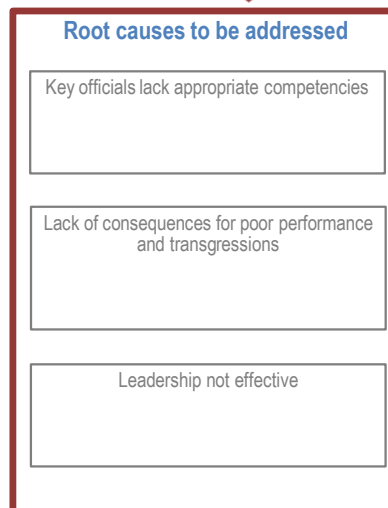
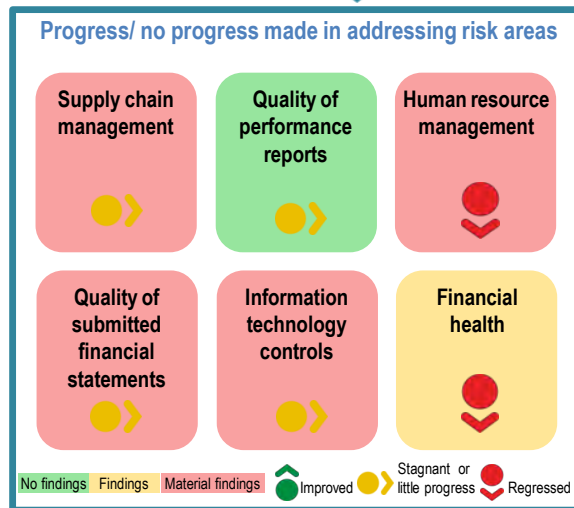
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



# Blouberg Local Municipality

## *Improved audit outcome*

The municipality improved its audit outcome from a disclaimer of opinion to a qualified opinion. The municipality successfully addressed most of the qualification findings since the previous year.

## *Six key risk areas*

There has been no improvement by the municipality in five of the six key risk areas. There were indicators that the municipality's financial health sustainability is under threat. The indicators most concerning were the debt collection period which exceeded 200 days and the inability to pay creditors on time.

Non-compliance with SCM regulations did not receive adequate attention. The procurement processes still contravened SCM regulations, which resulted in the municipality incurring irregular expenditure of R265 609. However, there has been a significant reduction in irregular expenditure from R27 million incurred in the prior year.

The quality of the financial statements did not improve and is attributable to the lack of competencies and skills in the finance unit.

It is encouraging to note that no findings were raised on the quality of the municipality's performance information report for two consecutive financial years. This is due to adequate capacity to manage performance information. The only concern reported in the audit report was that the municipality did not achieve 48% of its planned targets in the year under review.

Findings on human resource management revealed that the human resource plan did not adequately determine the gap between the existing and required human resources and the actions necessary to address the gap. The senior management vacancy rate increased from 17% in the previous year to 33% in the current year. Vacant posts were also not filled within 12 months.

Little or no progress has been made on the design and implementation of information technology controls for user access and security management. A formal governance framework to direct the positioning of information technology had not yet been established and implemented. A concerted effort is required by management to collect long outstanding debts to ensure the financial viability of the municipality to improve the municipality's financial health.

## *Key controls and root causes*

While governance remained stagnant, there has been some improvement in the key controls for leadership and financial and performance management since

the previous year. This was due to the mayor's direct intervention and active involvement in the audit process. He also emphasised that there would be consequences if there was no improvement in the audit outcome. The municipality should strengthen the following controls to create a control environment that supports reliable financial reporting and compliance with legislation

- Implement effective human resource management to ensure adequate and sufficiently skilled resources
- Implement controls over daily and monthly transaction processes
- Prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.

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

- Capacitate the finance unit with adequately skilled and competent officials and address the high vacancy rate on a senior manager level
- Officials should be held accountable for poor performance and transgressions with laws and regulations
- The mayor must engage quarterly with the audit committee to determine the status of the municipality's control environment.

## *Impact of key role players on audit outcomes*

The skills and competency constraints in the municipality together with the high vacancy rate prevented senior management from providing the desired level of assurance. This also had an impact on the assurance that the municipal manager and mayor could provide. The level of assurance that the audit committee and internal audit can provide is dependent on the reliability of the assurance provided by senior management.

We met with the mayor five times in the past year. These interactions had some impact on the audit outcomes as the mayor closely monitored the implementation of the action plans, which contributed to the improvement in the audit outcome. The mayor made the following commitments:

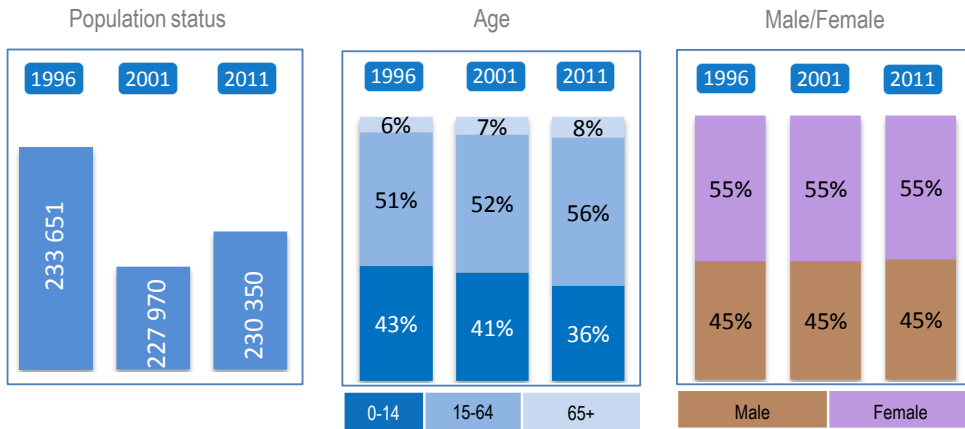
- To strengthen the internal control environment, risk management processes and the asset management unit by capacitating the municipality with skilled and competent officials
- To implement adequate controls governing information technology



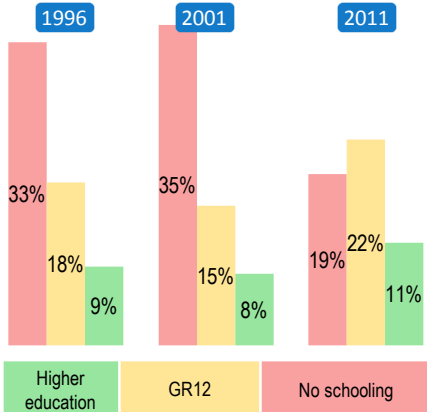
# LEPELLE-NKUMPI MUNICIPALITY

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 the report

## Population

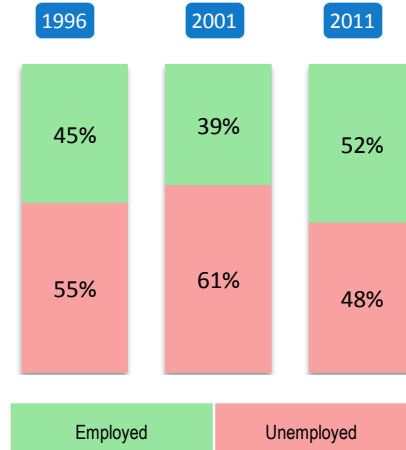


## Education

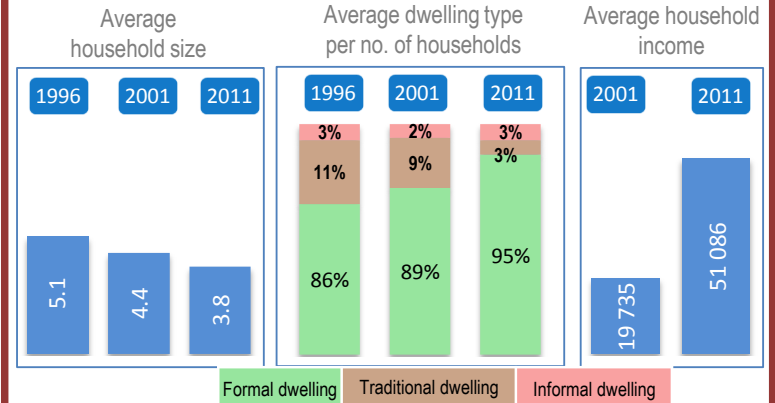


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

## Labour

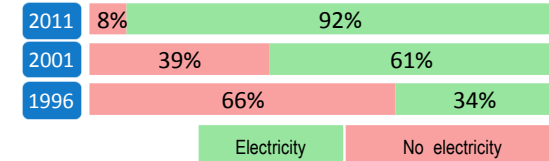


## Households

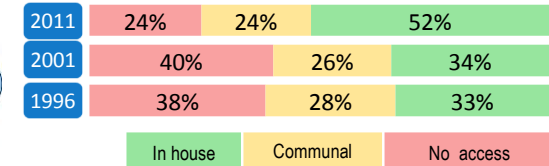


## Basic services

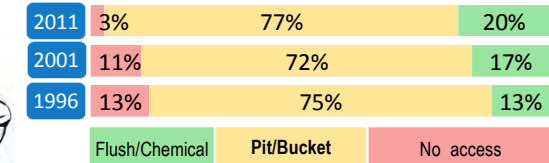
**92%** of the households have access to electricity



**76%** of the households have access to piped water



**97%** of the households have access to toilet facilities



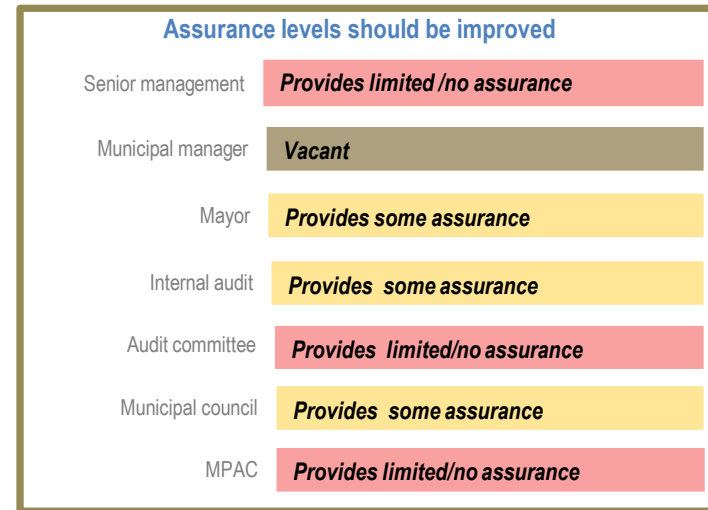
# Lepelle-Nkumpi Municipality



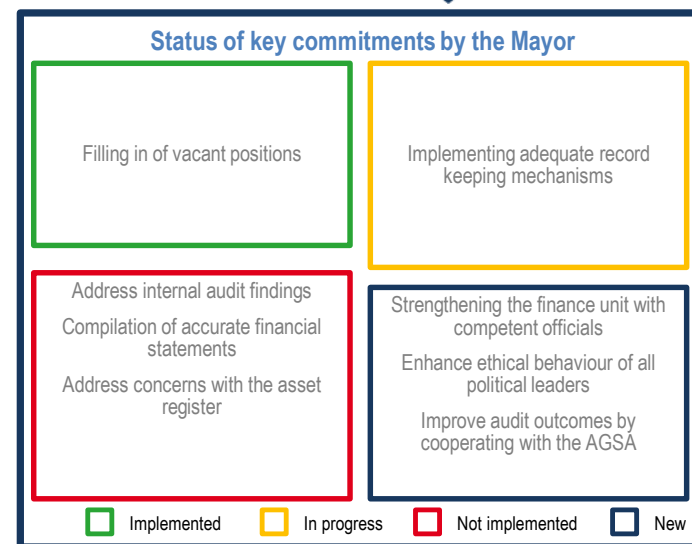
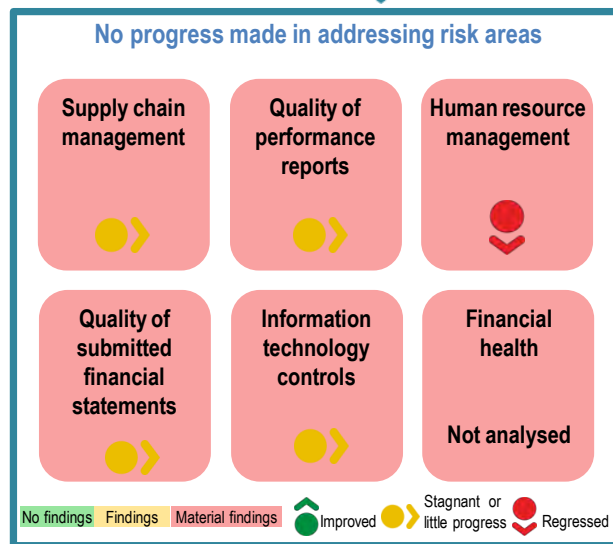
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



## Lepelle-Nkumpi Municipality

### *No improvement in audit outcome*

The municipality received a disclaimer of opinion for three consecutive years. The municipality addressed only some of the qualification findings from the previous year.

### *Six key risk areas*

There has not been any improvement by the municipality in all six key risk areas. The financial health of the municipality was not analysed as the financial statements were not reliable.

Non-compliance with SCM regulations did not receive adequate attention. The procurement of goods and services still contravened SCM regulations, which resulted in the municipality incurring irregular expenditure of R30 million.

There was no improvement in the quality of the financial statements and the annual performance report. Findings on the usefulness and reliability of the performance information recurred since the previous year. In addition, the municipality did not achieve 57% of its planned targets in the year under review. The poor quality of the performance information and financial statements is due to the municipality not having an adequate performance management system for the year under review, high vacancy rates, low staff retention and the lack of competent and skilled officials at senior management level.

As far as the findings on human resource management are concerned, the acting CFO was appointed for a period of more than six months. In addition, senior managers directly accountable to the municipal manager did not sign performance agreements within 60 days of their appointment, as required by legislation.

Little or no progress has been made on the design and implementation of information technology controls for user access, backup and retention, security management and program change management.

The services of consultants were again engaged in connection with financial statements at a cost of R1,1 million. Our concerns relating to the continued assistance sought from consultants is the over-dependency on consultants and the lack of transfer of skills. The poor internal control environment also restricts the consultants from being effective in delivering the services for which they were appointed.

### *Key controls and root causes*

There has been no improvement in the key controls for leadership, financial and performance management and governance since the previous year. The municipality should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The council should monitor and evaluate the progress made in addressing audit findings
- The council should implement controls over daily and monthly processing and reconciling of transactions
- The council should implement proper record keeping in a timely manner to ensure complete, relevant and accurate records are easily accessible

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

- The finance unit should be capacitated with adequately skilled and competent officials, and address the vacancy rate at senior management level
- The accounting officer must ensure that regular (daily and monthly) reconciliations are performed and must report to the council on the status of the control environment
- Officials should be held accountable for poor performance and transgressions of legislation

### *Impact of key role players on audit outcomes*

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

We met with the mayor five times during the financial year and these interactions had minimal impact on the audit outcomes. Only one commitment made in the prior year have been implemented. The following new commitments were made by the mayor:

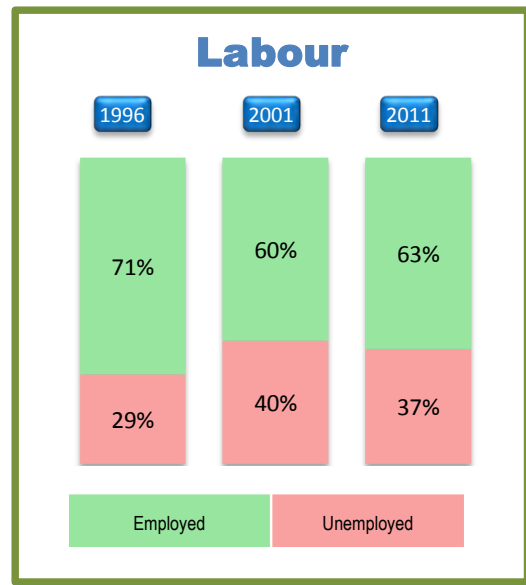
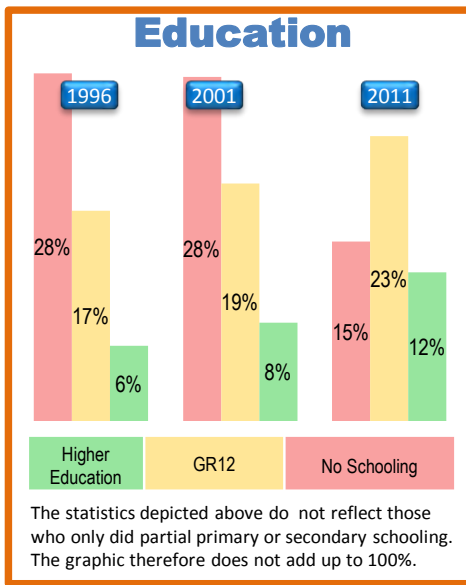
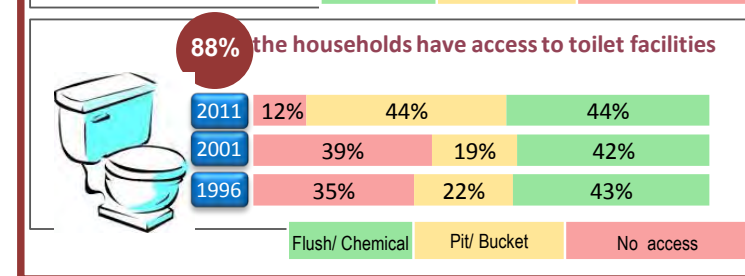
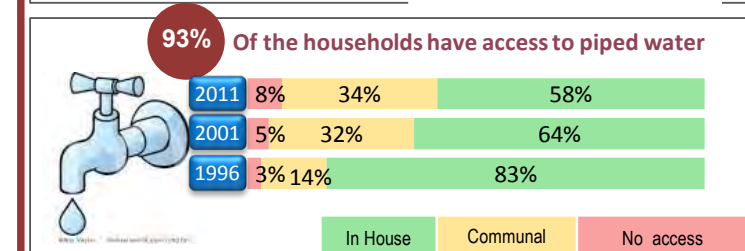
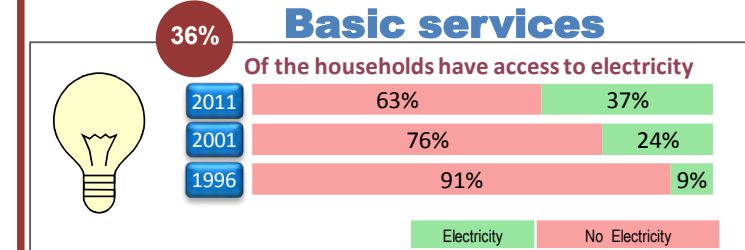
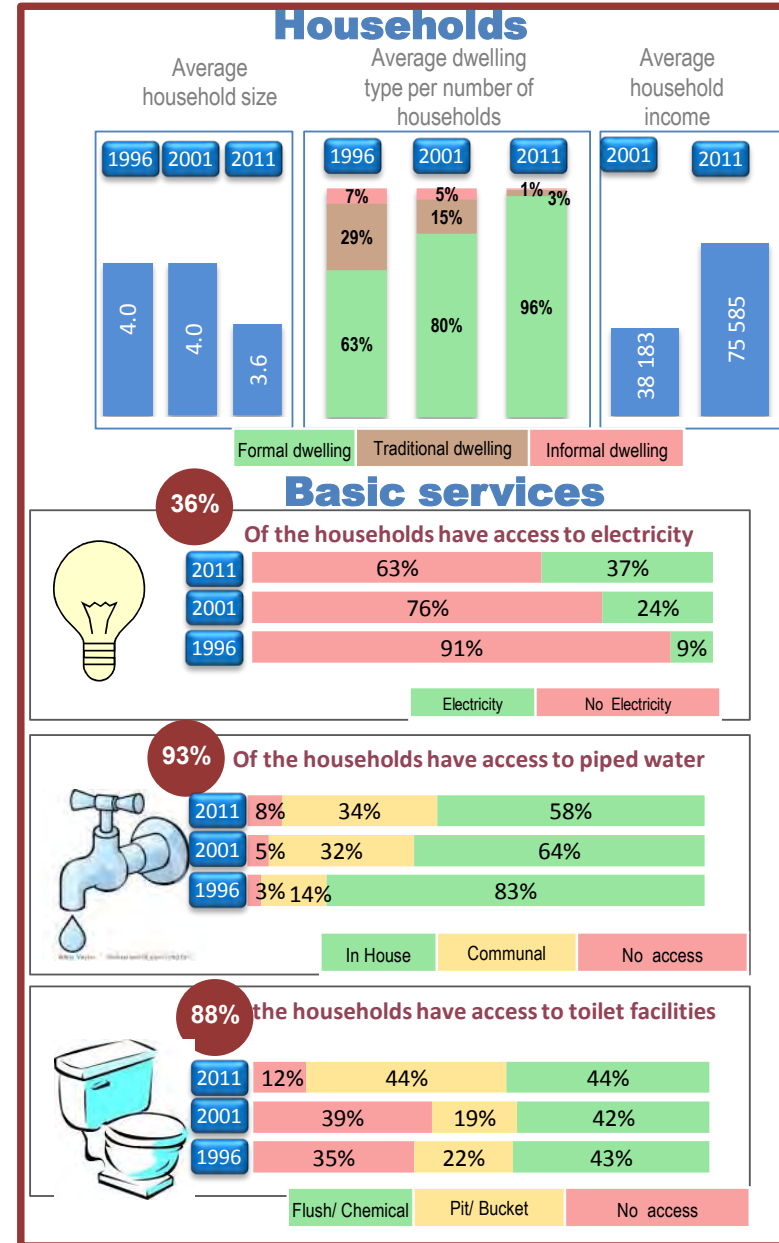
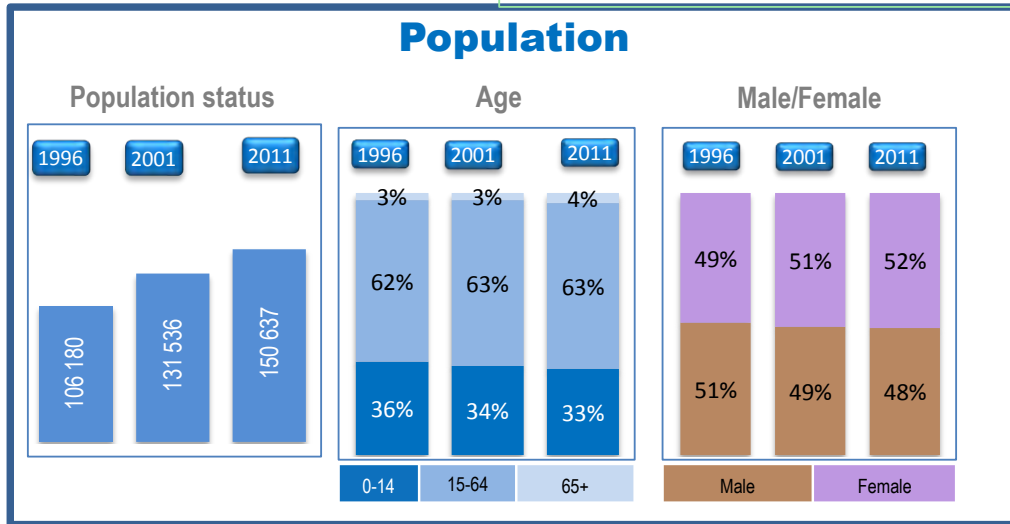
- Strengthen the finance unit with skilled and competent officials and focus on achieving clean administration
- Enhance ethical behaviour of political leaders
- Improve audit outcomes by cooperating with us

## Mopani District

53

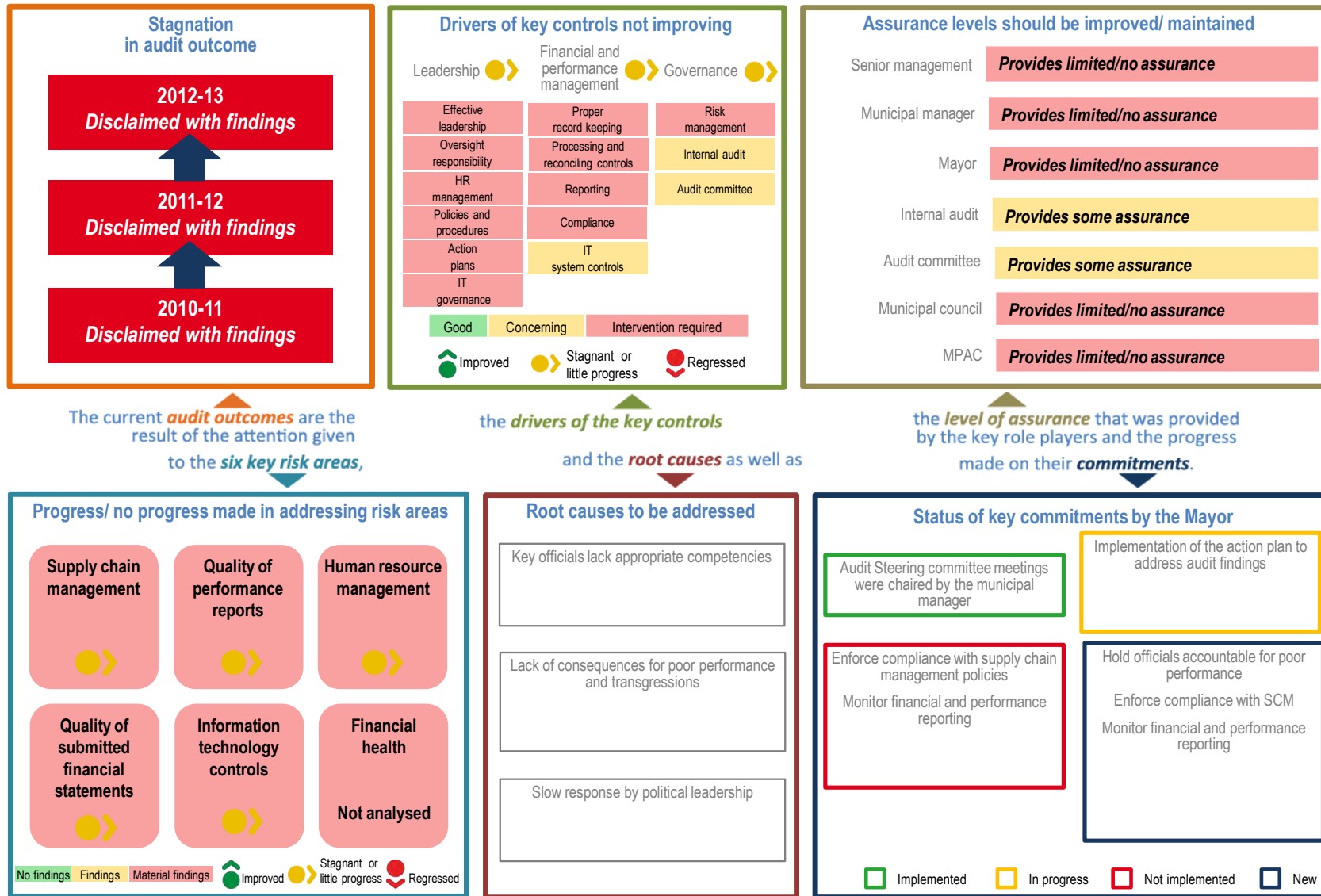
# BA-PHALABORWA MUNICIPALITY

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# Ba-Phalaborwa Municipality



## Ba-Phalaborwa Municipality

### *No movement in audit outcome*

There was no improvement in the audit outcomes. The municipality received a disclaimer of opinion for the past five financial years.

### *Six key risk areas*

Limited or no progress has been made in addressing five of the six key risk areas. The financial health of the municipality was not analysed as the financial statements were not reliable.

The services of consultants were again engaged for financial reporting at a cost of R7,9 million due to the lack of skills in the finance unit. Our concerns relating to continued assistance sought from consultants include:

- the ineffective management of consultants
- the lack of proper project closeout procedures
- the lack of transfer of skills resulting in the continued dependence on consultants.

The effectiveness of consultants was also hampered by the poor internal control environment within the municipality.

The quality of the annual performance and financial reports has not improved. The measurability of the performance information to address the material findings on the usefulness of the performance report must also be addressed.

The municipality's financial position continues to deteriorate as a result of continuous operating deficits, which threaten its ability to continue as a going concern. More effort needs to be channelled towards improving revenue collection and managing expenditure. Fruitless and wasteful expenditure amounting to R970 462 and unauthorised expenditure amounting to R12,6 million were also identified.

The status of SCM remains unsatisfactory, primarily as a result of the municipality not always complying with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process. Irregular expenditure amounting to R15,5 million was identified.

### *Key controls and root causes*

The lack of improvement in the key controls results from ineffective leadership and the accounting officer's failure to exercise oversight of financial and performance reporting. Action plans to address deficiencies highlighted by internal and external

auditors must be implemented and monitored to ensure that all audit findings are addressed on time. The following controls must be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement effective human resource management to ensure adequate and sufficiently skilled officials
- Take disciplinary action against those responsible for the municipality not complying with laws and regulations
- Implement proper record keeping mechanisms to ensure that complete, relevant and accurate information is available.

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

- The accounting officer must be accountable for the implementation of the recommendations above.
- The mayor must institute disciplinary action against members of management responsible for the disclaimed audit opinion.
- The accounting officer must ensure that financial and performance reporting is supervised properly and competently through the appointment of competent officials in the finance unit.

### *Impact of key role players on audit outcomes*

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

We met twice with the mayor, once with the council and once with the MPAC during the financial year. These interactions had no impact on the audit outcomes as evidenced by the lack of improvement in key controls as well as the status and impact of the commitments previously given.

The mayor made the following new commitments:

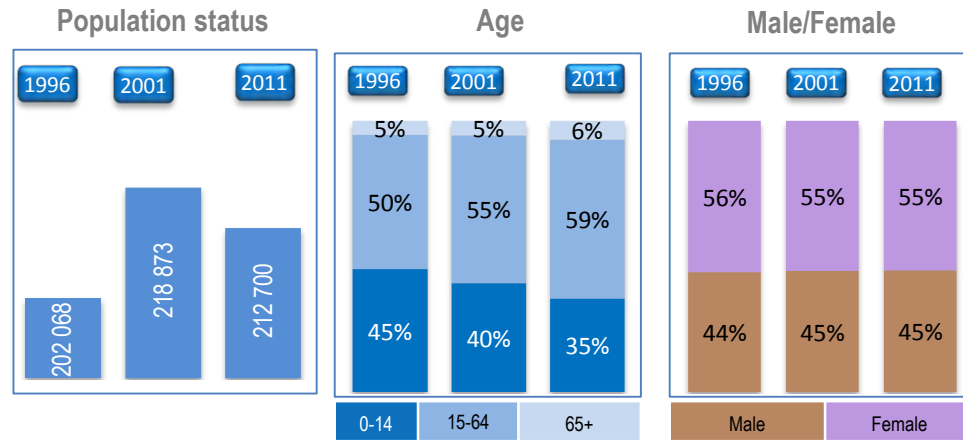
- To enforce compliance with SCM policies
- To monitor financial and performance reporting
- To hold officials accountable for the poor audit outcome



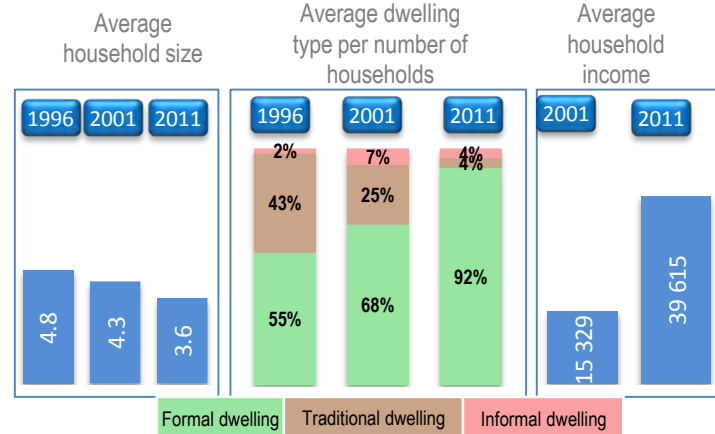
# GREATER LETABA MUNICIPALITY

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 the report

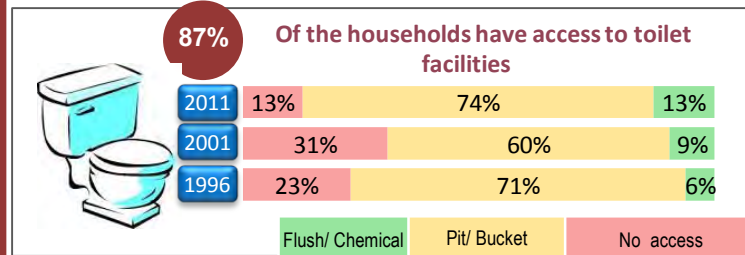
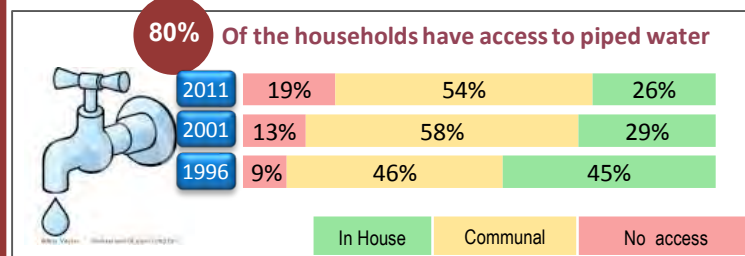
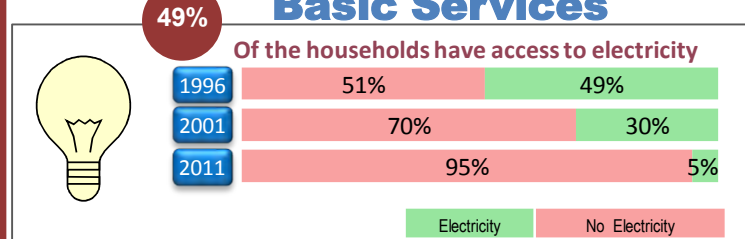
## Population



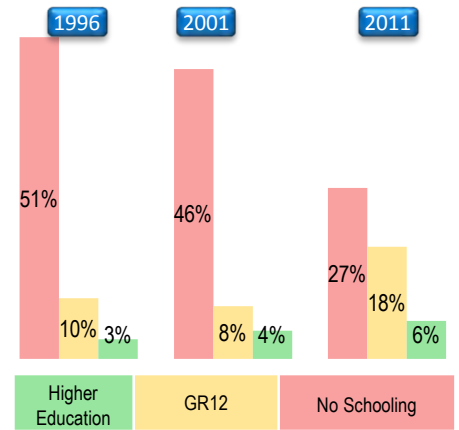
## Households



## Basic Services

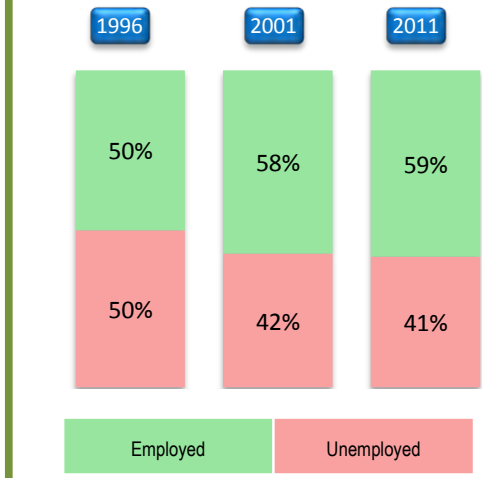


## Education

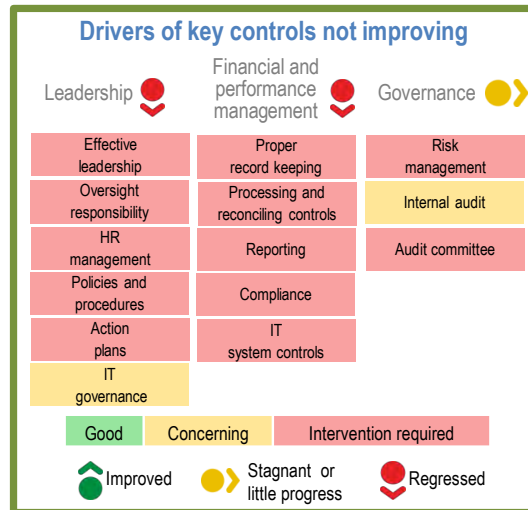
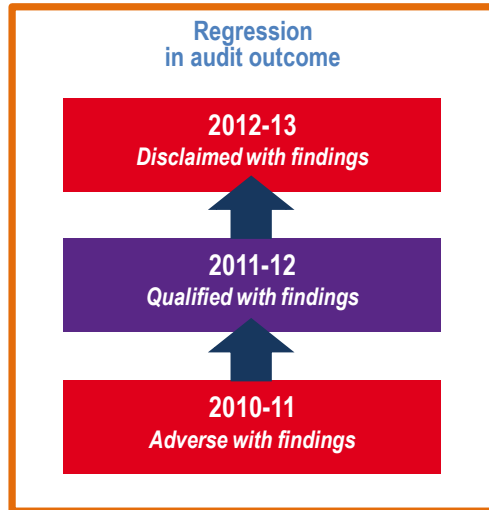


The statistics depicted above does not reflect those who only did partial primary or secondary schooling. The graphic therefore does not add to 100%

## Labour



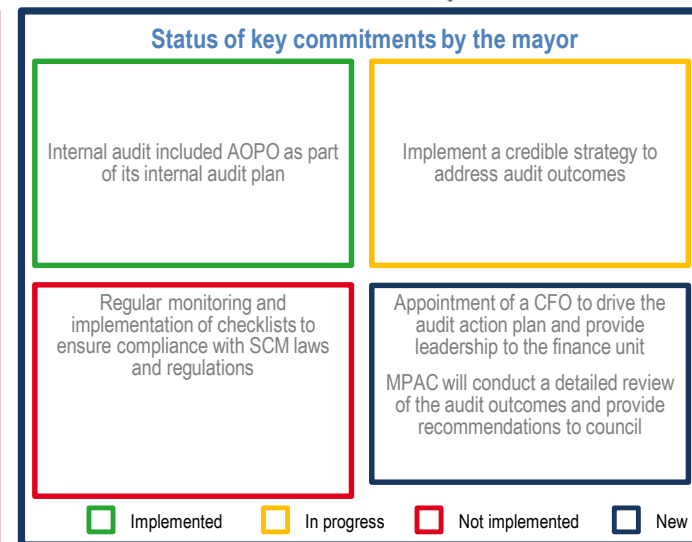
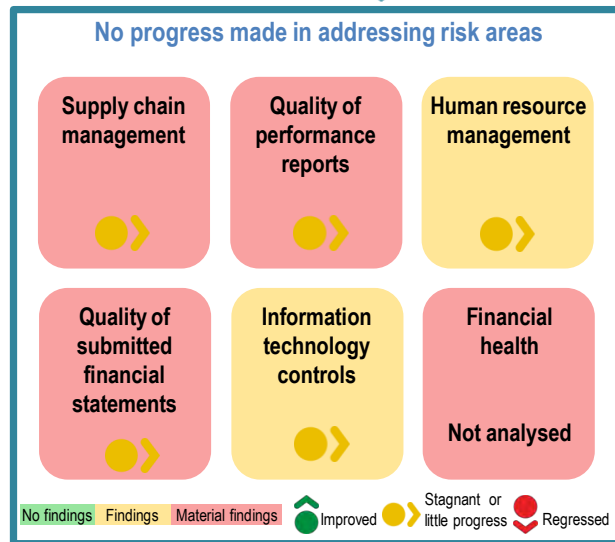
# Greater Letaba Municipality



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

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

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



## Greater Letaba Municipality

### *Regression in audit outcome*

The municipality regressed from a qualified opinion in the 2011-12 financial year to a disclaimer of opinion in the year under review. The resignation of the CFO three months before the end of the financial year contributed to the regression.

### *Six key risk areas*

Limited or no progress has been made in addressing five of the six key risk areas. The financial health of the municipality was not analysed as the financial statements were not reliable. The municipality continued to rely on the services of consultants, due to the resignation of the CFO three months prior to year-end, to assist with preparing financial statements for audit, at a cost of R955 743. The quality of the financial statements did not improve due to a lack of competencies and skills in the application of certain financial reporting standards

The effectiveness of consultants is hampered when the municipality does not have a strong internal control environment.

The municipality should focus on the measurability of the performance information to address the material findings on the usefulness of its performance report. An effective skills retention strategy was not in place, resulting in undesirable audit outcomes each time key staff in the finance division left the municipality.

Little or no progress has been made on the design and implementation of information technology controls for user access and security management.

The status of SCM remained unsatisfactory. This was primarily because the municipality, in many instances, did not comply with the legislative requirement for the composition of the bid adjudication committee and the preference for the acquisition of goods and services was incorrectly allocated. Non-compliance with SCM regulations led to the municipality incurring irregular expenditure of R56 million. Ineffective budget management practices led to the municipality incurring unauthorised expenditure of R39 million. The head of SCM was only appointed during the second half of the financial year.

### *Key controls and root causes*

The regression in the key controls resulted from ineffective leadership and the accounting officer's failure to exercise oversight of financial and performance reporting. The municipality should carry out a staff competency audit to ensure that the staff they have are capable of implementing financial controls resulting in clean administration. The following controls must be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Enforce consequences for poor performance
- Audit action plans and progress on implementation should be standing items on the agenda of Exco and council meetings
- Address the lack of skills and competencies in the finance unit.

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

- Appoint a skilled and competent CFO as a matter of urgency
- Prepare a comprehensive action plan, taking into account the root causes that gave rise to the findings. The council must monitor the progress made in addressing the findings.
- Regularly monitor the performance of all officials and take the necessary steps to address poor performance and transgressions.

### *Impact of key role players on audit outcomes*

For improved audit outcomes the assurance levels should be enhanced by ensuring stability at the level of the CFO. Internal and external audit's recommendations should be implemented without delay.

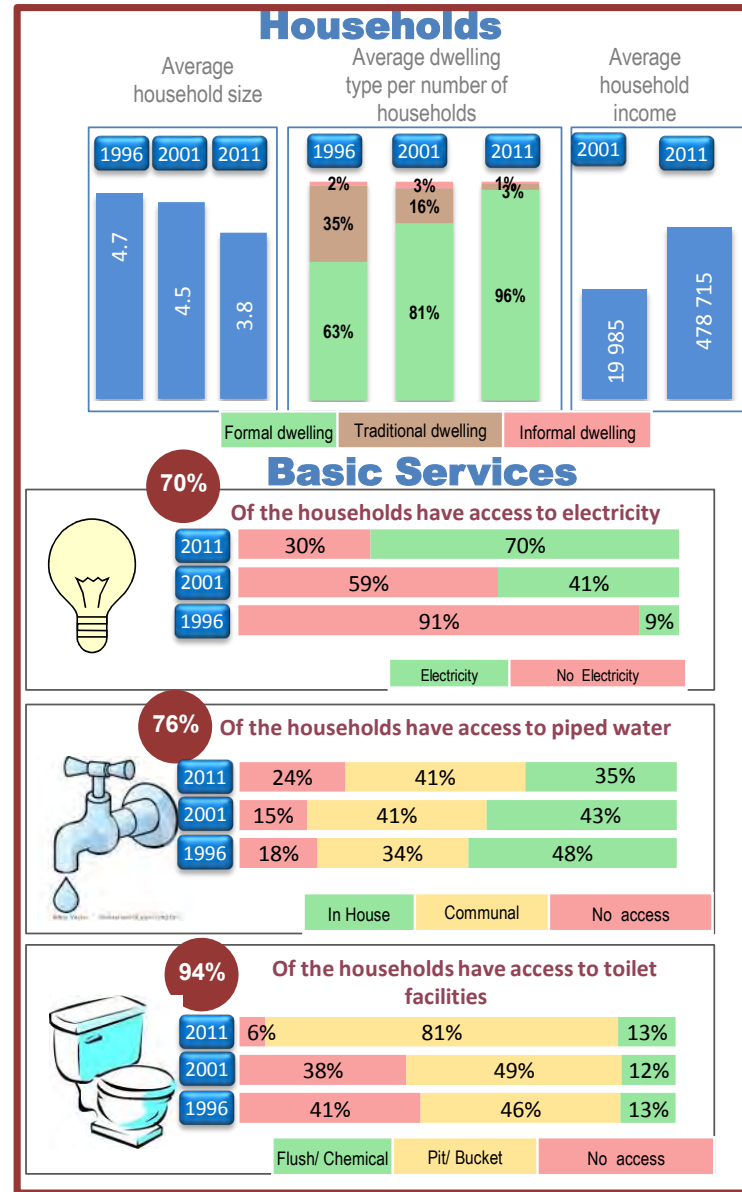
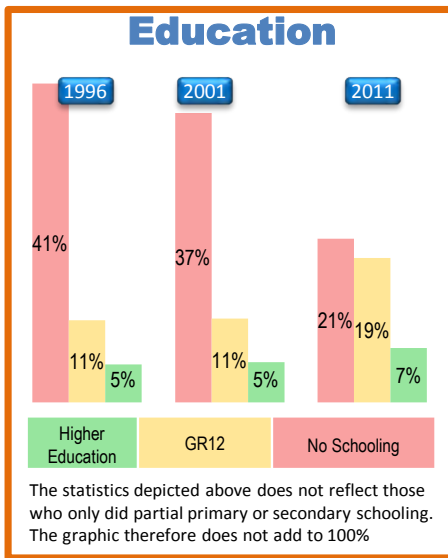
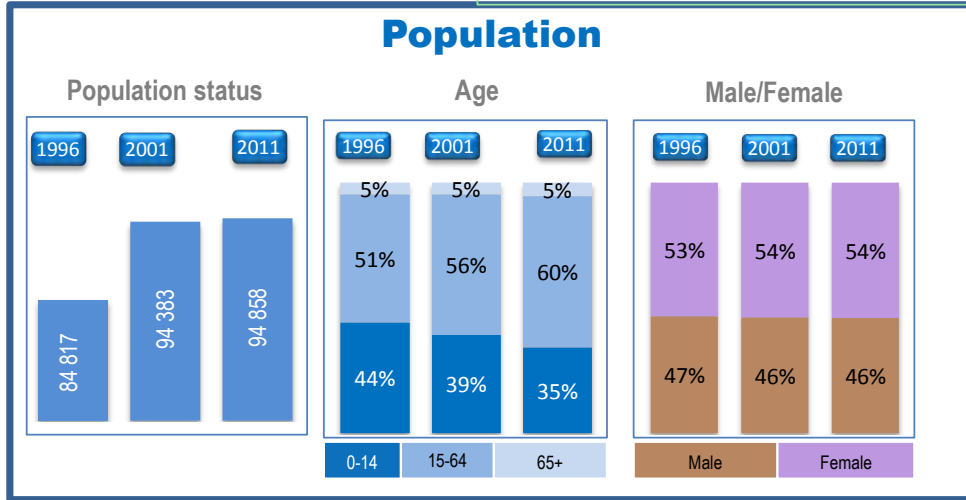
We met with the mayor twice during the financial year, and these interactions had no impact on the audit outcomes as there was no change in the key controls and the status of the commitments previously given. The municipal council has not prioritised clean administration, as progress on the resolution of audit findings was not consistently monitored and recommendations were not implemented. MPAC did not ensure that the accounting officer implemented all the commitments made in the oversight report to move towards improved audit outcomes.

New commitments made by the mayor include appointing a CFO and compiling an action plan to address audit findings. The action plan will be reviewed by the MPAC.



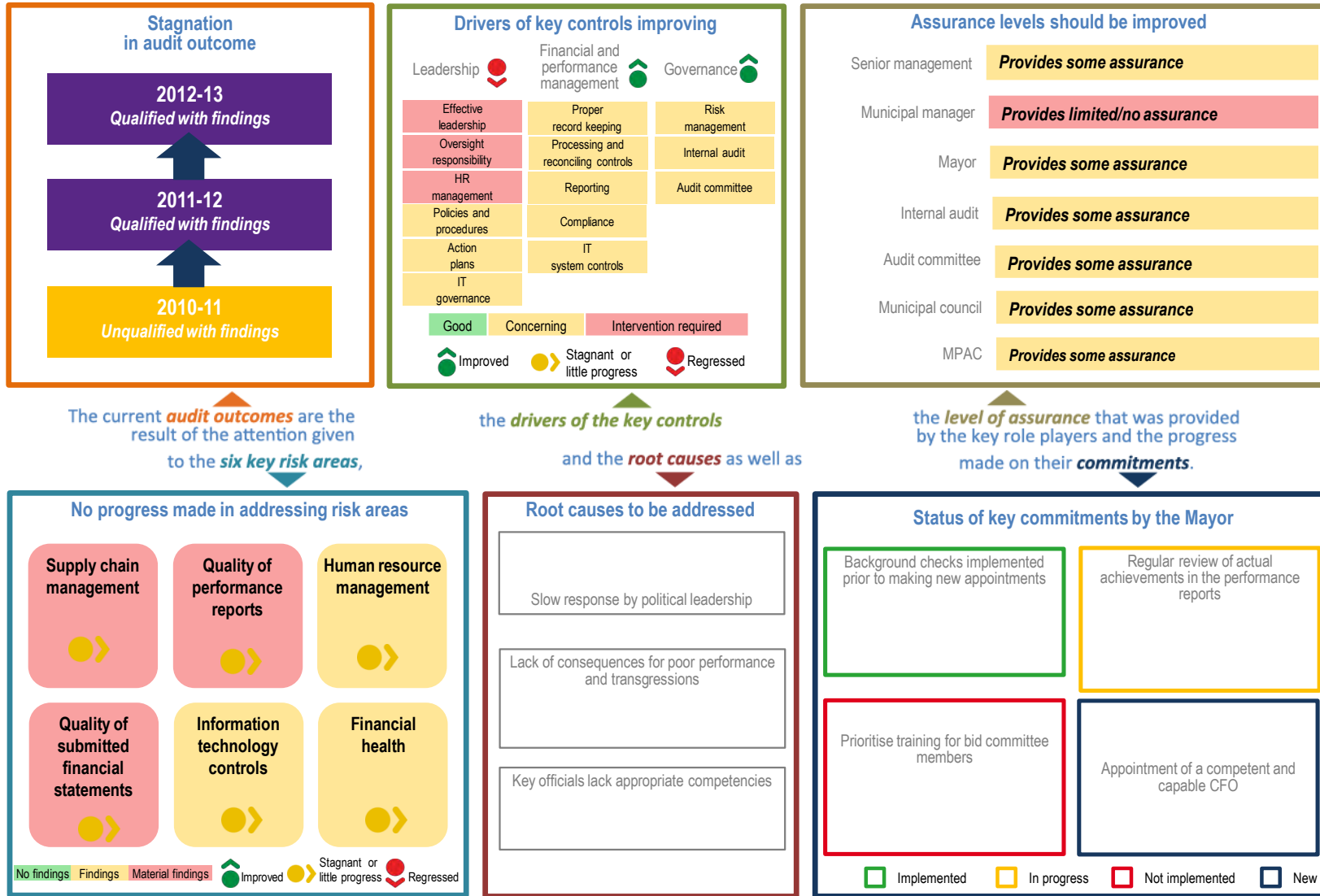
# MARULENG MUNICIPALITY

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# Maruleng Municipality



## Maruleng Municipality

### *No movement in audit outcome*

The municipality has attained a qualified opinion for the second year in a row. The municipality continued to rely on the services of consultants to assist with the preparation of financial statements. The position of CFO was also vacant during the financial year.

### *Six key risk areas*

There was no improvement in the six key risk areas. Extra effort needs to be channelled towards improving the quality of performance and financial reports and compliance with SCM regulations.

Non-compliance with SCM regulations did not receive adequate attention. The procurement of goods and services still contravened SCM regulations, which resulted in the department incurring irregular expenditure of R6,5 million. The bid adjudication committee members did not receive training as committed to by the mayor in the previous year. The position of head of SCM was also vacant in the financial year.

There were no significant financial health concerns. As far as human resource management is concerned, vacancies in key financial positions were not filled within 12 months. Findings on information technology recurred from the previous year and the municipality is still required to fill the position of information technology manager.

The quality of the financial statements and performance information did not improve. The findings on the usefulness and reliability of the information in the annual performance report recurred. In addition, the municipality did not achieve 39% of its planned targets in the year under review. The municipality does not have the resources and capacity to adequately manage performance information.

The poor quality of the financial statements and performance information is linked to the vacant position of the CFO. The services of consultants were again engaged in connection with financial reporting at a cost of R1,7 million. Our concerns relating to the continued assistance sought from consultants include over-dependency on consultants as a result of vacancies and the lack of transfer of skills. This results in the continued dependence on consultants. The poor internal control environment also restricts the consultants from being effective in delivering the services for which they were appointed.

### *Key controls and root causes*

The marginal overall improvement in the key controls was caused by the mayor's increased level of oversight and the municipal manager's commitment to improving the system of internal control.

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

- Exercise oversight regarding financial and performance management
- Implement controls over daily and monthly processing and reconciling of transactions
- Appoint an adequate number of skilled staff to deal with performance information.

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

- Capacitate the finance division with adequately skilled and competent officials.
- Prepare a comprehensive action plan, taking into account the root causes that have given rise to the findings. The leadership must monitor the progress of the implementation of the action plans on a quarterly basis
- Hold officials accountable for poor performance and transgressions of legislation.

### *Impact of key role players on audit outcomes*

The vacant position of the CFO prevented the municipality from providing the desired level of assurance. The level of assurance that the audit committee and internal audit can provide is dependent on the reliability of assurances provided by senior management.

We met with the mayor once during the financial year and this interaction had no impact on the audit outcomes as the commitments made in the previous year were not fully implemented. This resulted in the stagnation of the audit outcome. Improvements are expected in the next financial year with the appointment of a CFO, which should promote some stability in the finance unit.

The following commitment was made by the mayor:

- Ensure that a competent CFO is appointed.

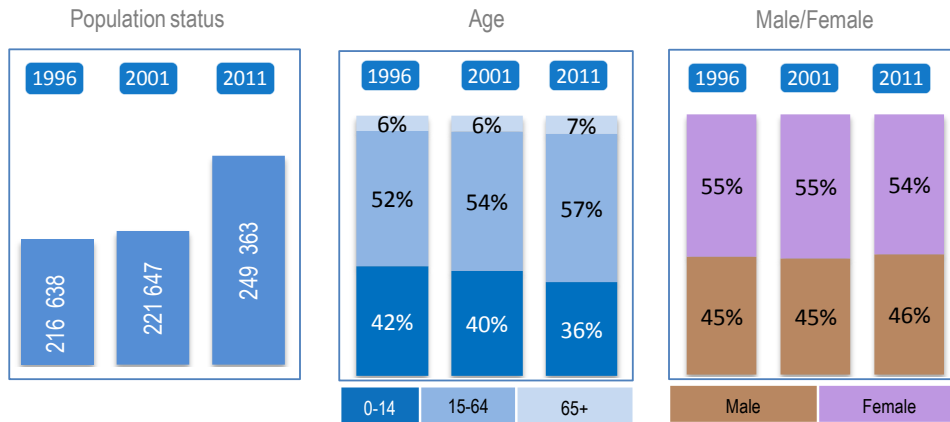
## Sekhukhune District

65

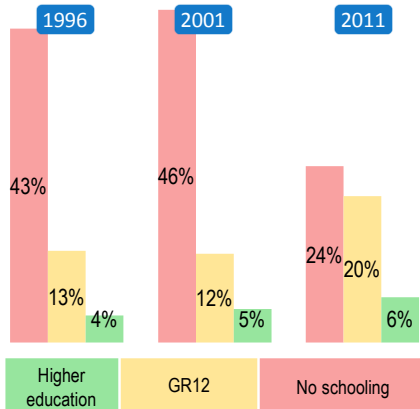
# ELIAS MOTSOLEDI MUNICIPALITY

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## Population

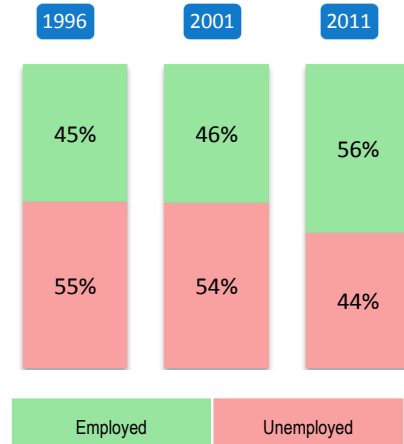


## Education

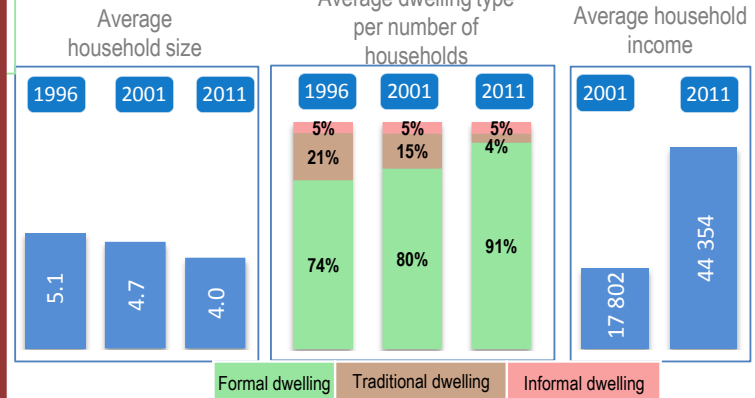


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

## Labour

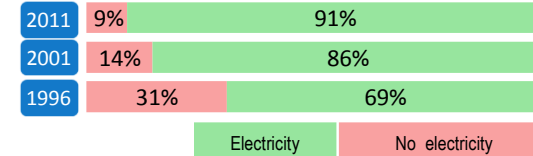


## Households

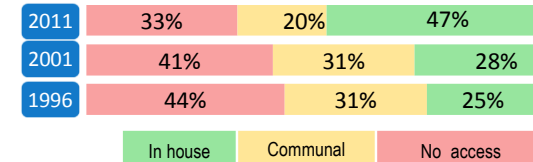


## Basic services

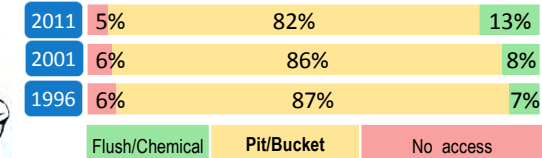
**91%** of the households have access to electricity



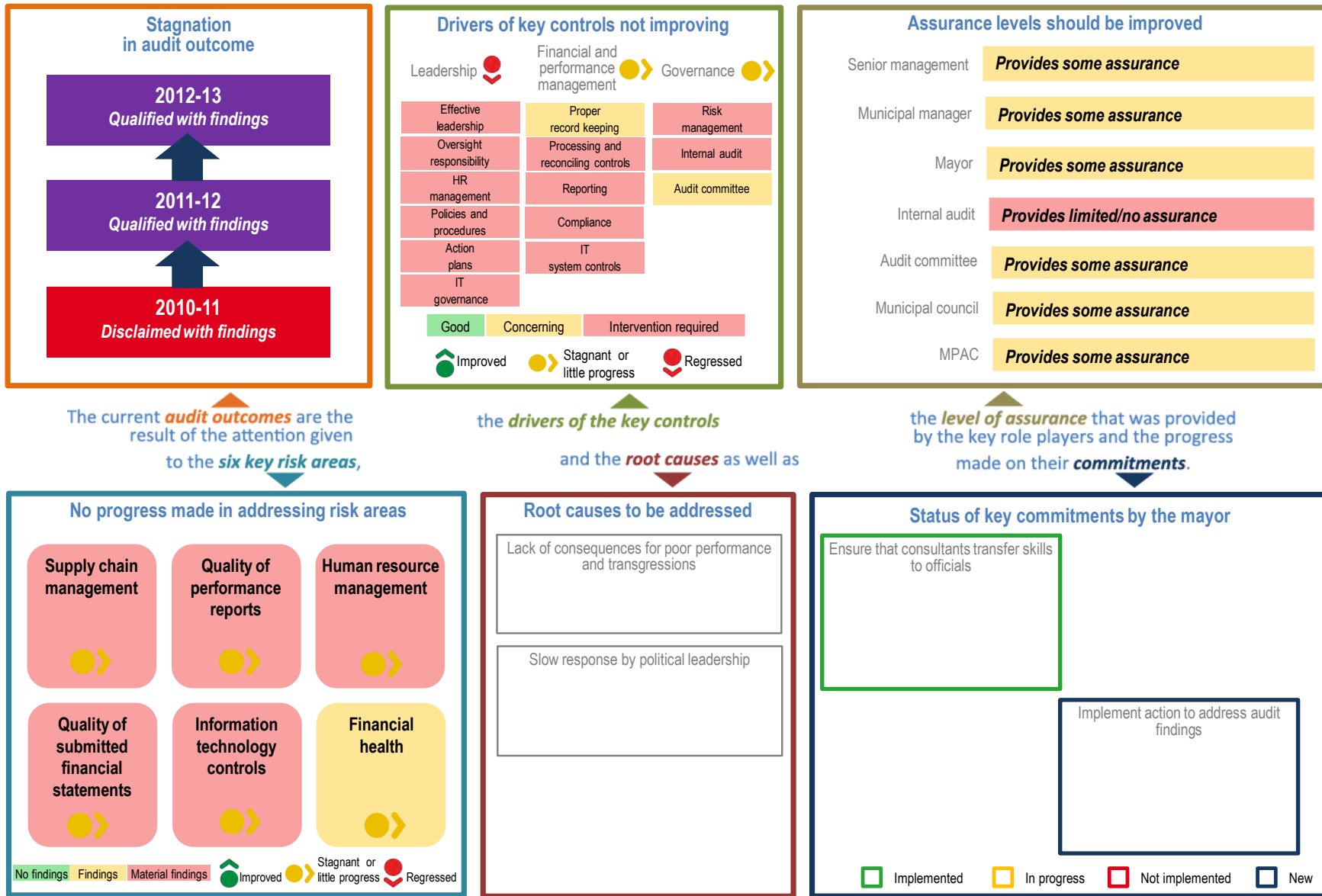
**67%** of the households have access to piped water



**95%** of the households have access to toilet facilities



# Elias Motsoaledi Municipality



## Elias Motsoaledi Municipality

### *No movement in audit outcome*

The municipality received a qualified opinion for two consecutive years. Limited progress was made to address the previous year's audit findings. The municipality addressed some of the qualification findings from the previous year.

### *Six key risk areas*

There has been no or very little improvement by the municipality in all six key risk areas. Non-compliance with SCM regulations did not receive adequate attention. The procurement of goods and services still contravened SCM regulations, which resulted in the municipality incurring irregular expenditure of R18,5 million.

The quality of the financial statements did not improve due to the lack of skills and competencies in the finance unit. The municipality continued to rely on the services of consultants to assist with the preparation of financial statements for audit at a cost of R6,5 million. The consultants worked closely with the deputy CFO, finance unit and the asset manager with the objective of transferring skills.

Findings were identified on both the usefulness and reliability of the performance information. In addition, the municipality did not achieve 44% of its planned targets in the year under review. The poor quality of the performance information was due to the municipality not having a proper performance management system for the year under review.

Findings on human resource management revealed that there were poor controls over leave administration and records. It was also found that the acting CFO acted in that position for more than six months and the appointed CFO did not comply with the minimum prescribed competency levels. Little or no progress has been made on the design and implementation of information technology controls for user access and security management. It was also found that the municipality did not have relevant approved policies regarding their information system. Their draft policies needed to be approved by the council.

### *Key controls and root causes*

There has been no improvement in the key controls for leadership, financial and performance management and governance since the previous year. Despite a number of interactions with the AGSA, leadership still did not monitor the action plans to address internal control deficiencies. This is still a concern as evidenced by the recurring qualification findings. The municipality should strengthen the

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

- Exercise oversight responsibility regarding financial and performance reporting
- Implement effective human resources management to ensure adequate and sufficiently skilled resources
- Monitor the progress made in addressing audit findings regularly. Clean audit is only possible if the leadership becomes more responsive in addressing any challenges promptly

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

- Capacitate the finance unit with adequately skilled and competent officials
- The accounting officer must ensure that regular reconciliations are performed between the physical assets and financial records and provide feedback to the council on a quarterly basis
- Hold officials accountable for poor performance and transgressions of legislation

### *Impact of key role players on audit outcomes*

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

We met with the mayor three times during the financial year and these interactions had some impact on the audit outcomes as the mayor took a keen interest in understanding the drivers of poor controls as well as the status and impact of the commitments previously given.

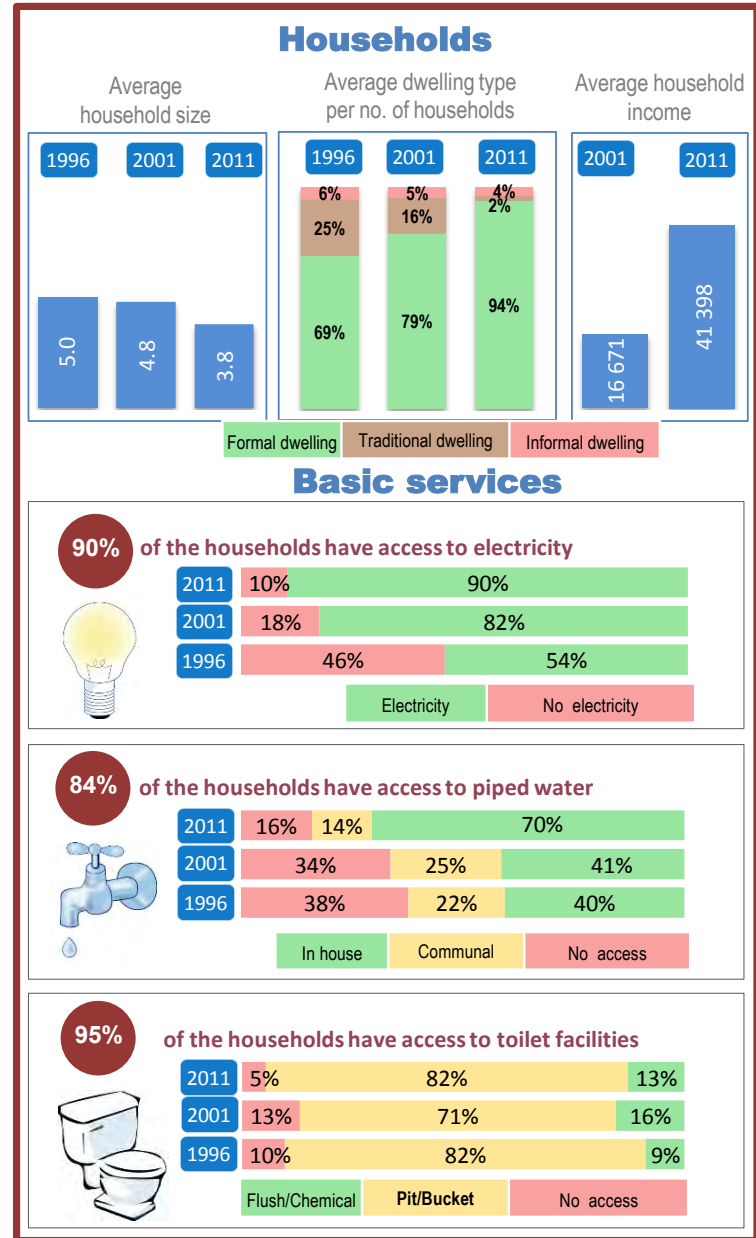
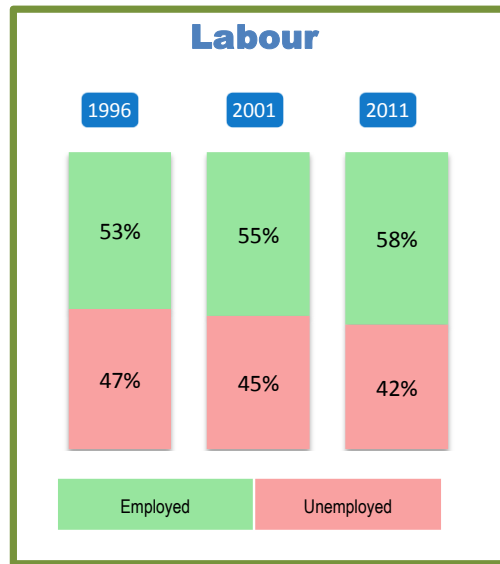
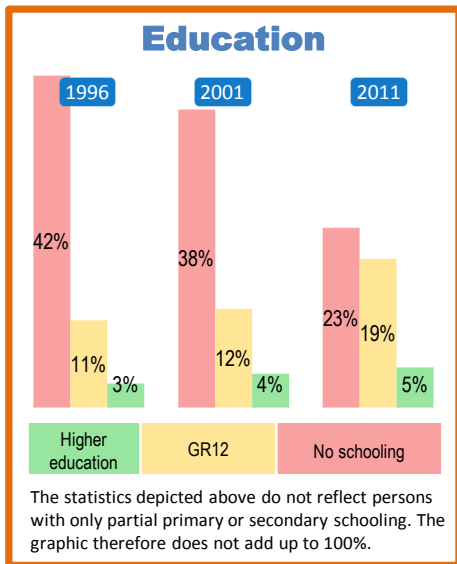
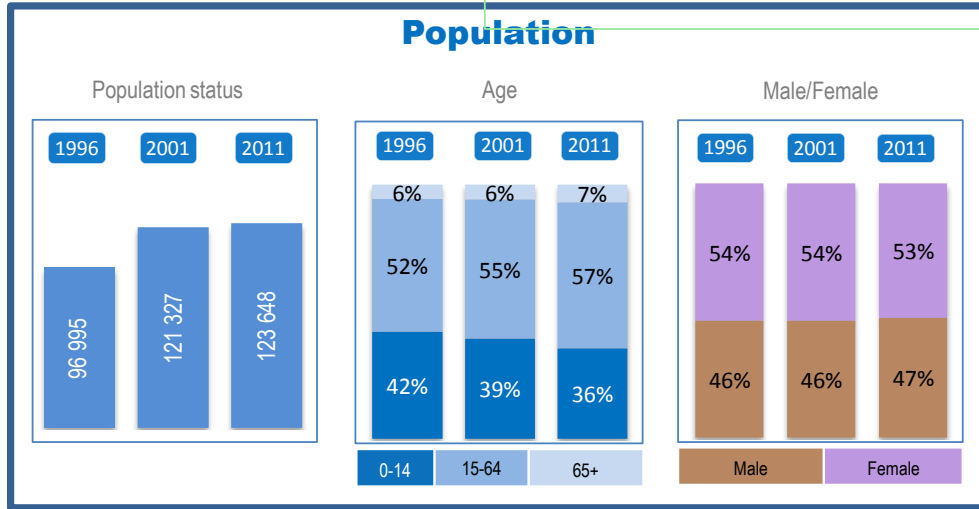
The municipal council committed to fully implementing the previous year's commitments, which were to monitor the service providers' performance to ensure proper skills transfer and to capacitate the internal audit unit, and made the following new commitment:

- Develop a more stringent action plan and ensure it is implemented and followed up more regularly.



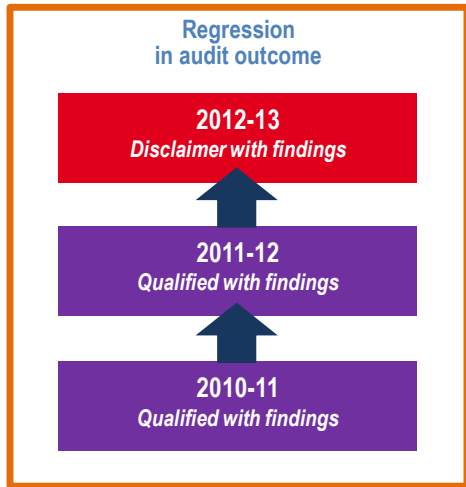
# EPHRAIM MOGALE MUNICIPALITY

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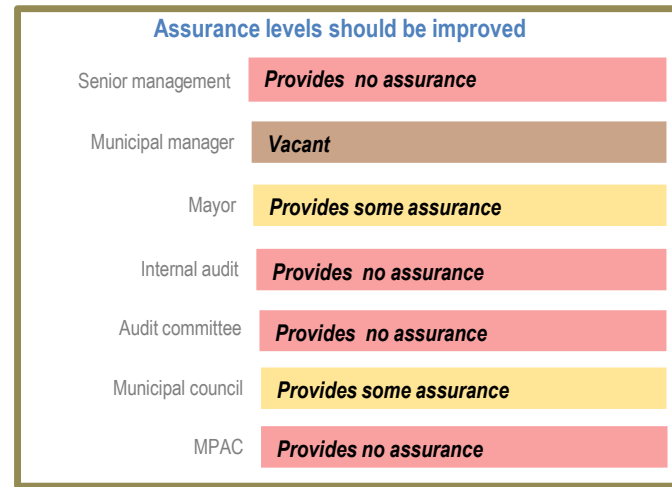
# Ephraim Mogale Municipality



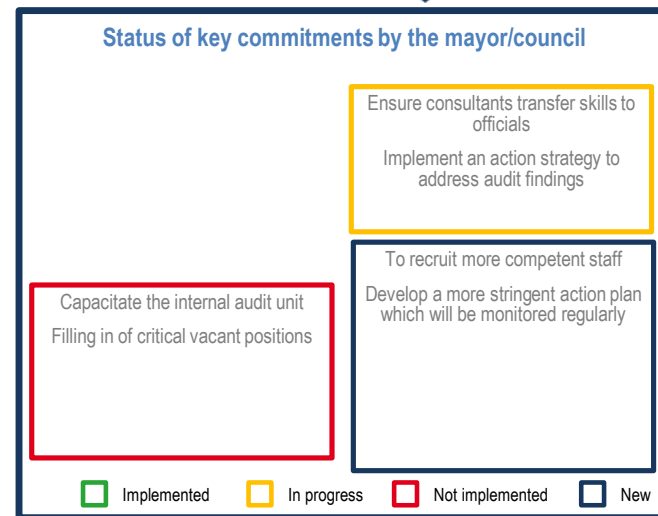
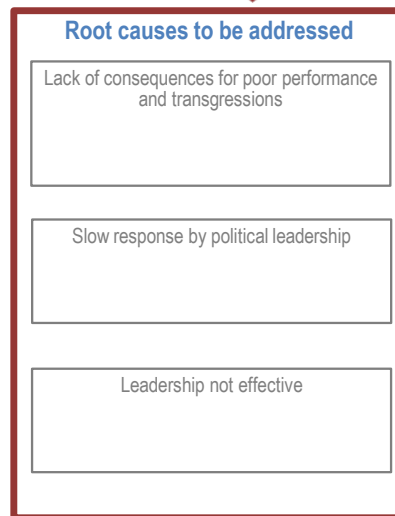
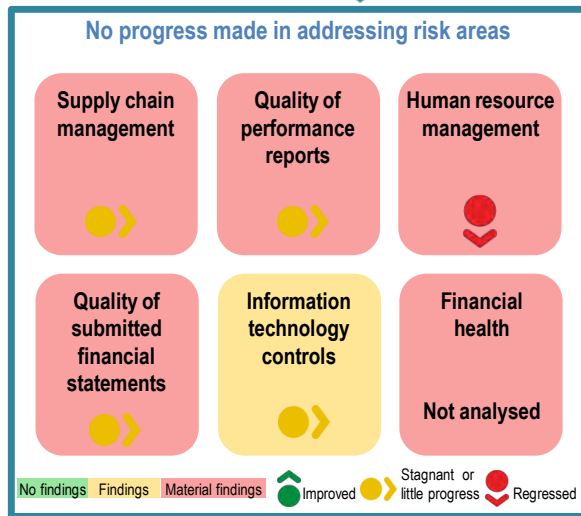
The current *audit outcomes* are the result of the attention given to the *six key risk areas*,



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



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



## Ephraim Mogale Municipality

### *Regression in audit outcome*

The municipality regressed from a qualified opinion in 2011-12 to a disclaimer of opinion in 2012-13. The municipality was unable to address any of the qualification matters from the previous year. The positions of municipal manager and CFO were vacant for the entire financial year.

### *Six key risk areas*

Limited or no progress has been made in addressing five of the six key risk areas. The financial health of the municipality was not analysed as the financial statements were not reliable.

Non-compliance with SCM regulations did not receive adequate attention. The procurement of goods and services still contravened SCM regulations, which resulted in the municipality incurring irregular expenditure of R66 million. There was also a lack of policies and operating procedures governing SCM regulations.

The quality of the financial statements did not improve. Findings were again identified on both the usefulness and reliability of the performance information. In addition, the municipality did not achieve 26% of its planned targets in the year under review. The poor quality of the financial statements and performance information was due to the high vacancy rate on senior management level and the lack of competencies and skills.

Findings on human resource management revealed that the key vacant positions of CFO, municipal manager and director: strategic planning were not filled within 12 months. Little or no progress has been made on the design and implementation of information technology controls for user access and security management.

The services of consultants were again engaged in connection with financial statements at a cost of R 2,9 million. Our concerns relating to the continued assistance sought from consultants is the over-dependency as a result of unfilled vacancies and the lack of transfer of skills. This results in the continued dependence on consultants. The effectiveness of consultants was also hampered by the poor internal control environment within the municipality.

### *Key controls and root causes*

There has been a regression in the key controls for leadership, financial and performance management and governance. The municipality should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight responsibility regarding financial and performance reporting and compliance
- Enforce consequences for poor performance and transgressions
- Leadership should proactively identify and address challenges facing the municipality.

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

- Capacitate the finance unit with adequately skilled and competent officials
- Hold officials accountable for poor performance and transgressions of legislation
- Monitor the progress of the audit action plans quarterly to identify challenges requiring intervention.

### *Impact of key role players on audit outcomes*

The skills and capacity constraints in the municipality prevented senior management from providing the desired level of assurance, which also impacted on the assurance that the mayor and senior management could provide. The level of assurance that the audit committee and internal audit can provide is dependent on the reliability of the assurance provided by senior management. In addition, the internal audit function was not fully capacitated, which had an impact on the effectiveness of governance in the municipality.

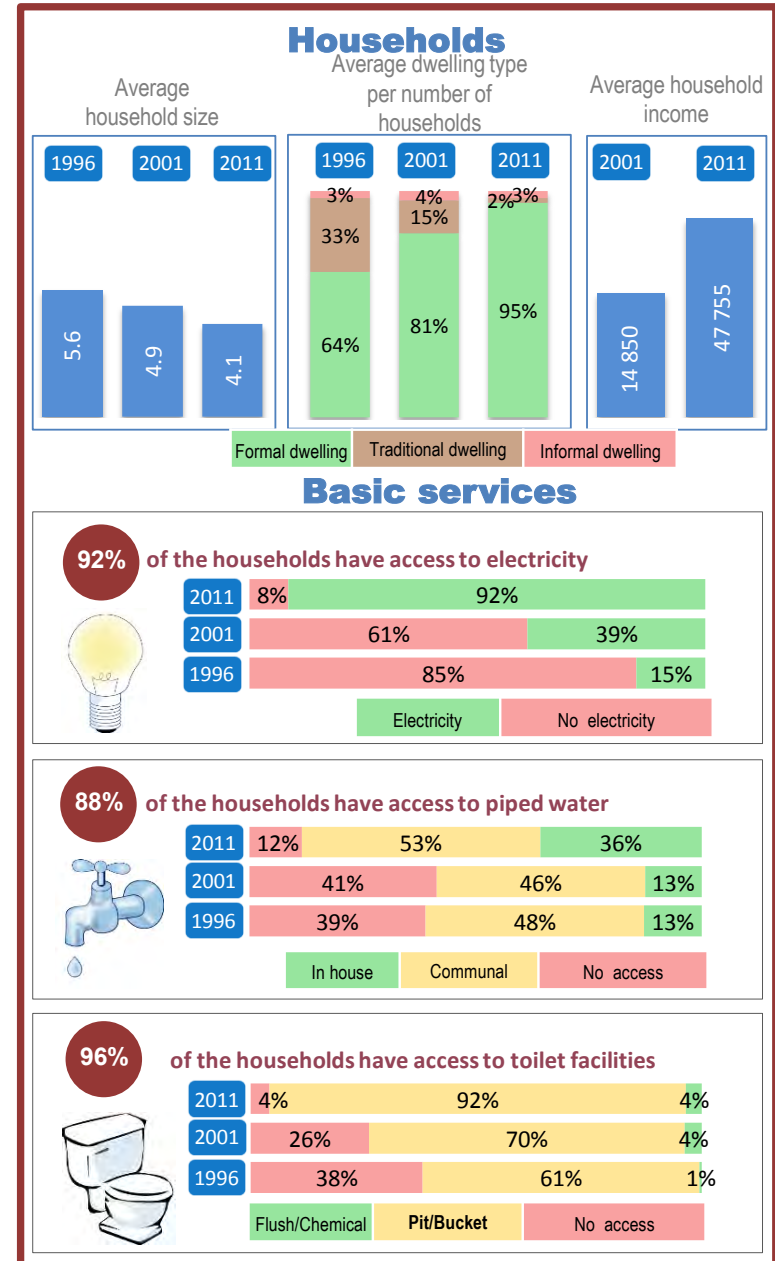
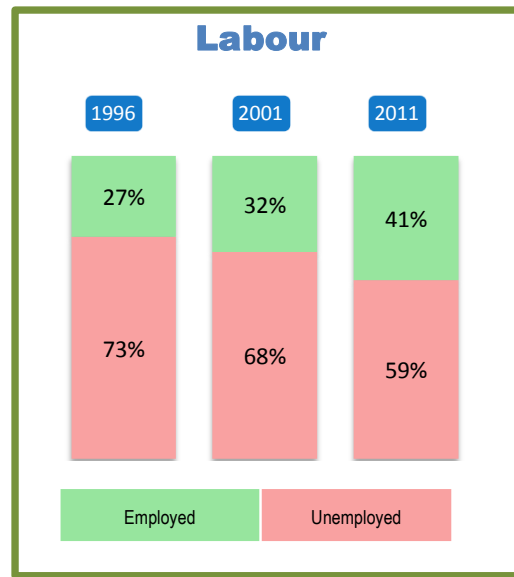
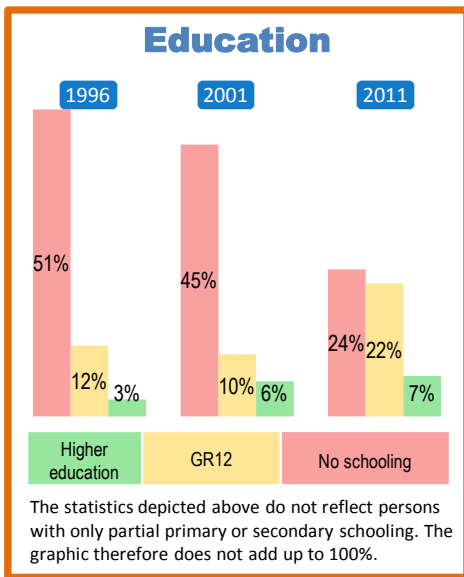
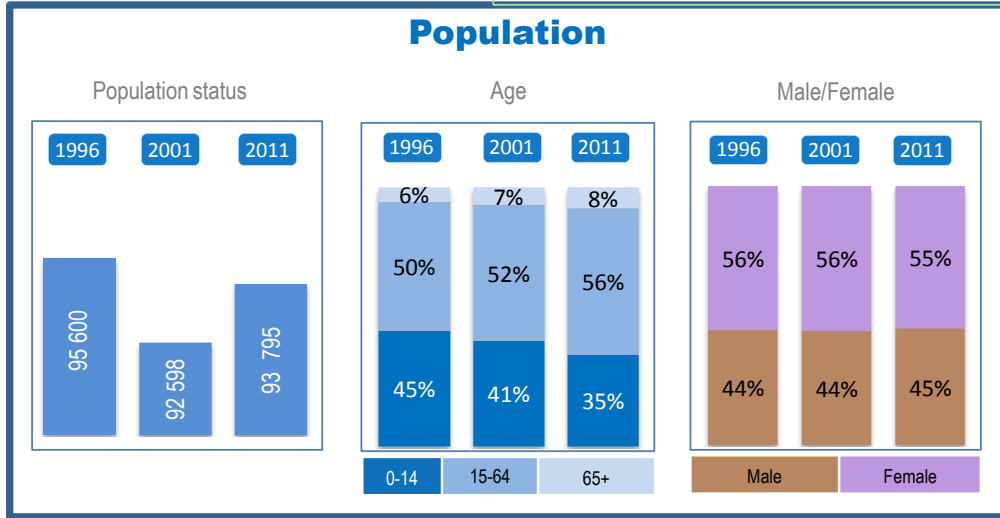
We met with the mayor twice in the past year and these interactions had no impact on the audit outcomes. The municipal council committed to fully implementing the previous year's commitments and made the following new commitments:

- Develop a more stringent action plan and ensure it is implemented and followed up more regularly
- Appoint competent staff in key management positions



# FETAKGOMO MUNICIPALITY

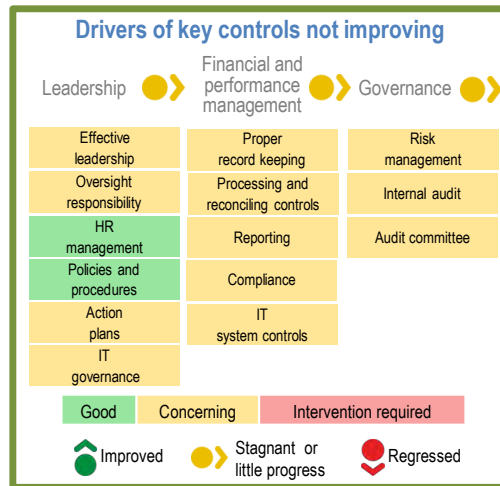
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# Fetakgomo Municipality



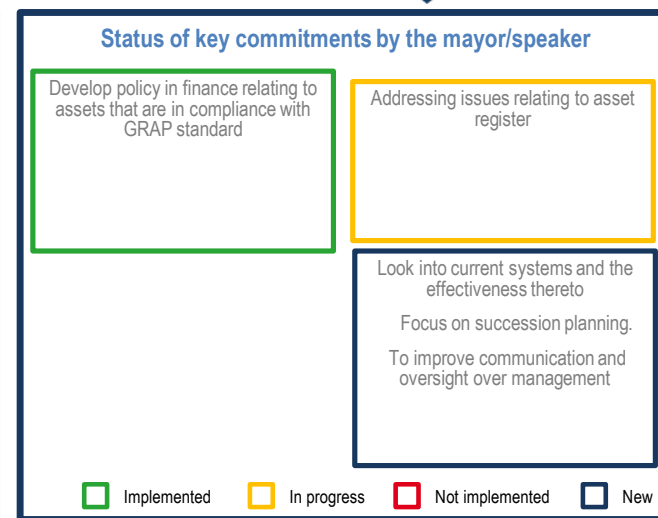
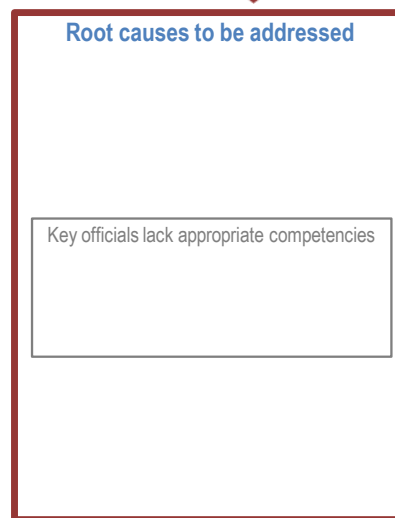
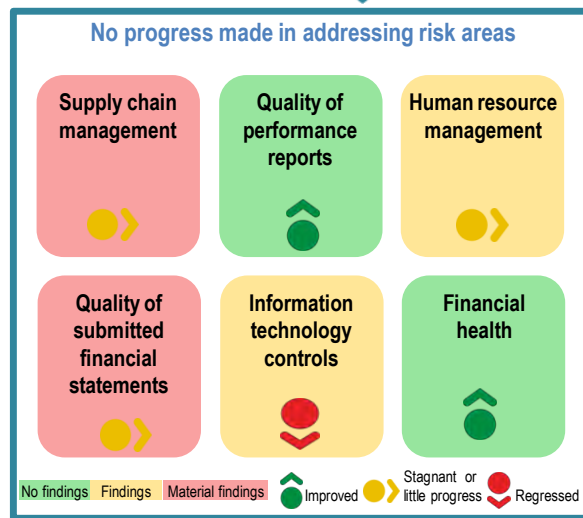
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



## Fetakgomo Municipality

### *No movement in audit outcome*

The municipality has received a qualified opinion for two consecutive years. Additional findings were reported on various components of its assets in the current year, which was a fundamental cause of the stagnation in the audit outcome.

### *Six key risk areas*

There has been a notable improvement by the municipality in two of the six key risk areas. There were no significant concerns with financial health and performance information. The municipality successfully implemented measures to improve on its debt collection period. Spending on conditional grants and the capital budget was monitored to ensure no over- or underspending. The status of SCM remains unsatisfactory, primarily as a result of the municipality not always complying with the legislative requirements when procuring goods and services. This resulted in the municipality incurring R3,9 million in irregular expenditure in the current year. Information technology controls regressed, with key controls on information technology governance framework and access management still not in place. An information technology manager was only appointed after year-end.

The quality of the financial statements did not improve due to a lack of competencies and skills in the application of certain financial reporting standards. The municipality continued to rely on the services of consultants to assist with the preparation of the asset register for audit at a cost of R1,5 million in the current year. However, the effectiveness of the consultants was hampered as the municipality did not have a strong internal control environment.

It is encouraging to note that the quality of the annual performance report improved, as the municipality successfully addressed the reliability and usefulness of its annual performance report. This was due to implementation and monitoring of action plans to address prior year findings on performance information.

### *Key controls and root causes*

There has been no improvement in the key controls for leadership, financial and performance management and governance. The following controls must

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

- Exercise oversight responsibility regarding financial reporting, compliance and related internal controls
- Implement effective human resource management to ensure adequate and sufficiently skilled officials

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

- Review the municipality's asset register regularly
- Municipal officials should review the work done by consultants, ensuring that they fully understand the work done
- Capacitate the finance unit with skilled and competent officials

### *Impact of key role players on audit outcomes*

The municipality's skills and capacity constraints prevented senior management from providing the desired level of assurance, which had an impact on the assurance that the mayor and accounting officer could provide. The level of assurance that the audit committee and internal audit can provide is dependent on whether the municipality takes their recommendations seriously.

The executive authority's swift action against dishonesty is indicative of their commitment to clean audit, as was evident in the dismissal of the former municipal manager, who was found guilty of financial misconduct.

No commitments were made by the mayor; however, we obtained the following commitments from other key role players:

Speaker (council chairperson):

- Improve communication and oversight of management
- Look into succession planning for critical positions
- Engage management on the current systems where projects are completed but are not providing the desired output.

MPAC chairperson:

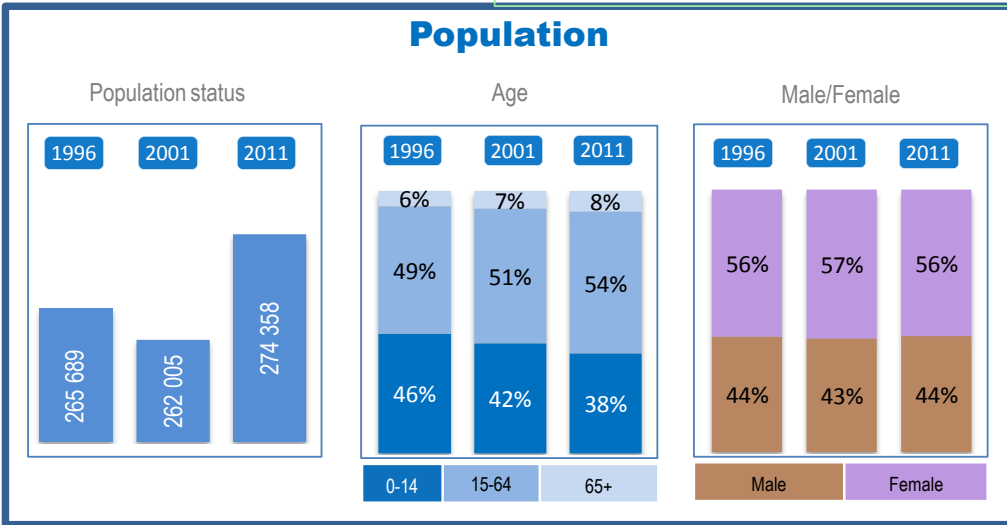
- Prioritise concerns relating to the asset register
- Manage the use of consultants more effectively
- Exercise oversight of completed projects by onsite inspection



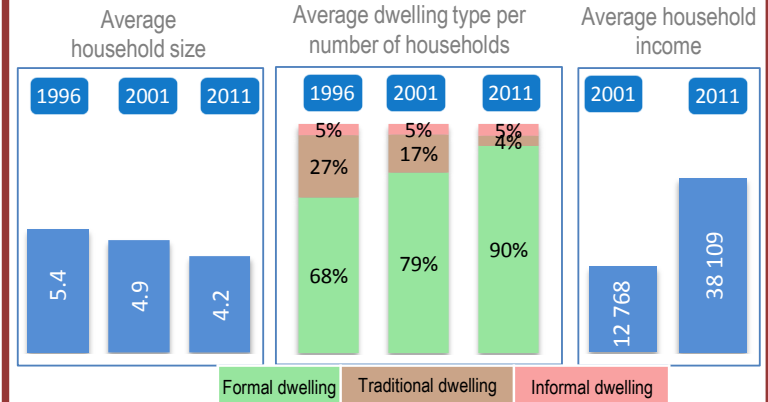
# MAKHUDUTHAMAGA MUNICIPALITY

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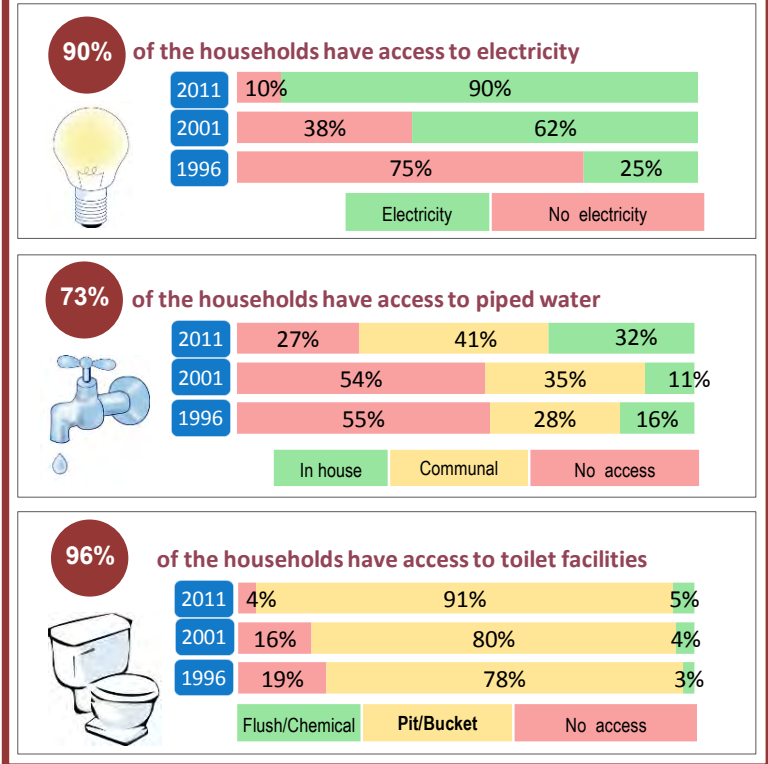
## Population



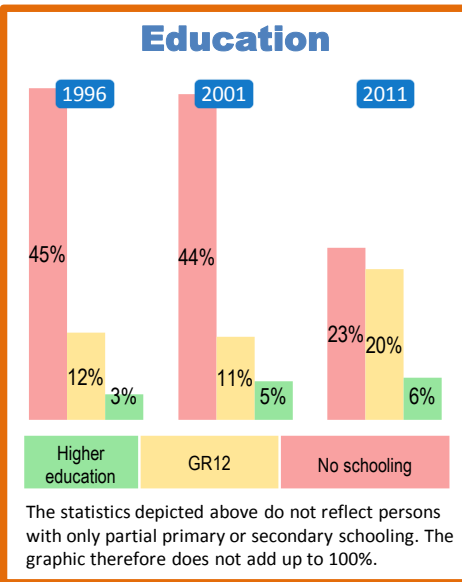
## Households



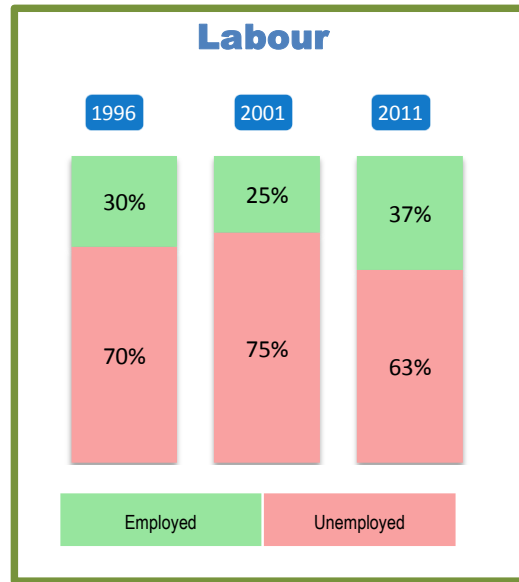
## Basic services



## Education

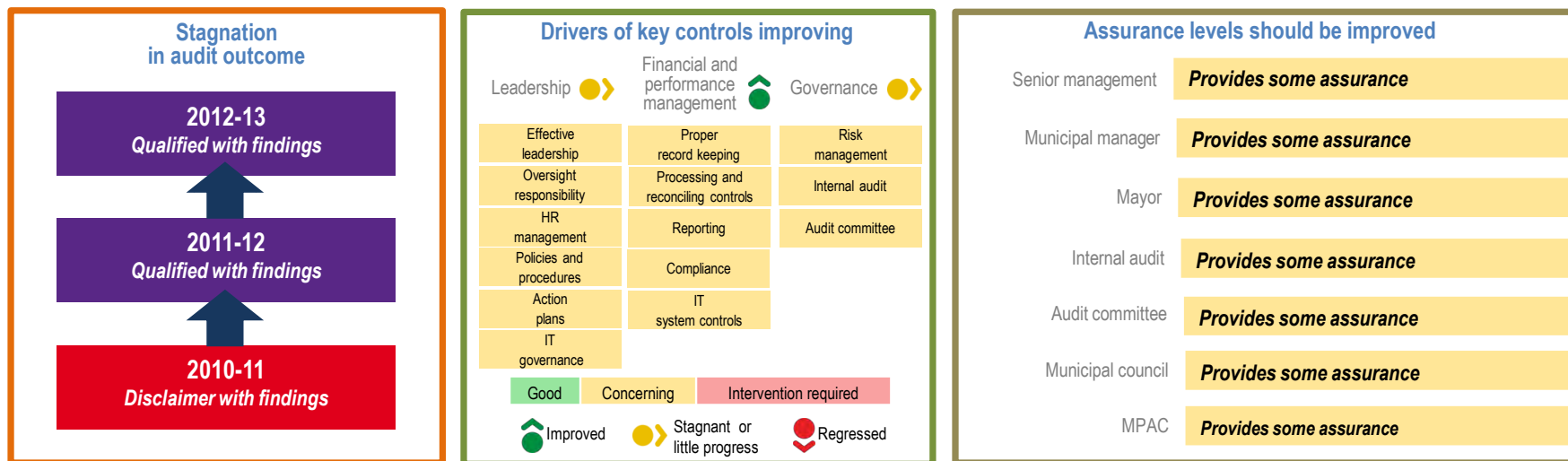


## Labour





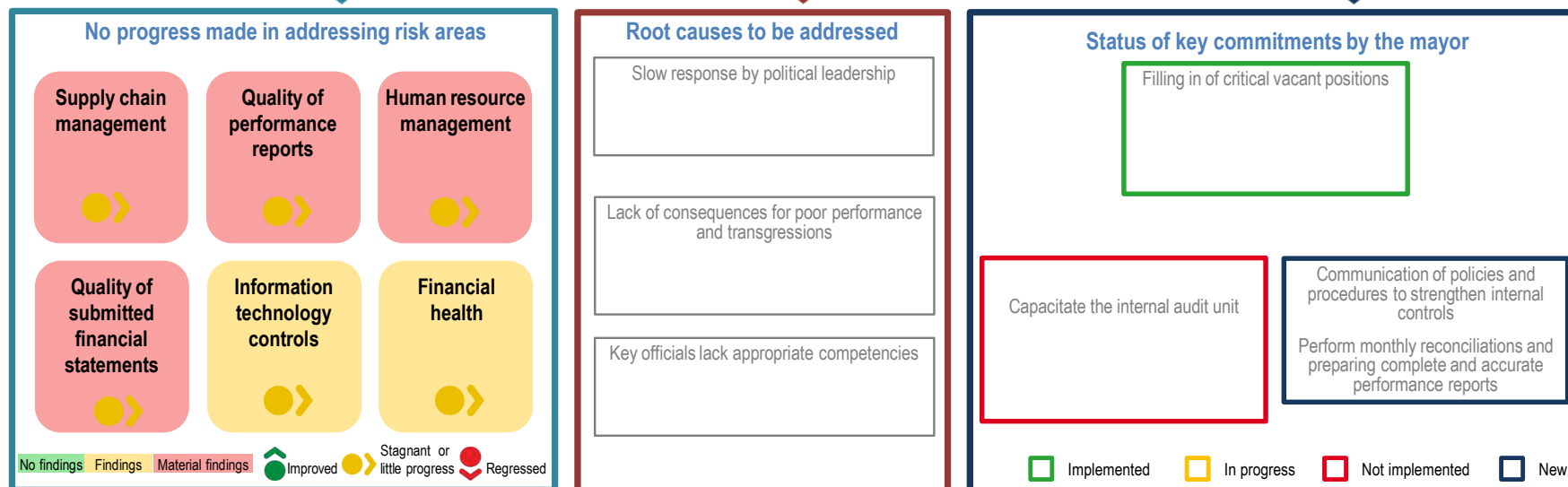
# Makhudutamaga municipality



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

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

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



## Makhudutamaga municipality

### *No movement in audit outcome*

The municipality received a qualified opinion for two consecutive years. While most of the previous year's qualification paragraphs had been addressed, new findings were raised in the year under review. The number of non-compliance findings also increased.

### *Six key risk areas*

Except for information technology controls, there has not been any improvement in the six key risk areas. The improvement in information technology controls is attributable to the municipality having designed and implemented information technology security management controls. However, there were challenges in the design and implementation of controls governing user access. Even though the position of the information technology manager was vacant during the financial year, the appointment of the director: Corporate Services ensured that the shortcomings in the information technology environment were addressed.

Although non-compliance findings were raised under human resource management, the municipality has made progress in the appointment of senior management officials during the year. The services of consultants were engaged in connection with asset management at a cost of R2 million. We have noted an improvement in this area, as the consultants resolved the previous year's findings on assets. Financial health concerns were noted on the collection of revenue, as observed by the significant impairment of debtors in the financial year.

Material corrections to the financial statements were again required during the audit. The quality of the annual performance report also did not improve, as the municipality had repeat findings on both its reliability and usefulness. In addition, the municipality did not meet 46 % of its targets in the year under review. The status of SCM remains unsatisfactory, primarily as a result of the municipality not complying with the legislative requirement to obtain three quotations in instances amounting to R120 777. Bids amounting to R5,7 million were advertised for a period less than the required minimum period of 30 days.

### *Key controls and root causes*

There was no improvement in the key controls for leadership and governance, while there was some improvement in financial and performance management since the previous year. The following controls must be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight regarding financial and performance management
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
- Review and monitor compliance with legislation

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

- Implement an efficient record keeping system to ensure that documentation is easily retrievable and available at all times
- Appoint skilled and competent officials in the finance unit
- Hold officials accountable for poor performance and transgressions of legislation

### *Impact of key role players on audit outcomes*

Senior management at the municipality did provide some level of assurance. The municipality has to maintain stability at senior management level to improve the level of assurance in the next financial year. The commitment by the mayor in the previous year to capacitate internal audit was not honoured. The level of assurance that the audit committee and internal audit can provide is dependent on the reliability of the assurance provided by senior management, and their recommendations being taken seriously.

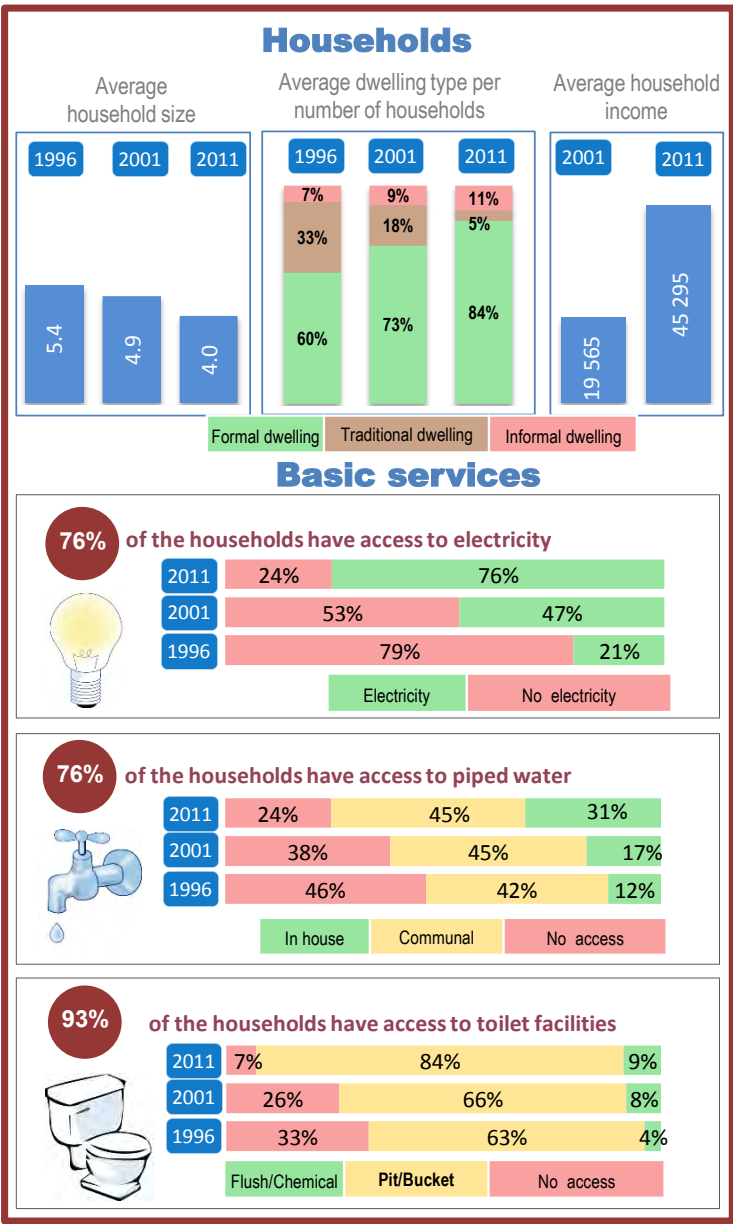
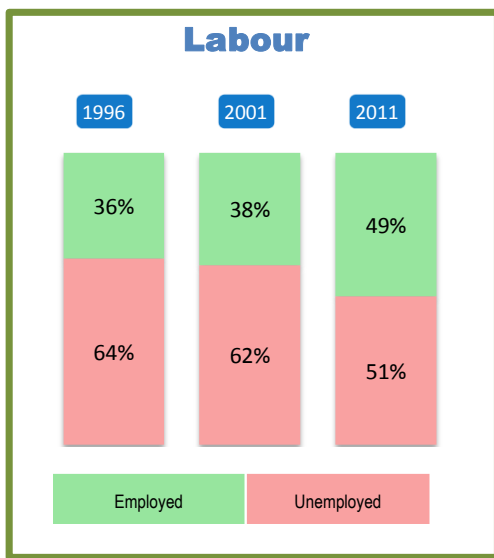
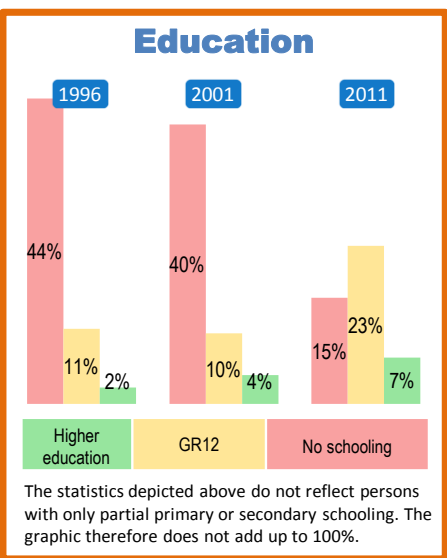
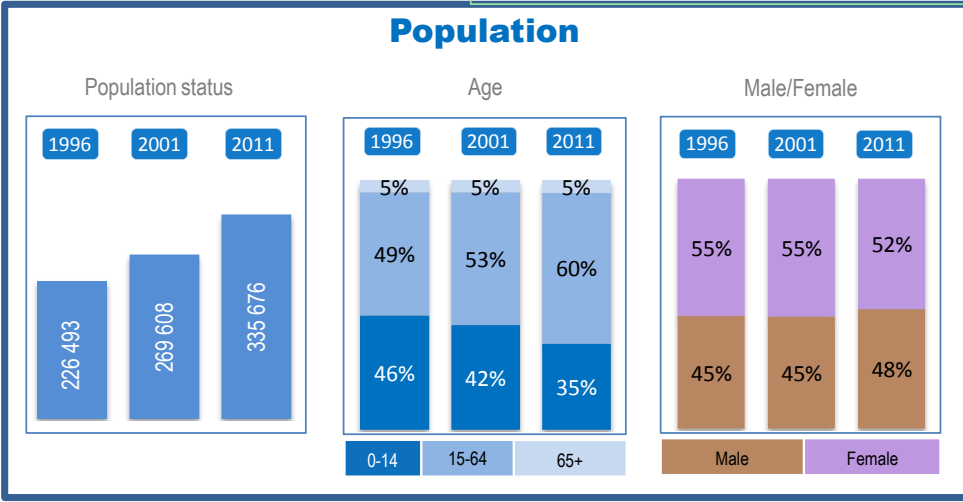
We met with the mayor twice during the financial year and the interaction had some impact on the audit outcomes. The municipality resolved some of the previous year's audit findings. The mayor also made the following new commitments:

- Communication of policies and procedures to strengthen internal controls
- Performance of monthly reconciliations and preparing complete and accurate performance reports

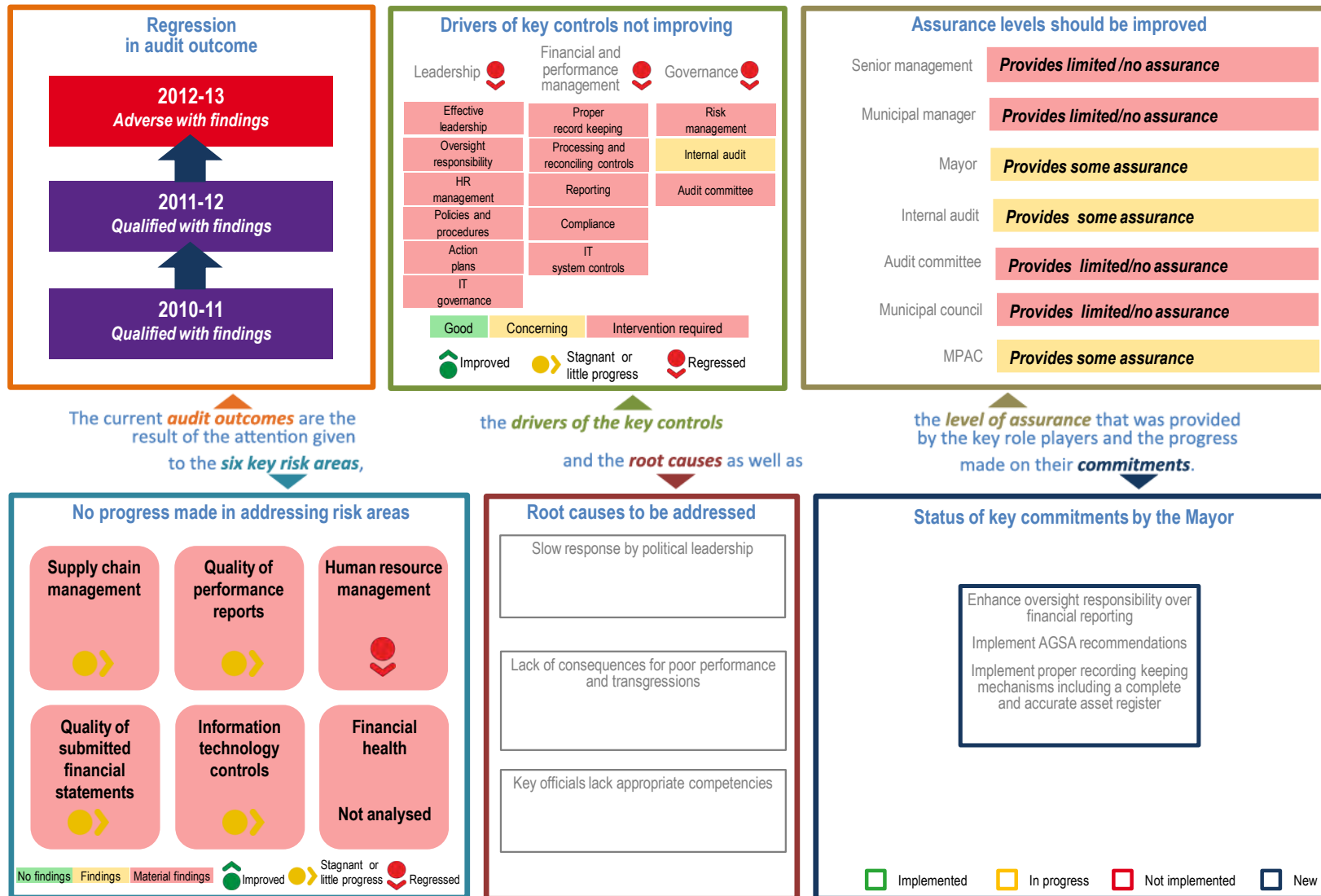


# TUBATSE MUNICIPALITY

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# Tubatse Municipality



## Tubatse Municipality

### *Regression in audit outcome*

The municipality regressed from a qualified to an adverse opinion. The municipal manager was suspended close to the end of the financial year and the CFO was suspended after the end of the financial year. These suspensions contributed to the regression. Findings raised during the interim audit were also not addressed on time as the same findings were raised during the final audit.

### *Six key risk areas*

There has been no improvement in the six key risk areas. The financial health was not analysed as the financial statements were not reliable. Non-compliance with SCM regulations did not receive adequate attention. The procurement of goods and services still contravened SCM regulations, which resulted in the municipality incurring irregular expenditure of R71 million. Inadequate budgetary controls also resulted in the municipality incurring unauthorised expenditure of R78 million.

The municipality continued to rely on the services of consultants to assist with the preparation of financial statements for auditing at a cost of R1 million. Our concerns relating to the continued assistance sought from consultants included the ineffective management of consultants and the lack of transfer of skills. A poor internal control environment also made it difficult for the consultants to deliver the services for which they were appointed.

The quality of the annual performance report has not improved. There were recurring findings on the reliability and usefulness of the annual performance report since the previous year. Findings on human resource management revealed poor controls of leave administration and third party payments. For the second year in a row, a large number of material misstatements were identified in the submitted financial statements. This was due to a lack of competencies and skills on senior management level and the suspension of the CFO after the end of the financial year.

Little or no progress has been made on the design and implementation of information technology controls for user access and security management. Although the municipality had designed information technology service continuity controls, it was not tested and implemented during the year under review.

### *Key controls and root causes*

The regression in the key controls results from ineffective leadership and the accounting officer's failure to exercise oversight of financial and performance reporting. The decision to suspend the accounting officer prior to year-end also had an impact on the administrative oversight responsibilities. The municipality should strengthen the following controls to create a control environment that supports reliable financial and

performance reporting and compliance with legislation:

- Document policies and procedures to guide the operations of the municipality and avoid non-compliance
- Review the financial statements and annual performance report for adequacy, reliability and accuracy
- Review the financial and performance reports prior to its submission to the audit committee or external auditors

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

- The municipality must implement effective human resource management to ensure adequate and sufficiently skilled officials
- The accounting officer should implement the basic elements of internal controls such as internal checks and monitoring, maintenance of continuous records and regular reconciliations.
- Management should prepare a comprehensive action plan, taking into account the root causes that have given rise to the findings

### *Impact of key role players on audit outcomes*

We met with the mayor thrice during the financial year and this interaction had a minimal impact on the audit outcomes. The mayor did not monitor the implementation of the action plan to facilitate an improvement in the audit outcomes. The mayor made a number of commitments. If implemented fully and correctly, they can lead to an improved audit outcome for the 2013-14 financial year.

The following commitments were made by the mayor:

- To maintain a complete asset register and proper record keeping to support the financial statements and the annual performance report
- To enhance oversight responsibility regarding financial and performance reporting
- To implement all our recommendations

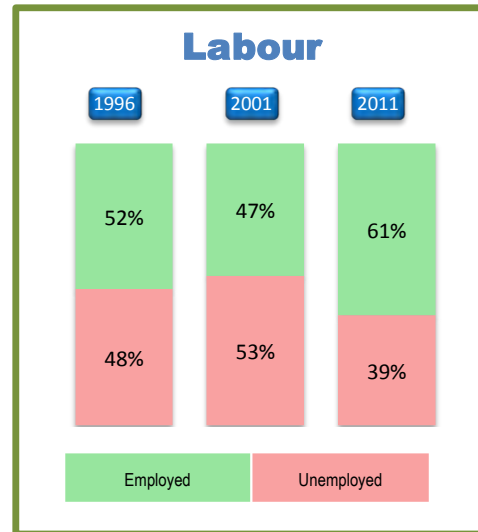
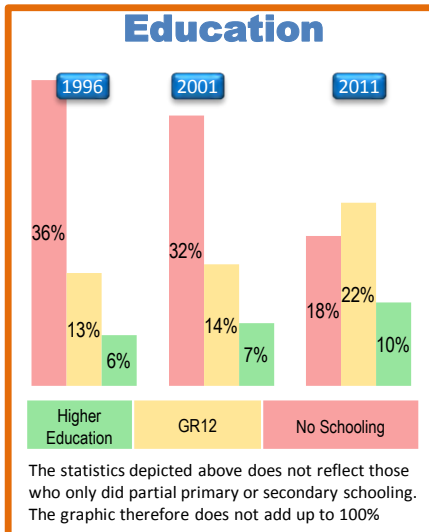
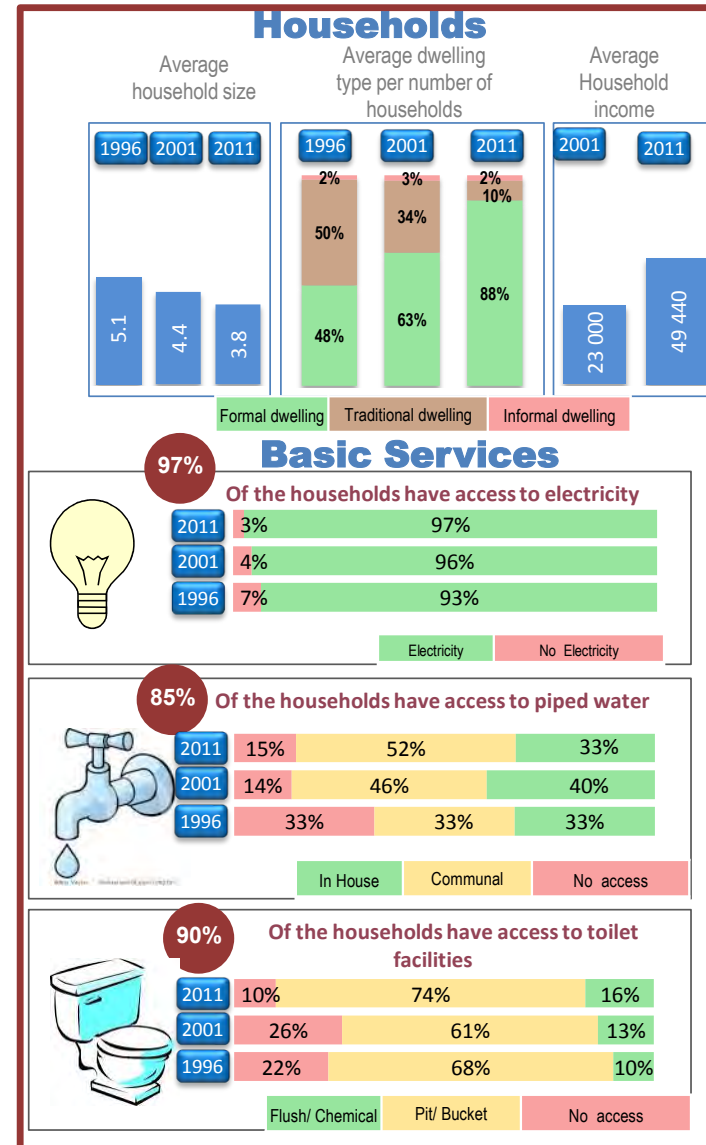
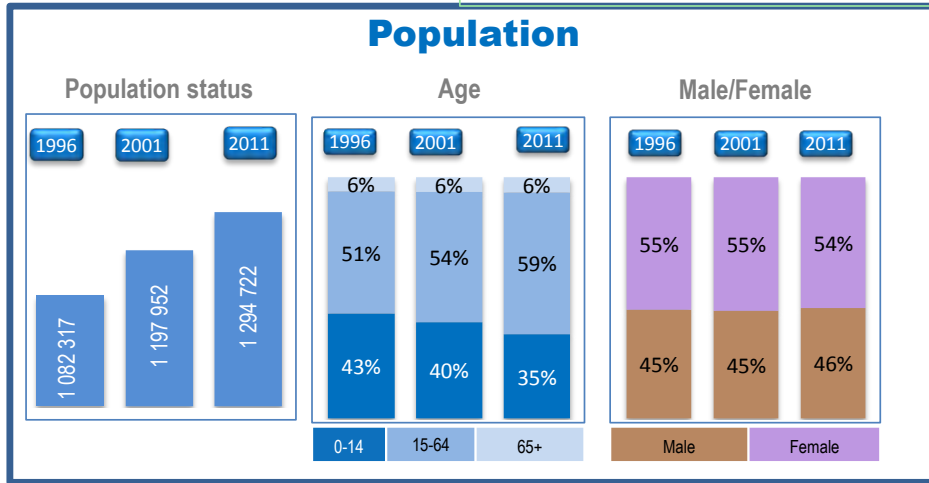
The municipal council and MPAC has not made any commitments and has had limited to no involvement in the audit. The level of assurance provided by the audit committee and internal audit was limited. This is evident from the poor quality of the financial statements as well as the high number of non-compliance findings raised.

## Vhembe District

85

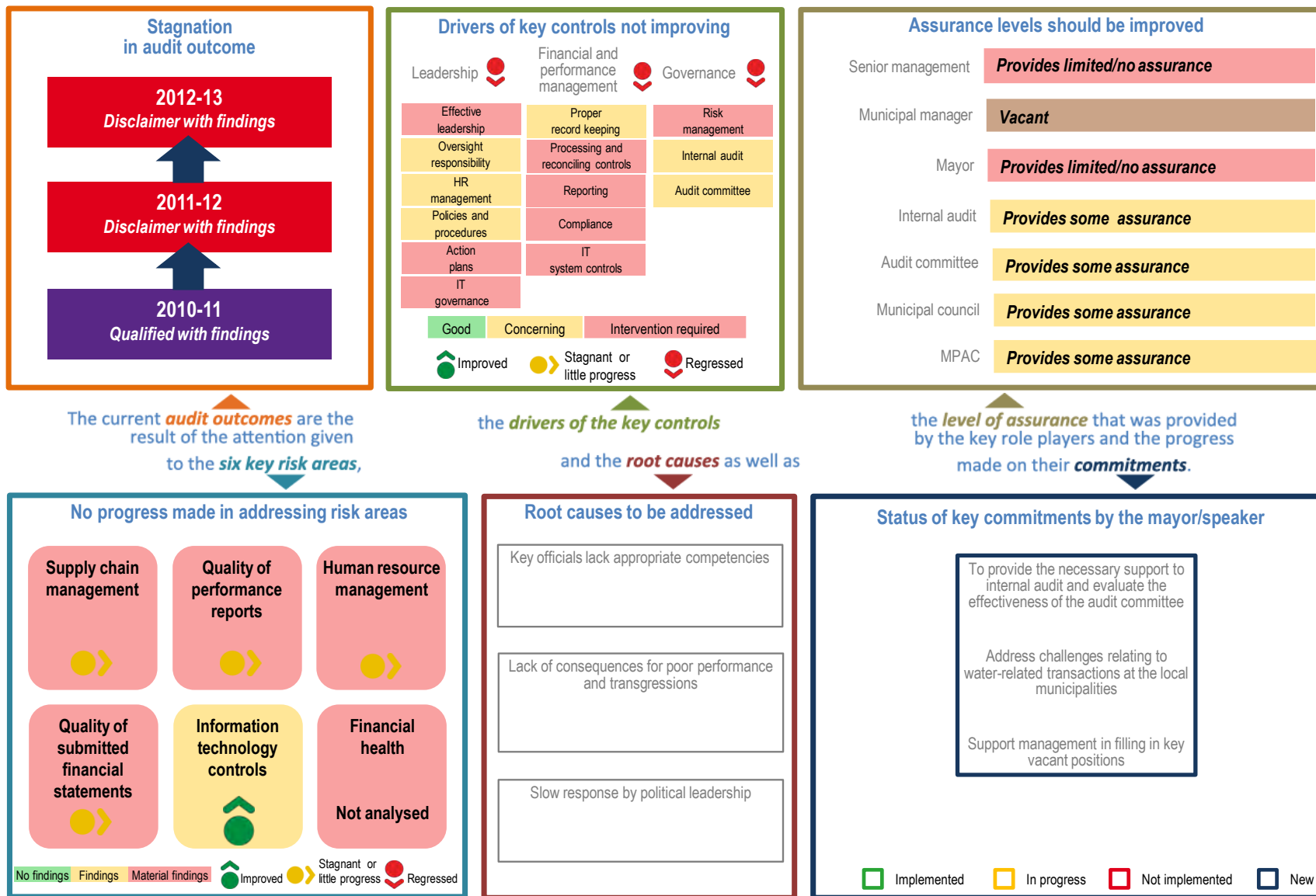
# VHEMBE DISTRICT MUNICIPALITY

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# Vhembe District Municipality



## Vhembe District Municipality

### *No movement in audit outcome*

The municipality received a disclaimer of opinion for two consecutive years and there has been minimal progress in addressing the previous year's findings. The municipality did not successfully address all the qualification paragraphs reported in the previous year.

### *Six key risk areas*

Except for information technology controls, there has not been any progress made in addressing the other key risk areas. The financial health of the municipality was not analysed due to the financial statements being unreliable. The status of SCM remains unsatisfactory, primarily as a result of the municipality not always complying with legislative requirements when procuring goods and services. This resulted in the municipality incurring R139 747 207 in irregular expenditure in the year under review, which accounted for 17% of the total irregular expenditure incurred in the province.

Findings on human resource management revealed poor controls of leave administration and recording. Vacant posts were also not filled within 12 months. Information technology controls has seen progress from the previous year as the municipality had an information technology governance framework and adequate access management controls.

The quality of financial statements remained poor, due to a lack of competencies and skills in the application of certain financial reporting standards. The municipality continued to rely on the services of consultants to assist with preparing the asset register at a cost of R4,2 million in the year under review. In addition, the services of consultants were again engaged in connection with the submission of VAT returns at a cost of R7,6 million. Our concerns relating to the continued assistance sought from consultants include: the ineffective management of consultants and the over dependency on consultants as a result of the lack of transfer of skills

The effectiveness of the work of consultants was also hampered as the municipality did not have a strong internal control environment.

The municipality successfully addressed the findings on the usefulness of its annual performance report. However, the findings on the reliability of its annual performance report are a recurring challenge since the previous year. The lack of capacity and resources to manage performance information needs to be addressed urgently.

### *Key controls and root causes*

There has been no improvement in the key controls for leadership, financial and performance management and governance. The municipality should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Oversee financial and performance management
- Implement effective human resource management to ensure adequate and sufficiently skilled officials
- Prepare and review a full set of financial statements monthly.

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

- Capacitate the finance unit with adequately skilled and competent officials. Senior management vacancies require urgent attention
- The accounting officer must ensure that regular reconciliations are performed between the physical assets and financial records
- Hold officials accountable for poor performance and transgressions of legislation.

### *Impact of key role players on audit outcomes*

The skills and capacity constraints in the municipality prevented senior management from providing the desired level of assurance. This also had an impact on the assurance that the mayor and accounting officer could provide. The level of assurance that the audit committee and internal audit can provide is dependent on the reliability of the assurance provided by senior management and their recommendations being taken seriously. At year-end, a number of findings and recommendations provided by internal audit were not implemented.

We met with the speaker (council chairperson) during the audit and the following commitments were made:

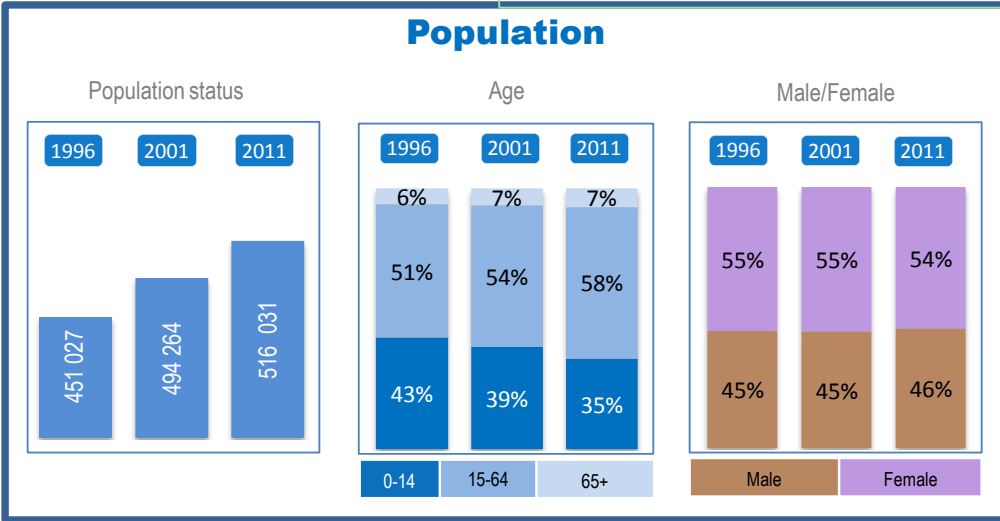
- To provide necessary support to internal audit and assess the effectiveness of the audit committee
- To follow-up on the extent of issues identified on water-related transactions and draw up action plans to resolve them
- The council will support management in filling vacant positions



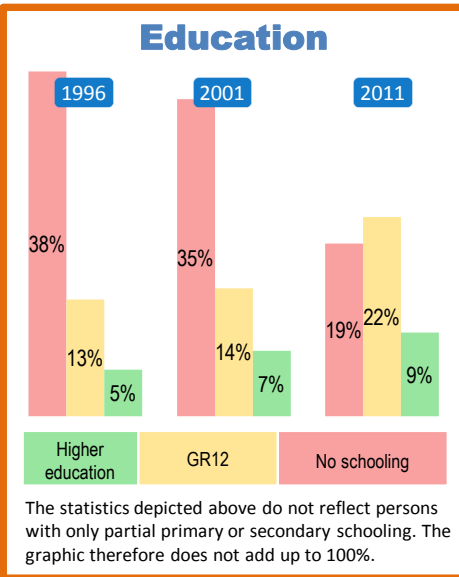
# MAKHADO MUNICIPALITY

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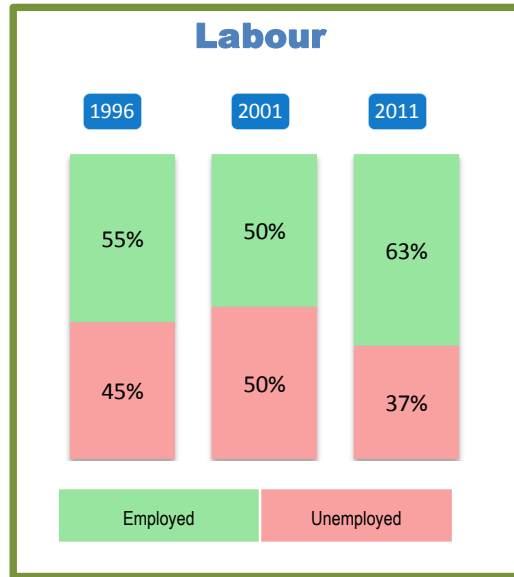
## Population



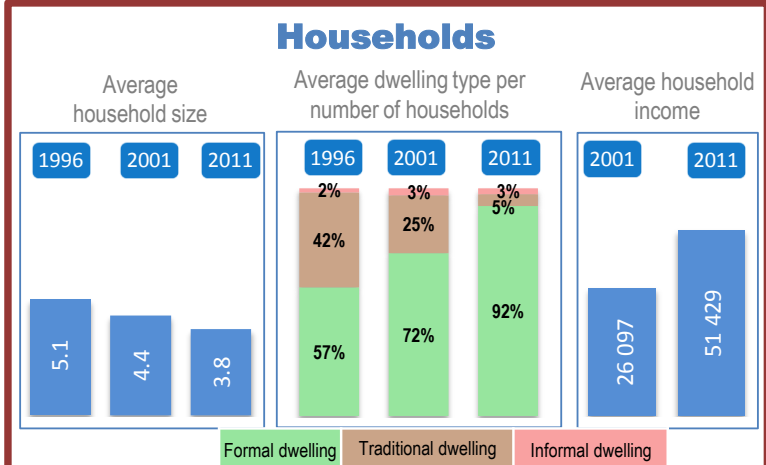
## Education



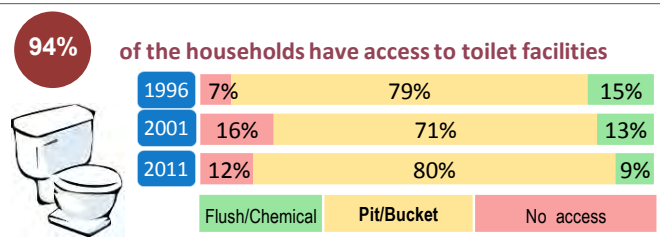
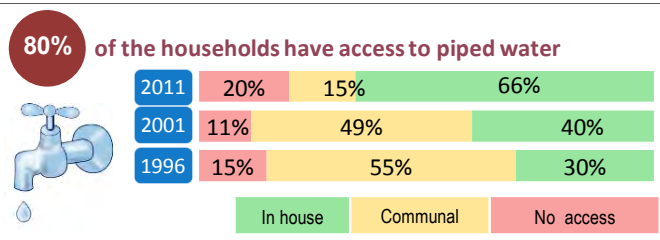
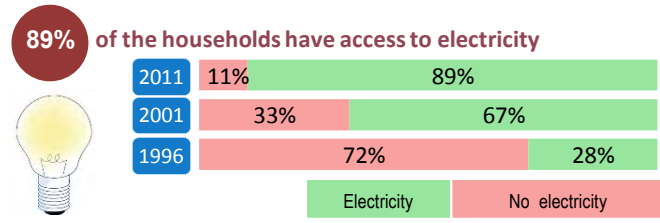
## Labour



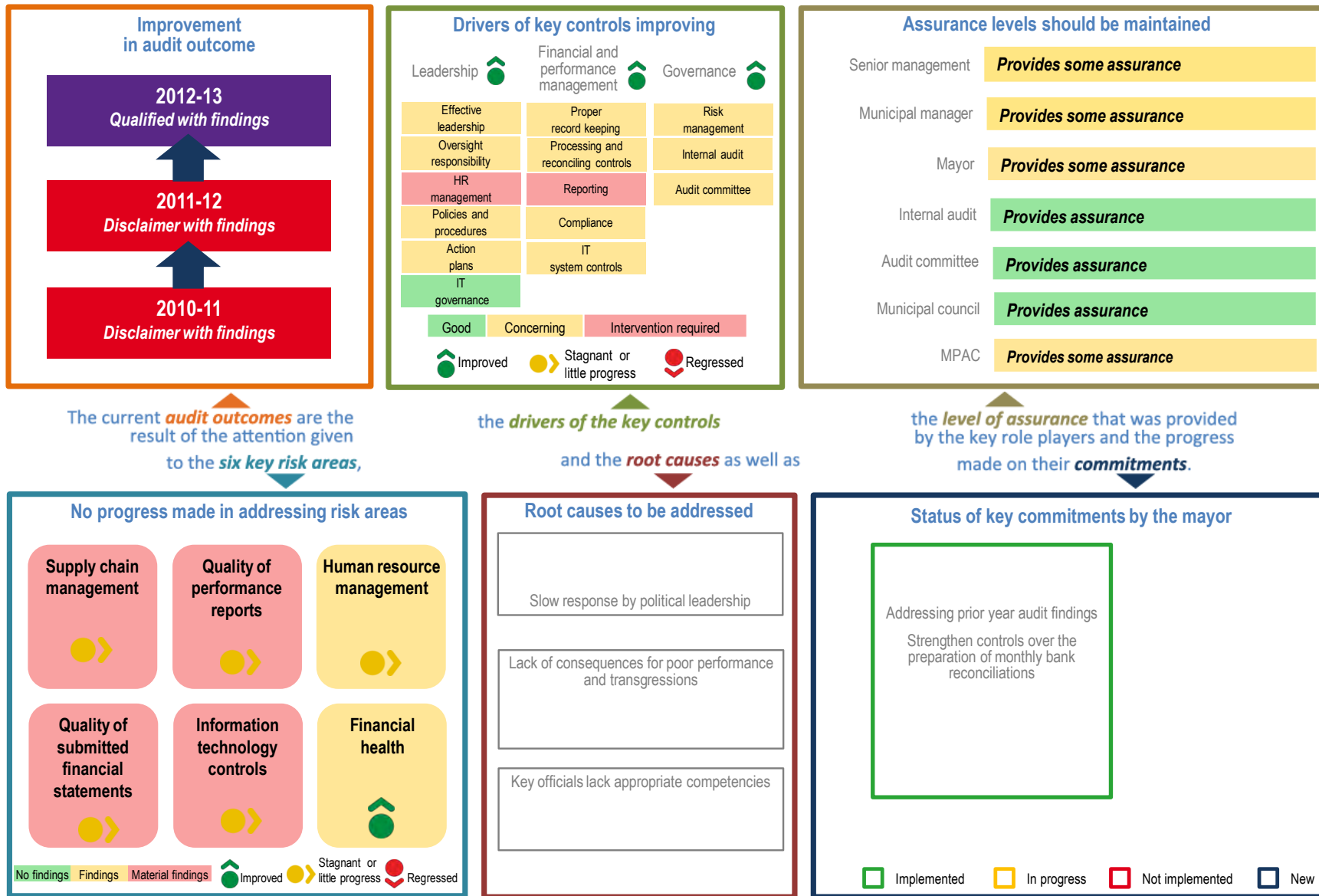
## Households



## Basic services



# Makhado Municipality



## Makhado Municipality

### *Improvement in audit outcome*

The municipality moved from a disclaimer of opinion to a qualified opinion. The improvement in the audit outcomes can be attributed to the appointment of the accounting officer and CFO, and a concerted effort by management and the audit committee to address the previous year's audit findings.

### *Six key risk areas*

There has been no improvement by the municipality in five of the six key risk areas. Non-compliance with SCM regulations remained stagnant from the prior year. The procurement of goods and services contravened SCM regulations, which resulted in the municipality incurring irregular expenditure of R47 million.

The number of financial health findings reduced since the previous year. The appointment of the accounting officer and CFO provided support to the finance unit and ensured some stability in the control environment within the municipality. Vacant posts in internal audit and finance, however, were not filled within 12 months.

Little or no progress has been made with the design and implementation of formal information technology controls to ensure the reliability of the systems and the availability, accuracy and protection of information. The position of the information technology manager was vacant during the financial year.

Material corrections were required to the financial statements during the audit. The recognition and measurement of inventory and the impairment of receivables still posed a challenge for the municipality.

Findings were again identified on both the usefulness and reliability of the reported information, mainly caused by the inadequate review of the performance information. In addition, the municipality did not achieve 76% of its planned targets in the year under review.

The municipality engaged a consultant, at a total contract value of R1,4 million, to assist with addressing the previous year's audit findings on property, plant and equipment. The work done by the consultant did assist the municipality in clearing those findings.

### *Key controls and root causes*

The overall improvement in the key controls was caused by the appointment of the accounting officer and CFO, together with the establishment of a turnaround strategy to address the previous year's audit outcomes. The municipality should further strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Oversee the review and monitoring of the reporting of performance information
- Oversee the enforcement of the municipality's SCM policy
- Initiate processes to review financial statements that are supported by sufficient appropriate audit evidence

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

- The council should capacitate the finance unit with adequately skilled and competent officials
- The accounting officer, management and internal audit must adequately monitor the awarding of contracts. Consequences must be enforced for non-compliance with SCM prescripts
- The CFO, together with the audit committee and internal audit, must adequately review the financial statements. The leadership must request for feedback on the progress in dealing with any internal control weaknesses.

### *Impact of key role players on audit outcomes*

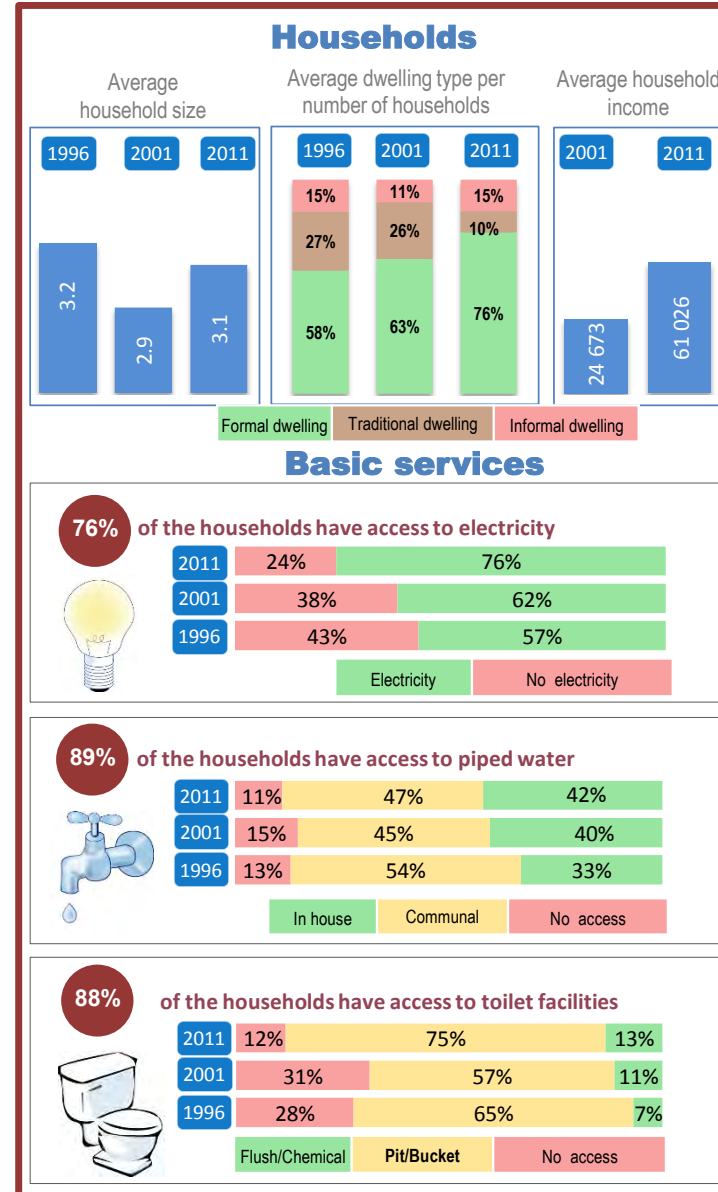
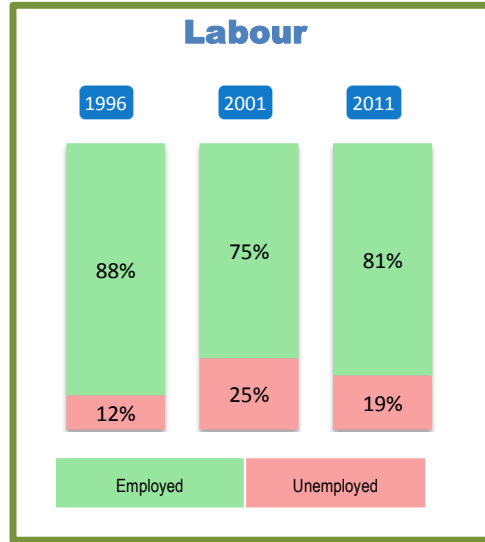
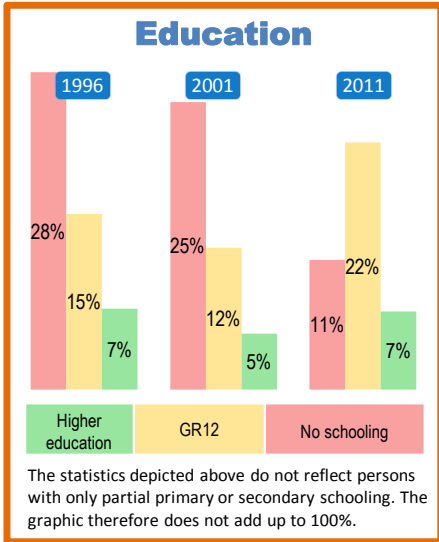
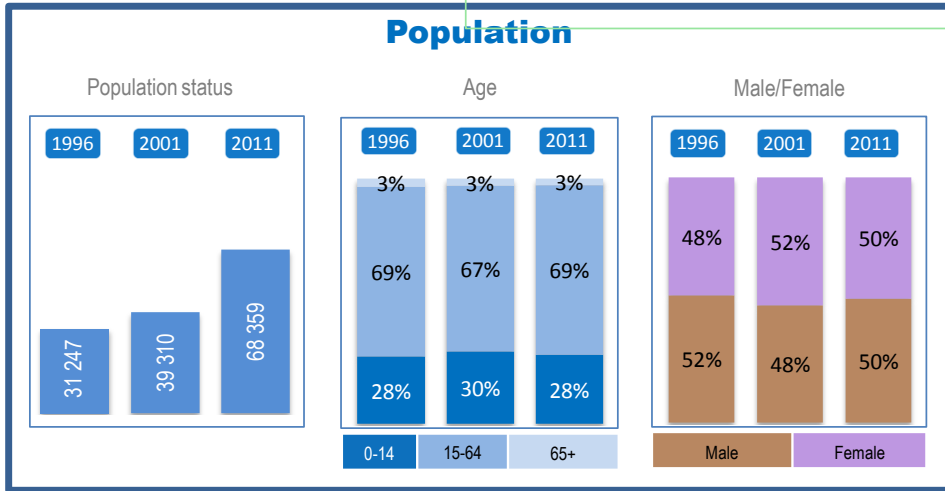
For improved audit outcomes the assurance levels should be maintained, ensuring stability at the level of accounting officer and CFO. The recommendations provided by the audit committee and internal audit were not addressed and implemented on time by the municipality. This has an impact on the level of assurance that these two critical governance structures are capable of providing.

We met with the mayor once during the financial year and that interaction had some impact on the improved audit outcomes. The commitments made in the previous year were implemented and no new commitments were made. Subsequent to issuing the audit report the council was briefed on the improvement in the audit opinion. From these interactions it is anticipated that further progress will be made in the next financial year.



# MUSINA MUNICIPALITY

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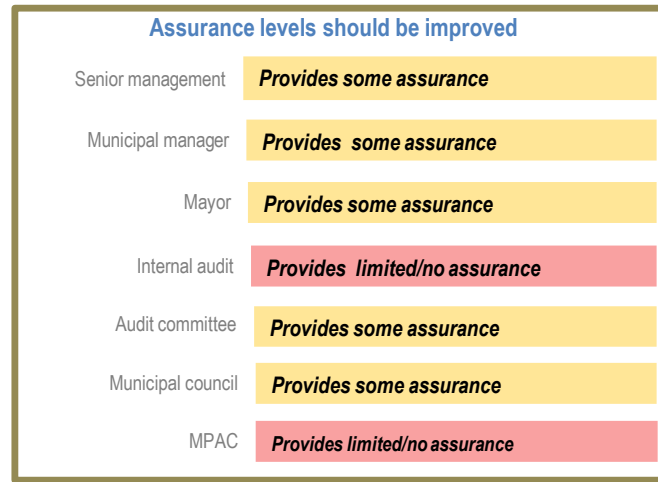
# Musina Municipality



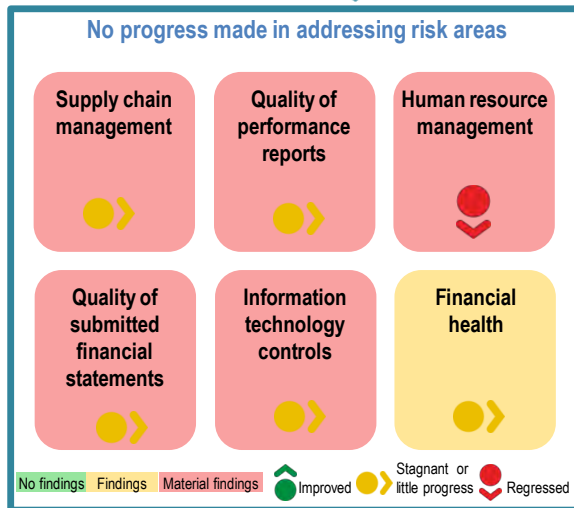
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



## Musina Municipality

### *No movement in audit outcome*

The municipality addressed all the qualification findings from the previous year. However, it retained its qualified opinion as a contingent liability in the uncertainties arising from a dispute, and pending litigation, regarding the wage curve agreement was not disclosed in the financial statements.

### *Six key risk areas*

No progress has been made in addressing any of the six key risk areas. Non-compliance with SCM regulations remains unsatisfactory. This was mainly as the preference point system was not applied in the procurement of goods and services above the threshold, which resulted in the municipality incurring irregular expenditure of R1 million. This could be attributed to the accounting officer and management's inability to enforce the municipality's SCM policy. Unauthorised expenditure of R32 million was also incurred as a result of inadequate budgetary control processes and the lack of regular monitoring of expenditure against the budget to proactively identify potential unauthorised expenditure.

The municipality had recurring findings on the usefulness and reliability of its annual performance report. The municipality did not have a dedicated official responsible for managing the reporting on performance.

There were no significant financial health concerns findings. Little or no progress has been made on the design and implementation of formal information technology controls to ensure the reliability of the systems and the availability, accuracy and protection of information. The municipality also does not have an information technology manager. As far as human resource management is concerned, the municipality did not comply with the requirements stipulated in the regulations on *Minimum competency levels*.

The financial statements still contained misstatements, which were not corrected as officials did not fully understand the requirements of the financial accounting framework, and the review of the financial statements before submission to the auditors was inadequate.

The municipality engaged a consultant to assist with addressing the previous year's audit finding on property, plant and equipment. The consultant's work did assist the municipality in clearing that finding.

### *Key controls and root causes*

The overall improvement in the key controls was caused by a concerted effort from the municipality to improve the audit outcomes and strengthen the key controls for leadership, financial and performance management and governance. The municipality should further strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The leadership should strengthen its oversight role of financial and performance management activities
- The CFO must review the financial statements against the requirements of the accounting framework
- Capacitate the finance unit with adequately skilled resources

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

- The accounting officer must allocate the responsibility of driving the performance management system to a dedicated official
- Appoint skilled and competent officials in the finance unit
- Enforce consequences for poor performance and transgressions of legislation

### *Impact of key role players on audit outcomes*

The level of assurance the audit committee can provide is dependent on the function performed by the internal audit unit. For improved audit outcomes, the assurance levels should be enhanced by implementing the recommendations of internal audit and directing the work of the audit committee towards evaluating performance information. It is critical that the internal audit unit be capacitated with adequately skilled and competent officials.

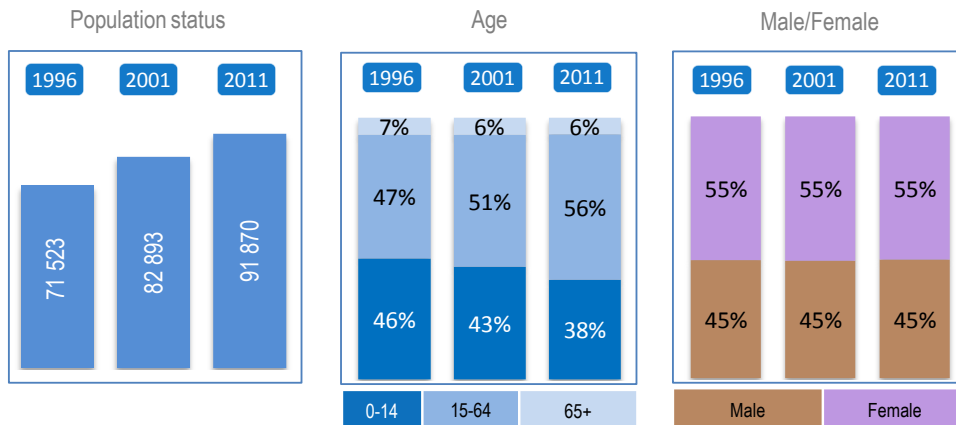
We met with the mayor once in the financial year and the interaction had a minimal impact on the audit outcomes. Improvements are expected in the next financial year. The mayor and the council made no new commitments. The commitment made in the previous year was implemented.



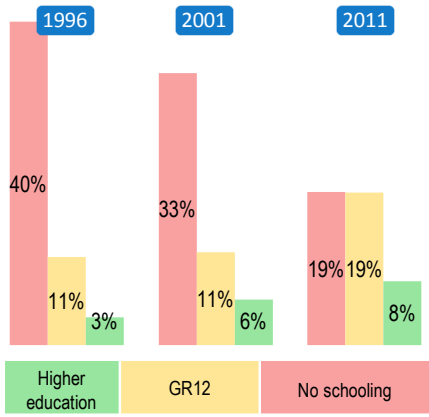
# MUTALE MUNICIPALITY

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## Population

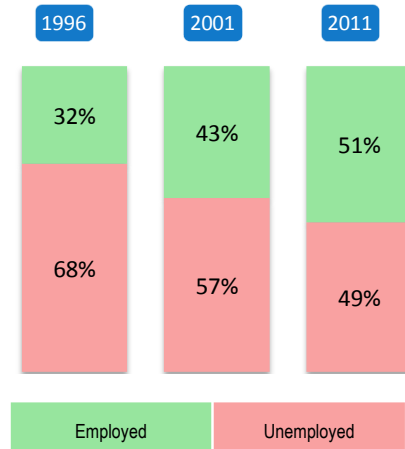


## Education

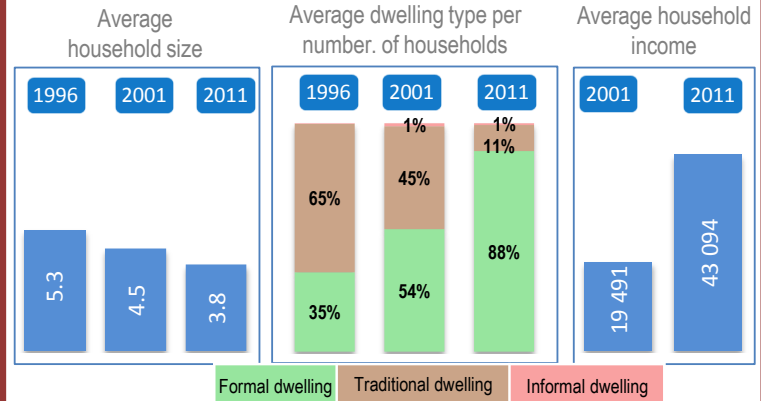


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

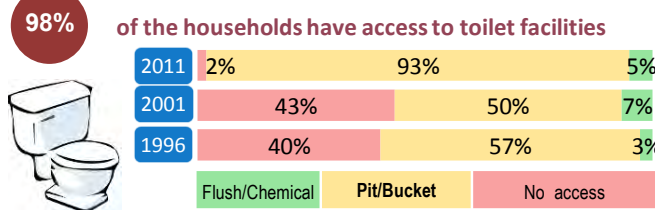
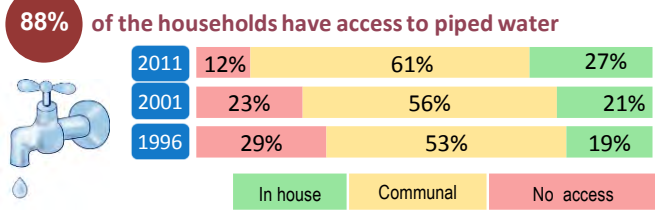
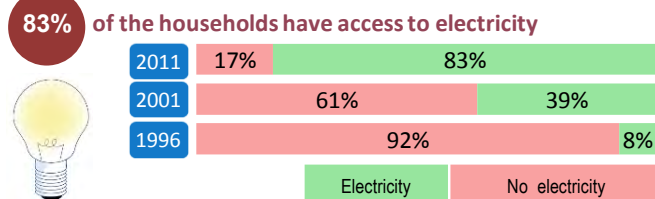
## Labour



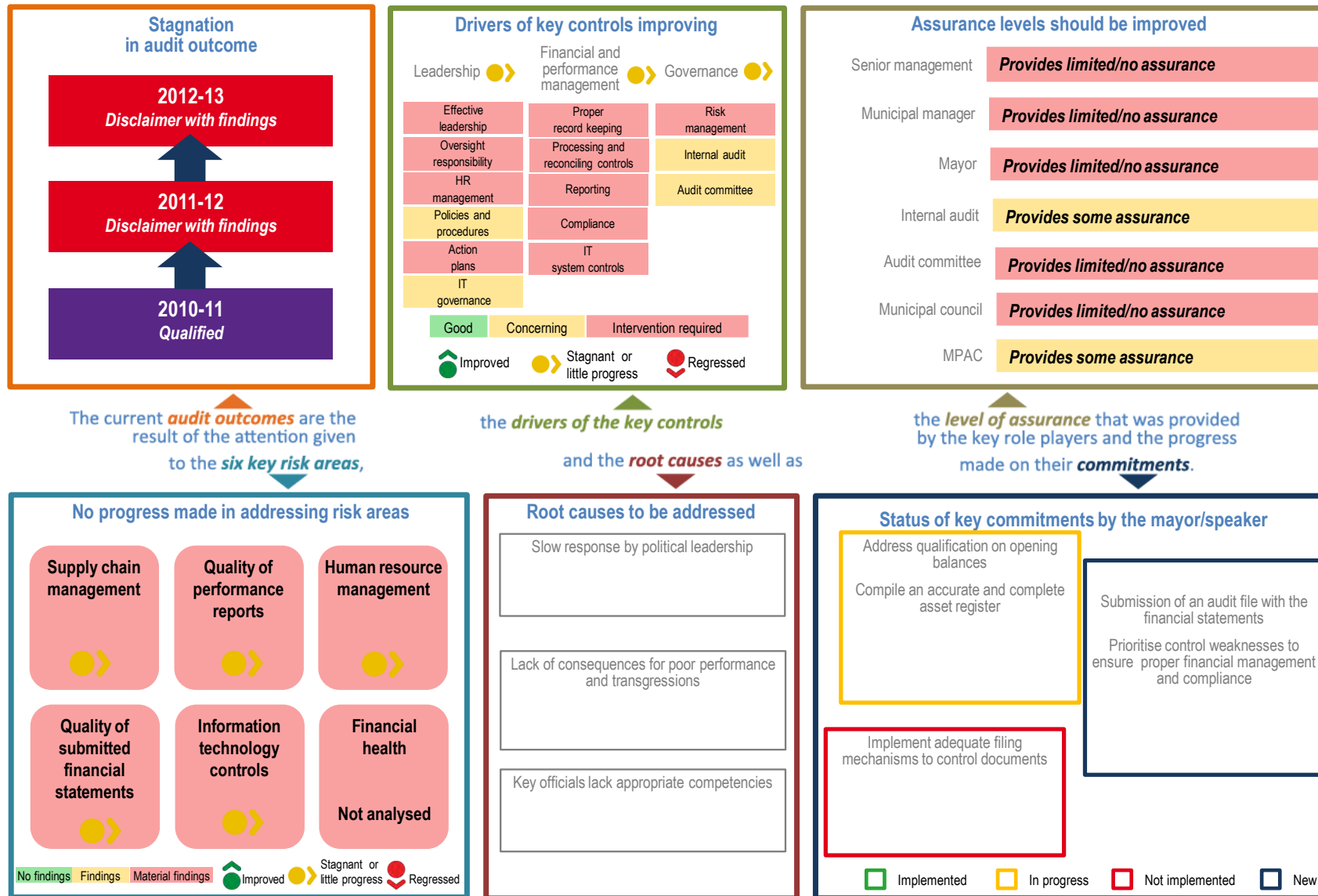
## Households



## Basic services



# Mutale Municipality



## Mutale Municipality

### *No movement in audit outcome*

The municipality received a disclaimer of opinion for two consecutive years. There has been minimal progress by the municipality in addressing the previous year's audit findings. The municipality's failure to address the qualifications on the opening balances on time was the main cause of these qualifications.

### *Six key risk areas*

Limited or no progress has been made in addressing five of the six key risk areas. The financial health of the municipality was not analysed as the financial statements were not reliable.

Irregularities were identified in the SCM, which is indicative of weaknesses in the controls. No progress has been made on the identified weakness in information technology as reported in the previous year. These related to security management, user access management, program change management and information technology service management. The lack of progress was due to a lack of skilled staff and the municipality not having an information technology manager.

100 Recurring findings relating to senior managers acting in positions for more than six months, and various compliance issues in human resource management remain unresolved. Officials acting in these positions lacked the competencies to effectively discharge the duties of these positions. The position of the CFO was vacant for 11 months of the financial year.

The quality of the financial statements did not improve since the previous financial year. This was due to inadequate skills and competencies in the finance unit and basic controls that are used in everyday tasks in financial and performance management not being implemented. The municipality continued to rely on the services of consultants to assist with the preparation of financial statements for audit at a cost of R849 000 in the current year. It appears that management is ineffective in its supervision and management of work performed by consultants. The effectiveness of consultants was also hampered by the municipality not having a strong internal control environment.

The quality of the performance information reporting also did not improve as the municipality had recurring findings on the usefulness and reliability of the annual performance report. The municipality did not have adequate capacity and resources to manage performance information. The municipality should have proper systems of record management that maintains the information that supports the reported performance.

### *Key controls and root causes*

There has been no improvement in the key controls of leadership, financial and performance management and governance. This is because the leadership failed to exercise oversight in addressing the previous year's audit issues and the AGSA's recommendations. The accounting officer and CFO were appointed very late in the financial year, and therefore had no impact on the key controls. The municipality should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Capacitate the finance unit with adequately skilled and competent officials
- Review and monitor compliance with applicable legislation and enforce consequences for transgressions
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

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

- Hold officials accountable for poor performance and transgressions of legislation.
- Appoint competent and skilled official in the finance unit
- Implement an efficient record-keeping system to ensure that documentation is easily retrievable and available

### *Impact of key role players on audit outcomes*

The skills and capacity constraints in the municipality prevented senior management from providing the desired level of assurance. This also had an impact on the assurance that the mayor and accounting officer could provide. The level of assurance that the audit committee and internal audit can provide is dependent on the reliability of the assurance provided by senior management and their recommendations being taken seriously. An audit committee review of the financial and performance reporting is critical in providing assurance on the quality of the financial statements presented for auditing.

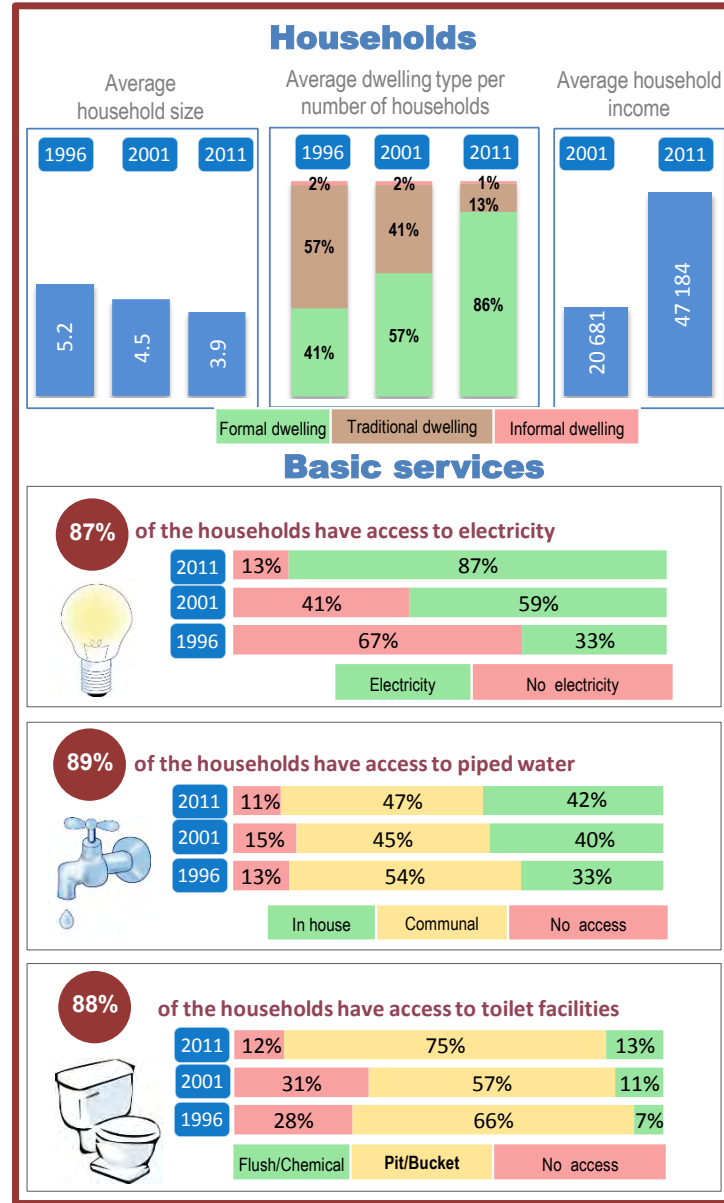
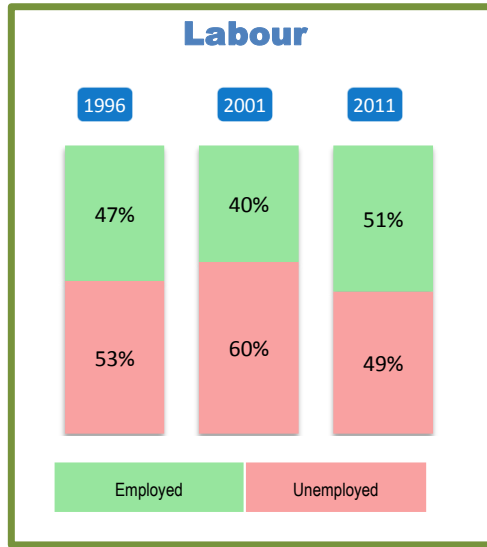
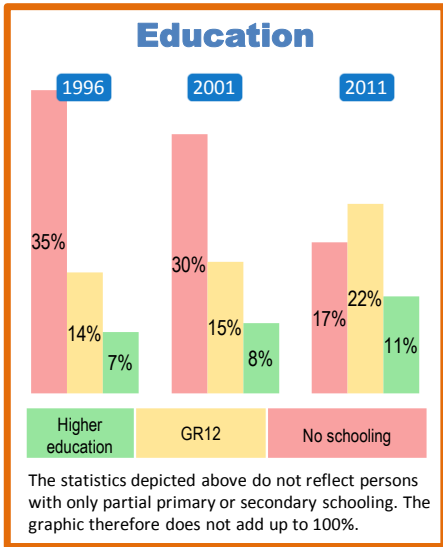
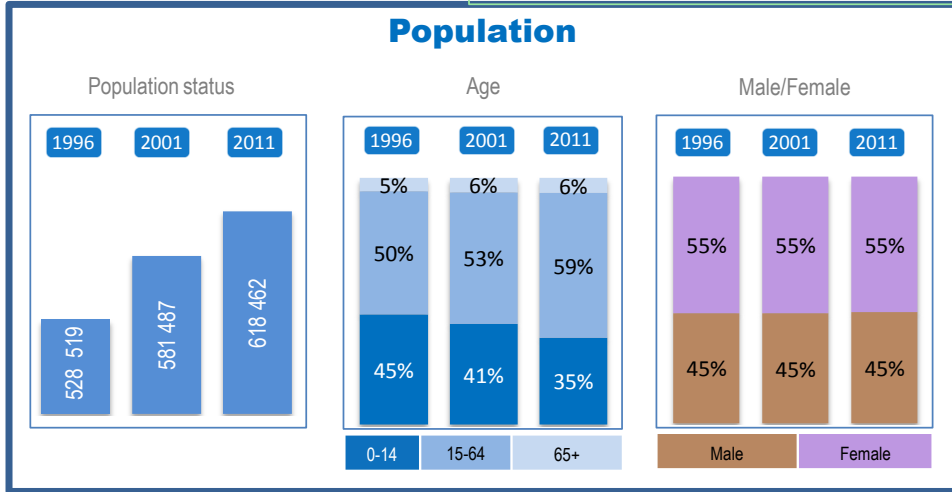
No commitments were made by the mayor; however, we obtained the following commitments from the speaker:

- An audit file will be submitted with the financial statements
- Financial control weakness identified will be given priority to ensure proper financial management and compliance



# THULAMELA MUNICIPALITY

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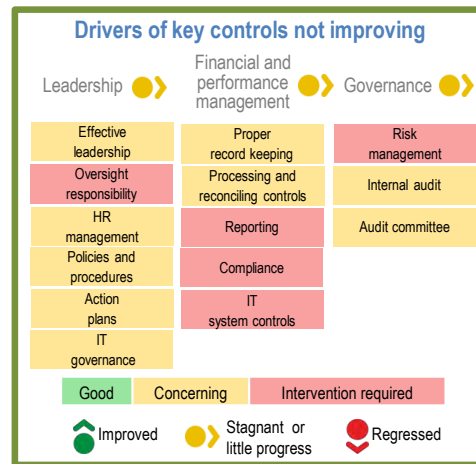




# Thulamela Municipality



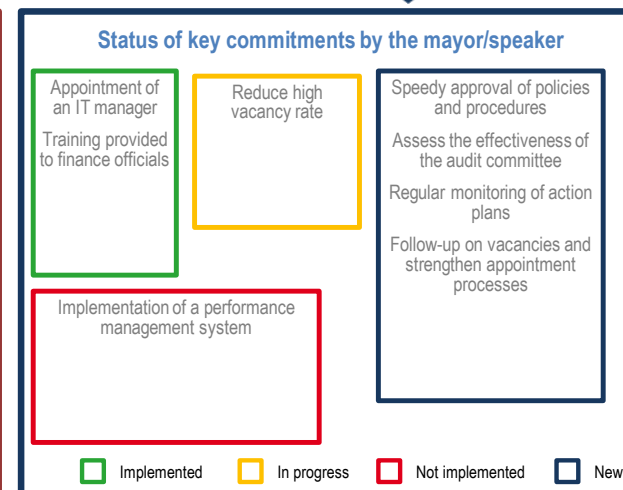
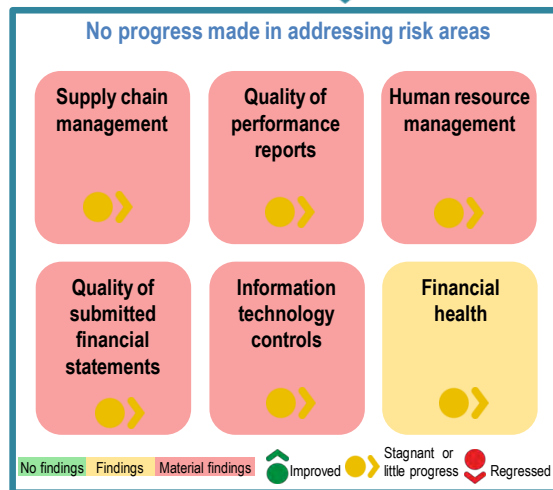
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



# Thulamela Municipality

## *No movement in audit outcome*

The municipality received a qualified opinion for the third year in a row. While progress was made in clearing the previous year's audit findings, the municipality's failure to address weaknesses on various components of its assets and receivables resulted in the qualification.

## *Six key risk areas*

Limited or no progress has been made in addressing the six key risk areas. There were no significant financial health concerns.

Internal controls in human resource management were not effective. The municipality should channel its efforts to addressing this. In addition, there was little or no progress made on information technology controls. There were no key controls on the information technology governance framework and access management policies. An information technology manager was appointed late in the financial year.

The municipality incurred irregular expenditure amounting to R849 763 in the current year. This related to non-compliance with the requirements of SCM policies.

The quality of the financial statements and the annual performance report did not improve. Material corrections were required to the financial statements submitted for audit. Findings on the usefulness and reliability of the municipality's annual performance report recurred. The municipality did not have adequate capacity and resources to management performance information.

The municipality continued to rely on the services of consultants to assist with preparing the asset register for audit at a cost of R317 300 in the year under review. The municipality signed a contract with the service provider for a three-year period, with a value of R4 500 000.

## *Key controls and root causes*

There has been no improvement in the key controls for financial and performance management and governance. The municipality should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Oversee financial and performance reporting and compliance with regulations

- Implement proper record keeping in a timely manner to ensure complete, relevant and accurate is accessible and available
- Implement effective human resource management to ensure adequate and sufficiently skilled officials

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

- Prepare a comprehensive action plan to address the root causes of the audit findings
- Capacitate the finance unit with adequately skilled and competent officials and implement consequences for poor performance
- Monitor the activities of consultants to ensure that there is an adequate transfer of skills

## *Impact of key role players on audit outcomes*

The skills and capacity constraints in the municipality prevented senior management from providing the desired level of assurance. This also had an impact on the assurance that the mayor and accounting officer could provide. The level of assurance that the audit committee and internal audit can provide is dependent on the reliability of the assurance provided by senior management and their recommendations being taken seriously.

The mayor and accounting officer monitor the implementation of the documented management action plans and review the progress made. This role is critical to improving audit outcomes. The critical review of quarterly reports and financial information by the audit committee provides an added layer of assurance of the quality of the information on which decisions are made.

No commitments were made by the mayor; however, we obtained the following commitments from the speaker (council chairperson):

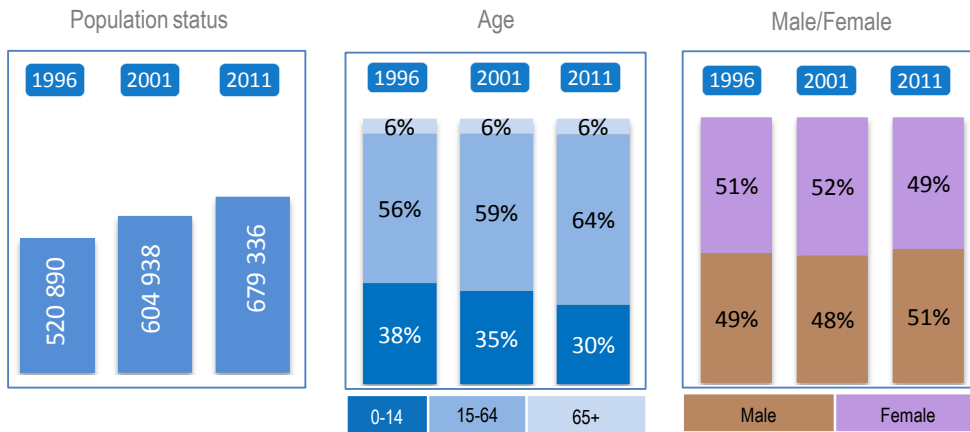
- Speedy approval of municipal policies and procedures
- Development of a model to assess the effectiveness of the audit committee
- Monitoring of the implementation of management action plans and reporting to the council instances of irregular expenditure incurred
- Assurance by the council that proper appointment processes are followed and following up on long outstanding vacancies with management



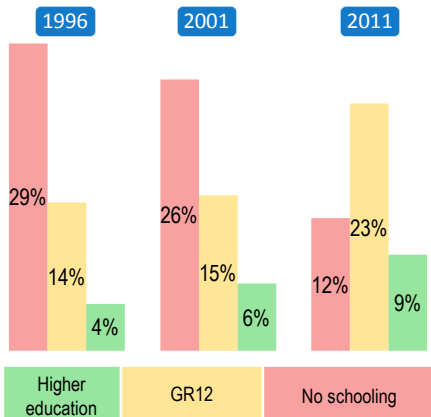
# WATERBERG DISTRICT MUNICIPALITY

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## Population

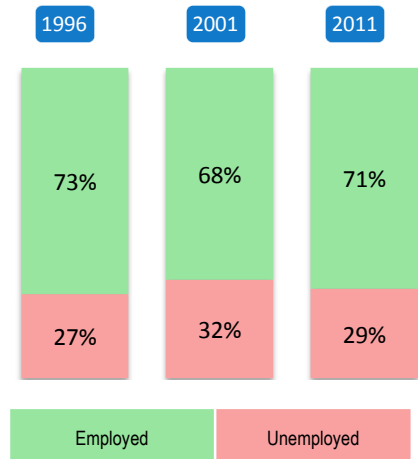


## Education

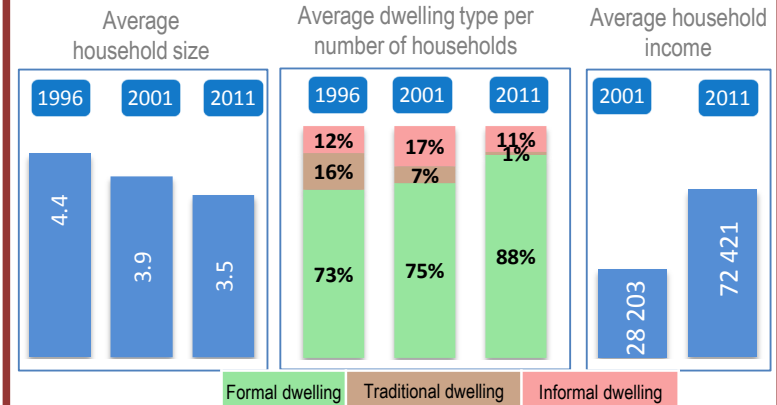


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## Labour

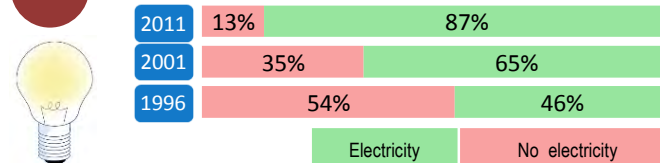


## Households

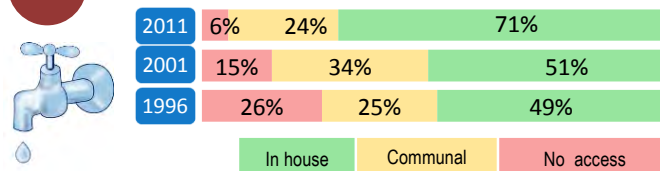


## Basic services

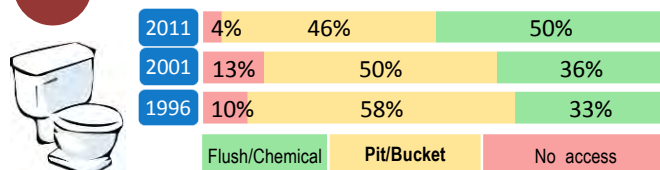
**87%** of the households have access to electricity



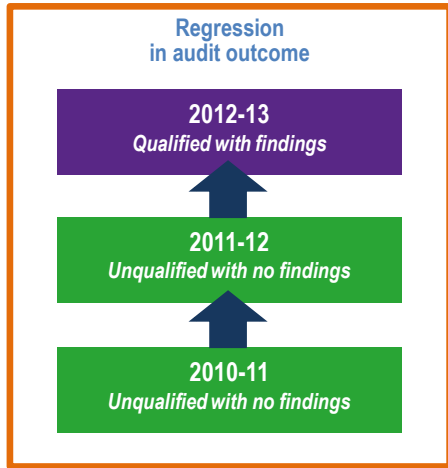
**95%** of the households have access to piped water



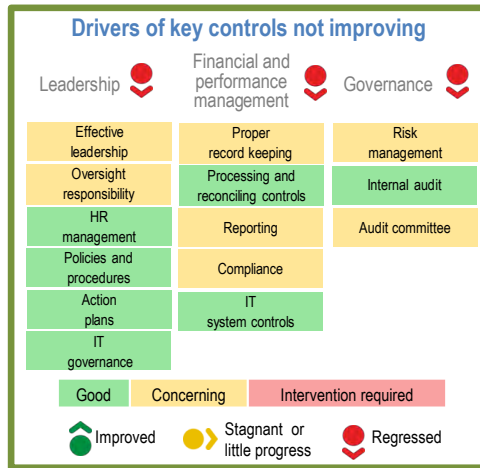
**96%** of the households have access to toilet facilities



# Waterberg District Municipality



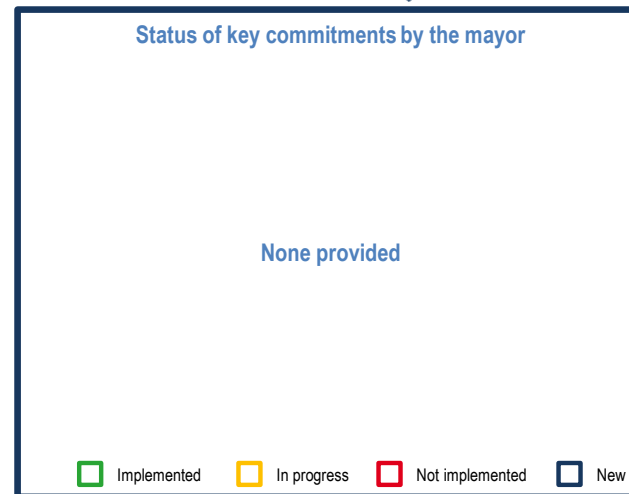
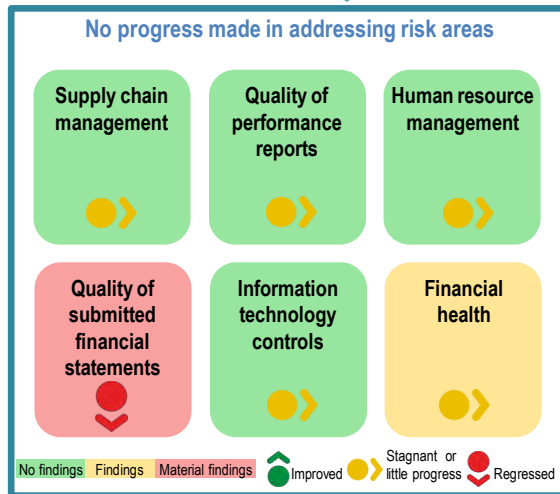
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



## Waterberg District Municipality

### *Significant movement in audit outcome*

The municipality regressed from a clean audit opinion to a qualified opinion. The regression was caused by its failure to identify the risk emanating from the uncertainties declared by the unions and the pending litigation relating to the wage curve agreement, and the recognition of roads belonging to the district.

### *Six key risk areas*

Except for the quality of the financial statements, the six key risk areas remained with no findings. There were no significant financial health concerns identified and no findings on SCM, quality of the performance report, human resource management and information technology controls.

It is disappointing to note that the quality of the financial statements regressed since the previous year. Instances were identified of material misstatements in the financial statements that were not identified through the municipality's review processes. Furthermore, the municipality was aware of the areas that resulted in the qualification, but did not appropriately act to resolve these issues in time.

It is encouraging to note that the municipality did not have any findings on the quality of its annual performance report for three consecutive financial years. The best practices implemented by the municipality should be maintained and shared with other municipalities in the province that still struggle to prepare quality performance information reports.

For the municipality to move back to its clean audit status, it is critical that the findings on road infrastructure as well as the contingent liability on the wage curve be addressed and resolved without delay.

### *Key controls and root causes*

The overall deterioration in the key controls was caused by ineffective oversight. While the leadership was aware of the areas that led to the qualification, it did not act appropriately to resolve these issues in time. Instances of non-compliance with legislation were identified as a result of the qualification. The financial statements were not accurate and complete and officials of the finance unit were very dependent on the CFO.

The audit committee and internal audit did not adequately review the financial statements for adequacy, reliability and accuracy prior to submission for auditing.

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

- Exercise oversight regarding financial management
- Prepare and review a full set of financial statements monthly

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

- Capacitate the internal audit unit with adequately skilled and competent people
- Ensure that internal audit and the audit committee adequately review the financial statements before submission for auditing

### *Impact of key role players on audit outcomes*

We met with the mayor twice during the financial year and, as no commitments were made, these interactions had no impact on the audit outcomes.

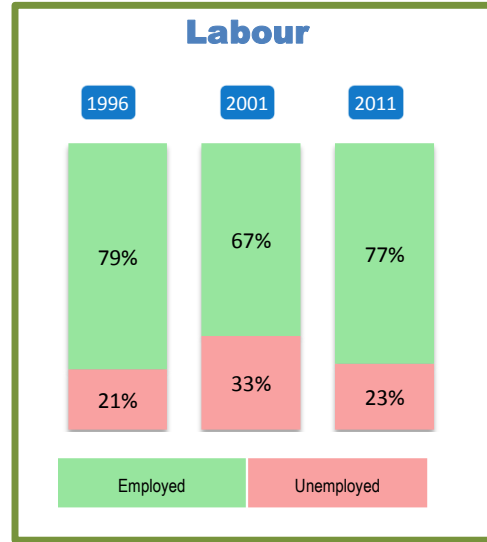
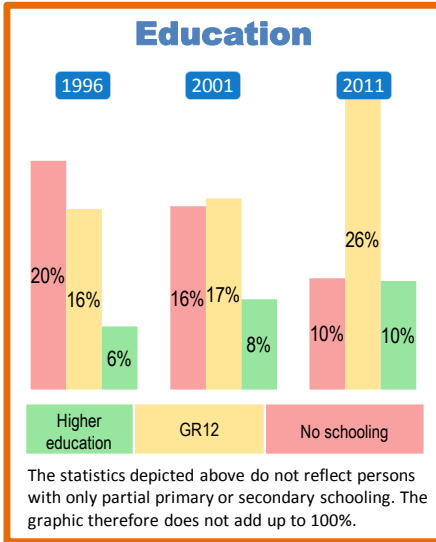
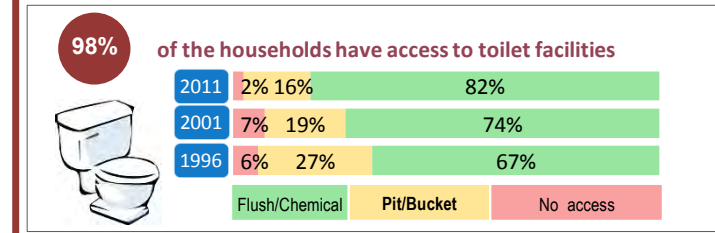
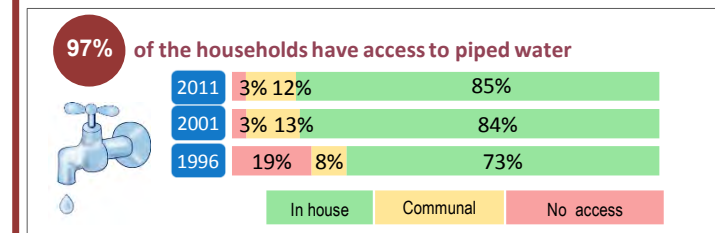
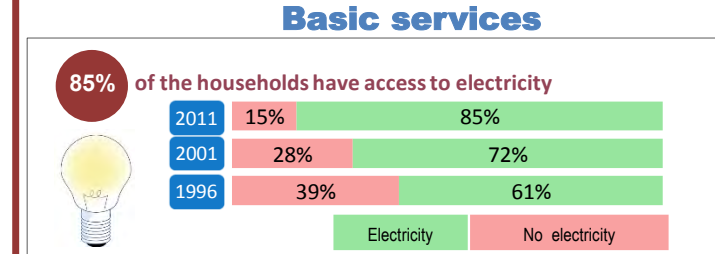
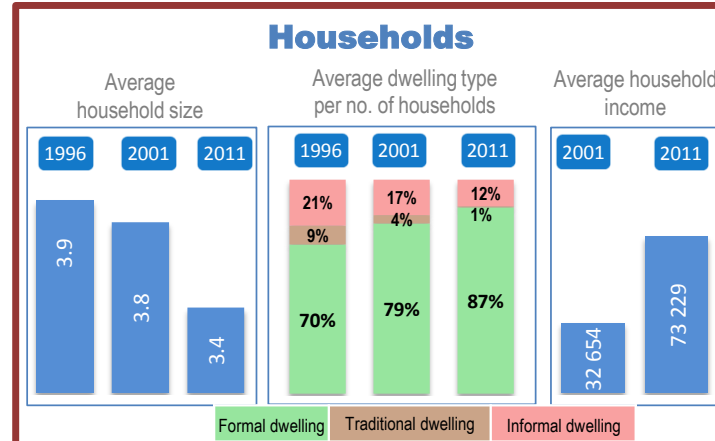
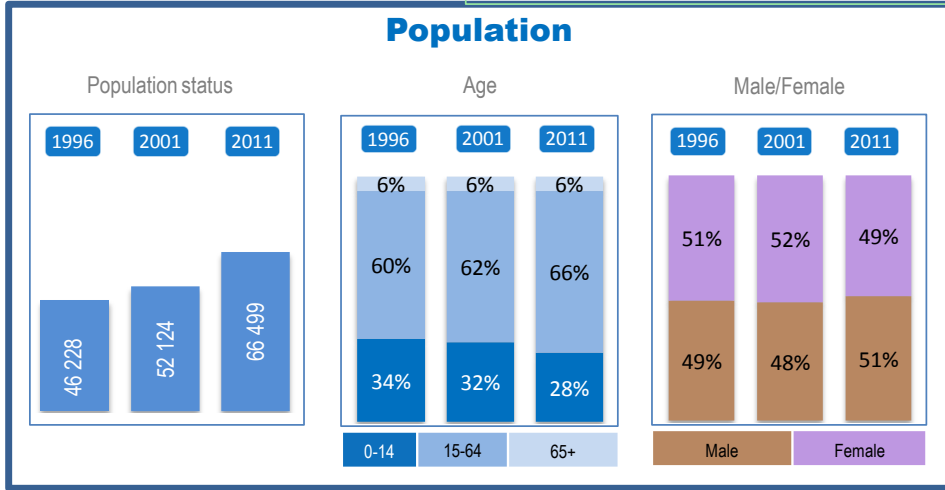
The municipal council failed to provide any assurance. There remains an urgent need to intensify its efforts in dealing with financial management and the implementation of legislation as it is a key assurance provider in this regard. A municipality that has progressed to a clean audit should not assume that the control environment is no longer vulnerable or prone to weaknesses. To maintain this milestone, extra effort and more rigorous monitoring is required to ensure that there is no breakdown in internal controls.

The MPAC also failed to provide any assurance. There remains an urgent need for it to intensify its efforts in dealing with key issues that were identified during the audit. Furthermore, internal audit neglected to adequately review the financial statements prior to their submission to the audit committee and the AGSA. The above resulted in the over-reliance on the CFO to submit quality financial statements without the necessary support.



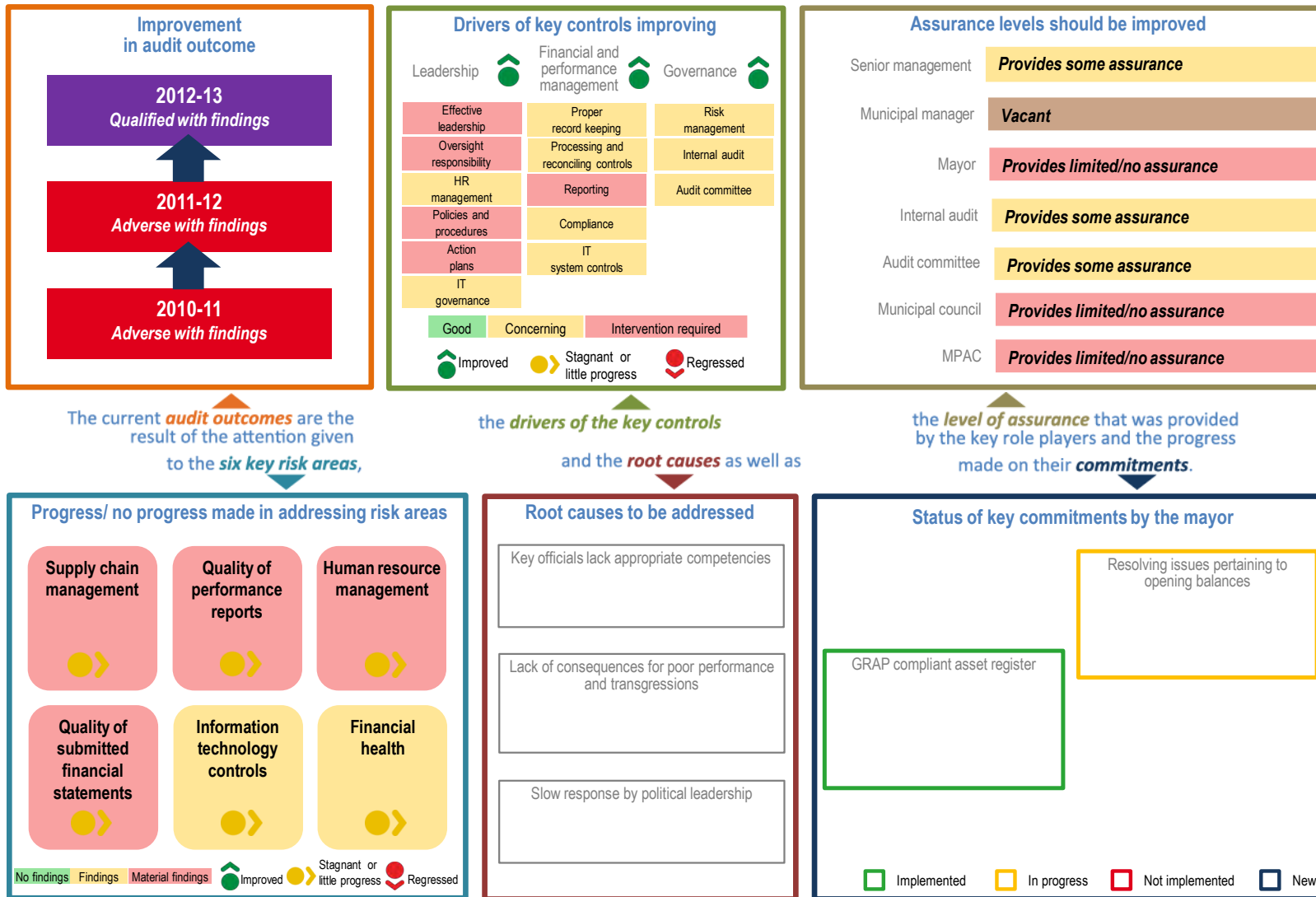
# BELA-BELA MUNICIPALITY

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 the report





# Bela-Bela Municipality



## Bela-Bela Municipality

### *Significant movement in audit outcome*

The municipality improved from an adverse opinion to a qualified audit opinion. The improvement in the audit outcomes was due to the municipality addressing most of the previous year's findings. There was also an overall improvement in the level of commitment and attitude towards improved financial management practices.

### *Six key risk areas*

There has not been any significant progress in the six key risk areas.

Due to senior management's lack of competencies and skills, consultants were appointed to assist with financial reporting at a cost of R1,2 million.

The quality of the annual performance report requires attention. The municipality should address the material findings on the usefulness and the reliability of reported performance information. Another concern is that the municipality does not have adequate capacity and resources to manage performance information.

Non-compliance with SCM regulations did not receive adequate attention. The procurement of goods and services contravened SCM regulations, which resulted in the municipality incurring irregular expenditure of R6,7 million.

Findings on human resource management revealed that some officials did not meet the prescribed competency requirements in all instances.

Little or no progress has been made on the design and implementation of information technology controls for user access and security management. This was because the municipality did not have an information technology governance framework and security logs were not independently reviewed.

### *Key controls and root causes*

There has been an improvement in the key controls for leadership, financial and performance management and governance since the previous year. This was largely due to the CFO's positive impact, the change in attitude from management and internal audit, as well as the audit committee's involvement during the audit process. The municipality should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The accounting officer must review the financial statements and the annual performance report prior to submission for auditing
- Enforce consequences for poor performance and transgressions
- Implement adequate risk management activities to ensure that a risk strategy to address the risks is developed and monitored.

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

- Ensure adequate review of the financial statements by involving the internal audit section as well as the audit committee
- Capacitate the finance unit with adequately skilled personnel
- Hold officials accountable for poor performance and transgressions of legislation

### *Impact of key role players on audit outcomes*

We only met with the mayor once during the financial year and, as no commitments were made, this interaction had no impact on the audit outcomes. Improvements are expected in the next financial year, as an audit on the opening balances will be conducted before the financial year-end.

The municipal council failed to provide any assurance. It urgently needs to intensify its efforts to deal with performance management and monitor legislation, as it is a key assurance provider in this regard.

The position of municipal manager was vacant and the CFO acted as municipal manager during the financial year. This also impacted on the level of assurance that senior management could provide.

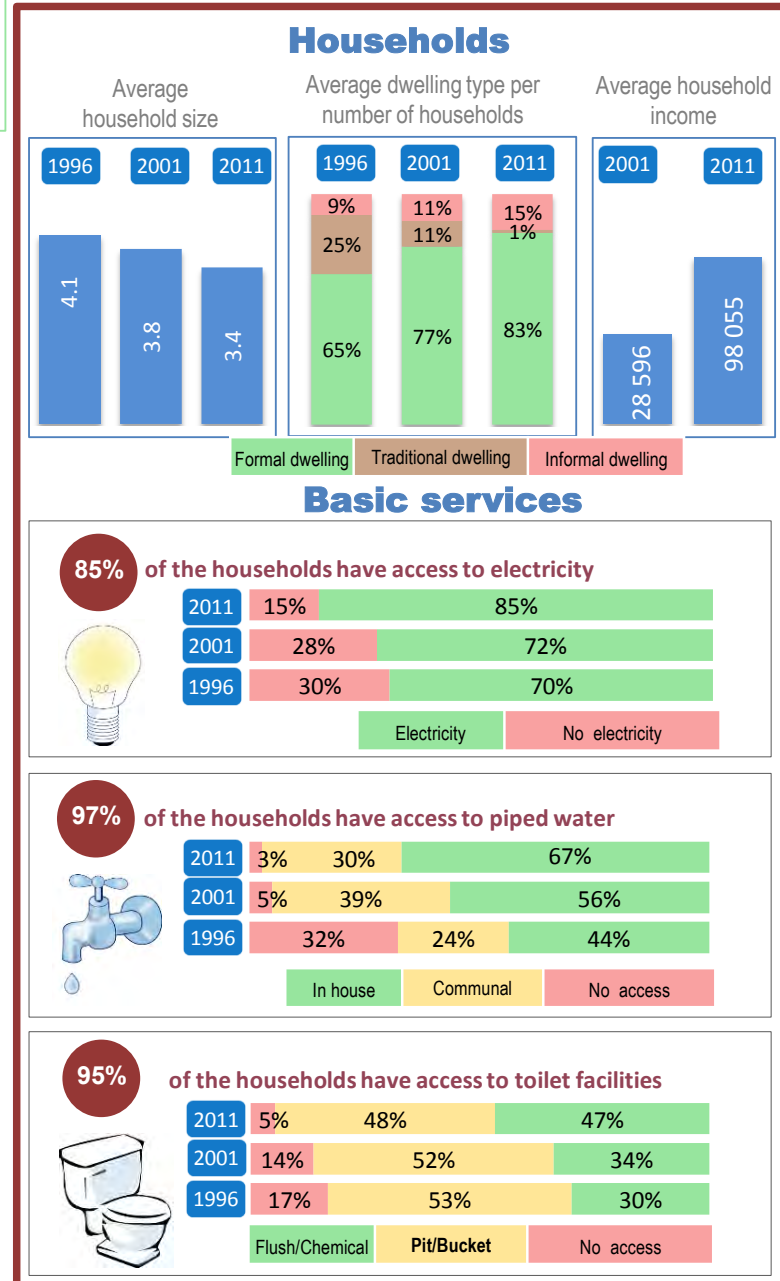
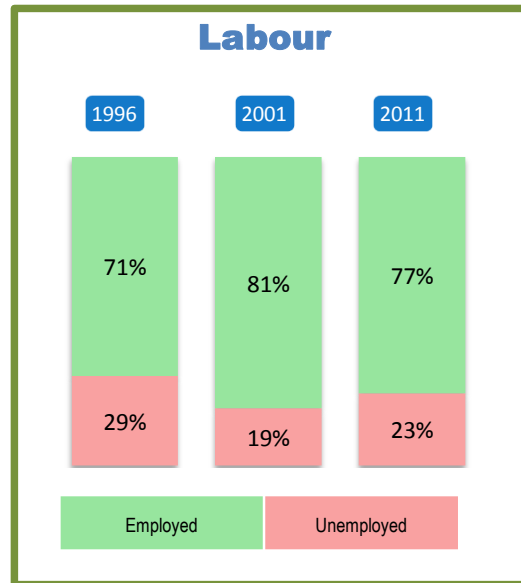
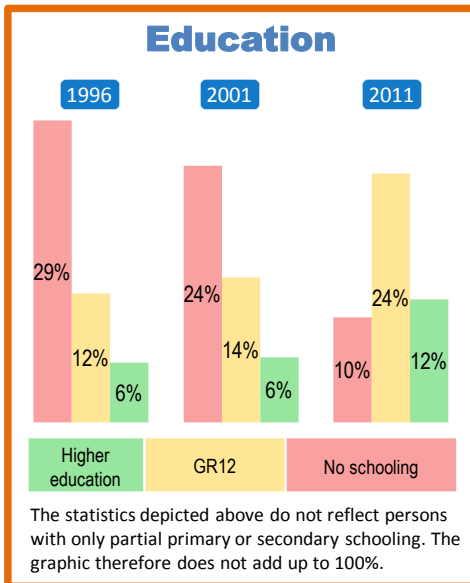
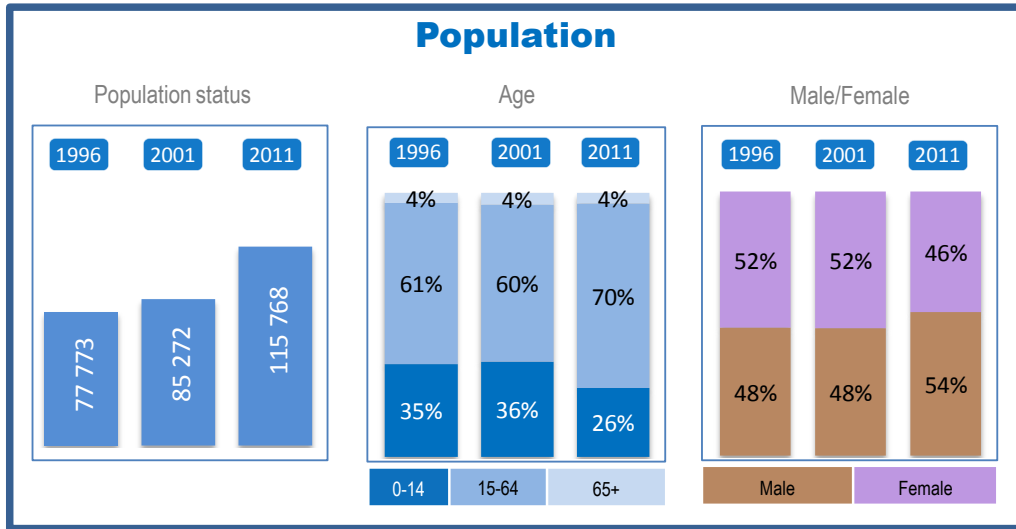
MPAC failed to provide any assurance. It urgently needs to intensify its efforts to deal with key issues that were identified during the audit.

The level of assurance provided by the audit committee and internal audit needs further improvement if the municipality wants to obtain a clean audit opinion in the 2013-14 financial year.

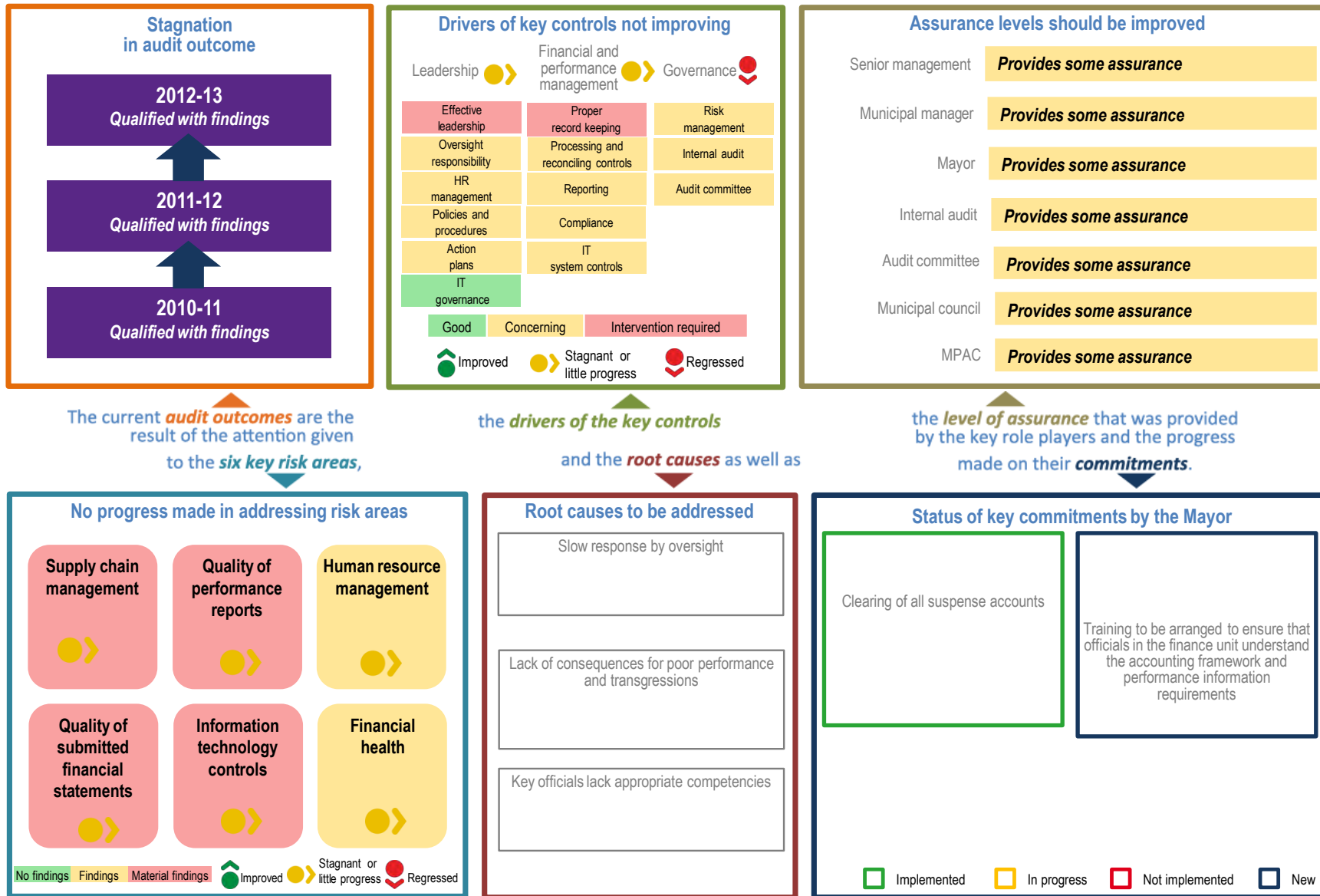


# LEPHALALE MUNICIPALITY

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# Lephalale Municipality



## Lephalale Municipality

### *No movement in audit outcome*

The municipality received a qualified opinion for three consecutive years. It addressed one of the two qualification findings from the previous year.

### *Six key risk areas*

There has not been any progress made in addressing the six key risk areas. Non-compliance with SCM regulations remained unsatisfactory. The procurement of goods and services still contravened SCM regulations, which resulted in the municipality incurring irregular expenditure of R22 million. In addition, the lack of appropriate audit evidence that nine contracts to the value of R10 million were awarded according to legislative requirements and a fair, equitable, transparent and competitive procurement process led to a regression in SCM. This could mainly be attributed to the vacancy in the SCM unit and the accounting officer and management's inability to enforce the municipality's SCM policy.

The quality of performance information has improved. This was mainly due to the appointment of a dedicated official responsible for performance management, engaging the service of a consultant and a workshop that was held with the municipality's management to assist in addressing the previous year's audit outcomes.

There were no significant financial health concerns and human resource management findings. Due to the vacant position of the IT manager, little or no progress has been made on the design and implementation of formal controls of information technology controls to ensure the reliability of the systems and the availability, accuracy and protection of information.

The quality of the financial statements did not improve. Their poor quality was mainly due to the CFO attending classes to obtain the required minimum competency level and not being available during critical phases of the audit.

The municipality engaged a consultant to assist with addressing the previous year's audit findings on property, plant and equipment. The work done by the consultant did not help to prevent the qualified opinion. This was due to the municipality not being able to submit documents and records to support information in the financial statements.

### *Key controls and root causes*

The key controls for the leadership and for financial and performance management remained stagnant while governance regressed. The municipality should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with laws and regulations:

- Oversee the enforcement of the municipality's SCM policy
- Promote the audit committee as an independent advisory body for strengthening internal controls
- Implement a proper review of the financial statements that is supported by sufficient audit evidence

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

- Capacitate the SCM unit with adequately skilled and competent officials. The accounting officer, with the assistance of internal audit, must adequately monitor the awarding of contracts. Consequences should be enforced in the event of non-compliance with legislation.
- The audit committee, together with the accounting officer, must engage with the council on the audit committee's functions prescribed by legislation and the role of the audit committee in strengthening the internal control environment.
- The CFO, together with the audit committee and internal audit unit, must review the prepared financial statements against the requirements of the financial accounting framework.

### *Impact of key role players on audit outcomes*

Attending classes to obtain the minimum competency levels prevented the CFO from providing the desired level of assurance on the financial statements. This also had an impact on the assurance that the accounting officer could provide.

We met with the mayor and speaker twice during the financial year and these interactions had a minimal impact on the audit outcomes as the consultant's work was not adequately assessed. Improvements are expected in the next financial year. The mayor committed to arrange for training on the accounting standards and performance information for all officials in the finance unit.

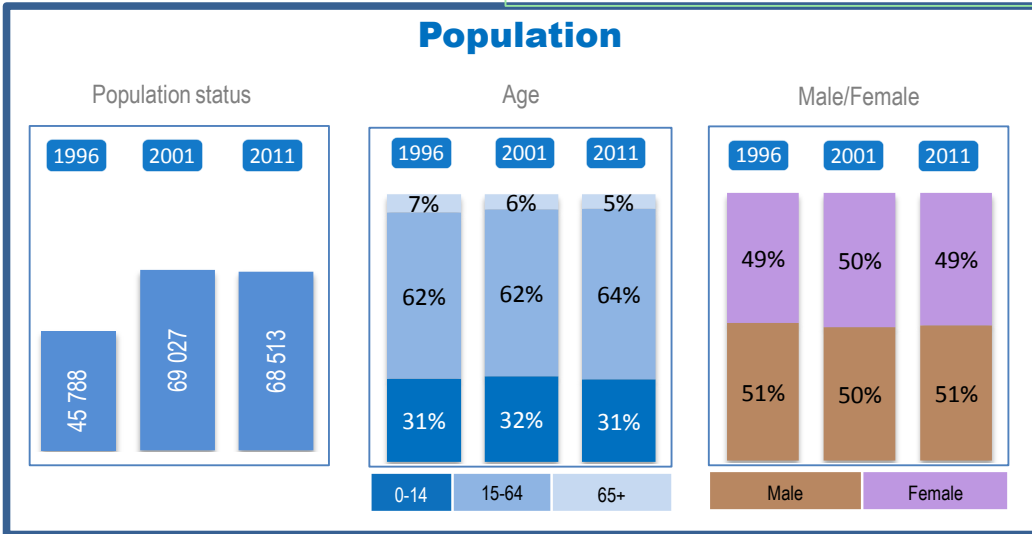
The assurance provided through the oversight of the municipal council and the MPAC should be improved.



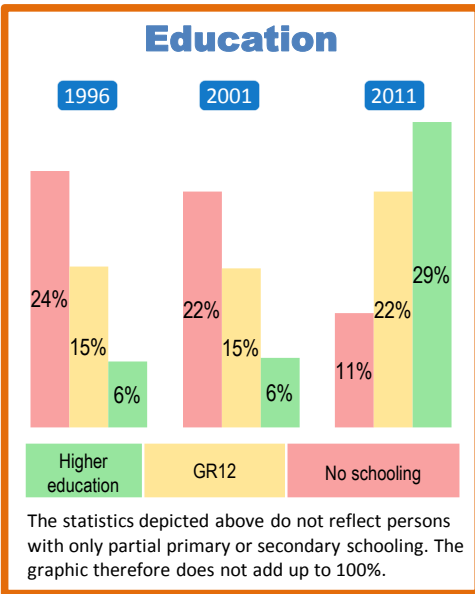
# MODIMOLLE MUNICIPALITY

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## Population



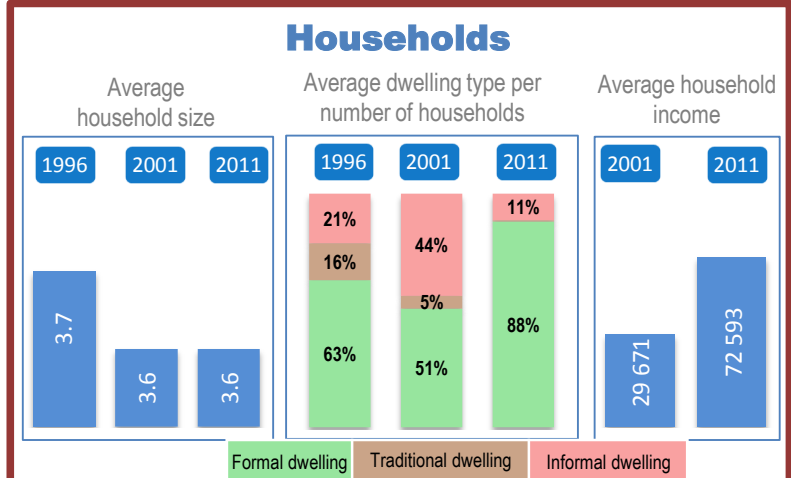
## Education



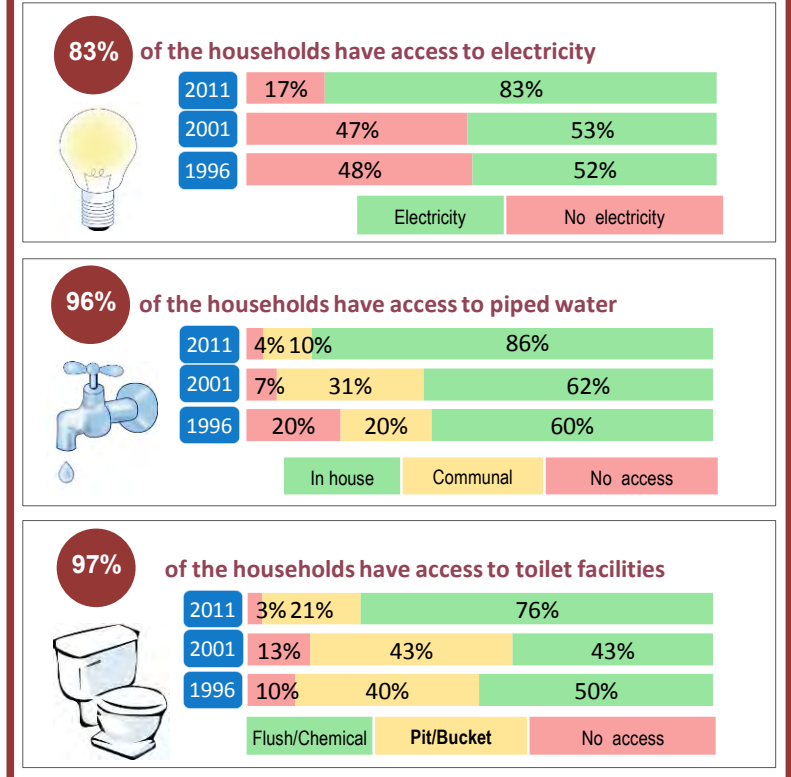
## Labour



## Households

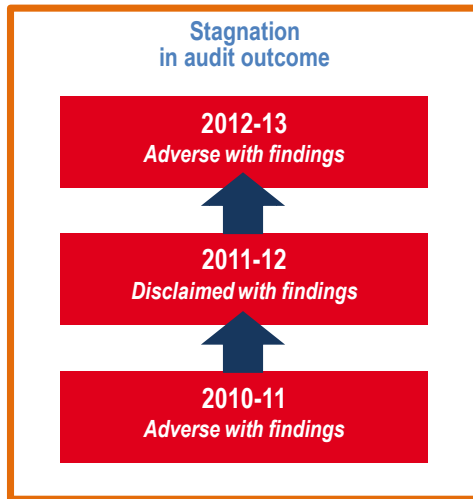


## Basic services





# Modimolle Municipality



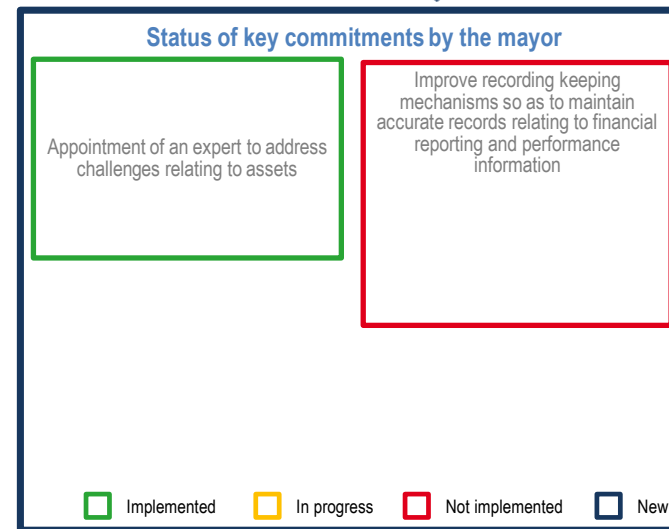
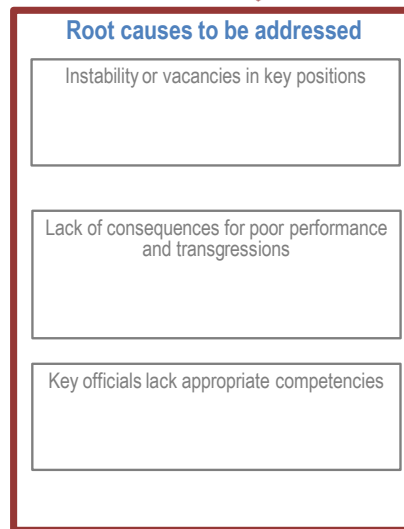
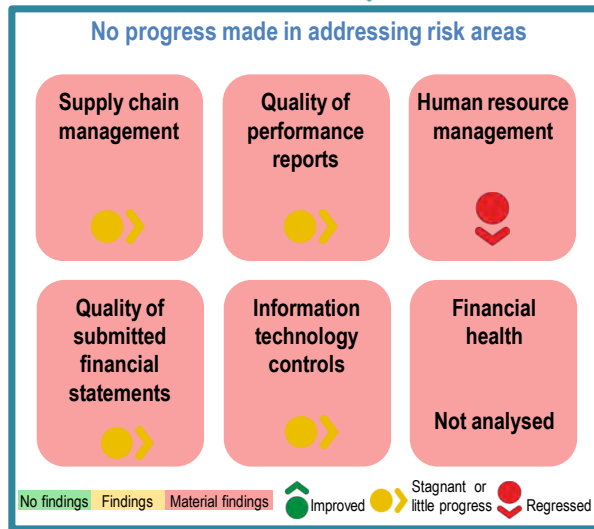
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



# Modimolle Local Municipality

## *Movement in audit outcome*

The municipality moved from a disclaimer of opinion to an adverse opinion for the financial period under review. Except for assets, very limited progress was made to address the previous year's audit findings. The municipality did not successfully address the qualifications on cash and cash equivalents, payables from exchange transactions, receivables from exchange and non-exchange transactions and VAT.

## *Six key risk areas*

No progress has been made in any of the key risk areas. The financial health of the municipality was not analysed as the financial statements were not reliable. Information technology findings recurred from the previous year and can be attributed to the vacant information technology manager post. The services of consultants were engaged in connection with the previous year's audit findings relating to assets at a cost of R782 572 due vacancies at CFO and head of SCM level.

The regression in human resources was due to officials acting for periods exceeding the prescriptions of legislation. The poor internal control environment also restricts the consultants from being effective in delivering the services for which they were appointed.

The quality of the annual performance reports has not improved. The municipality should focus on an internal control system to ensure that all documents supporting the performance of the municipality are available for audit purposes. The lack of resources and capacity to manage performance information is also a concern that requires urgent attention.

Fruitless and wasteful expenditure amounting to R270 414 and unauthorised expenditure amounting to R519 624 were identified. The municipality did not efficiently manage its expenditure, which contributed to its poor financial management. The status of SCM remains unsatisfactory, primarily as a result of the municipality not complying with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process. Irregular expenditure amounting to R20,5 million was identified as a result.

## *Key controls and root causes*

The lack of improvement in the key controls resulted from ineffective leadership and the accounting officer's failure to exercise oversight of financial and

performance reporting. The municipality should carry out a staff competency audit to ensure that its staff are capable of implementing financial controls resulting in clean administration. Action plans to address deficiencies highlighted by internal and external auditors must be implemented and monitored to ensure that all audit findings are addressed on time.

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

- Implement proper record keeping to ensure that complete, relevant and accurate information is accessible
- Address the high vacancy rate in key managerial positions
- Hold officials accountable for poor performance and transgressions of legislation.

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

- Prepare a comprehensive action plan, taking into account the root causes that have given rise to the findings. This can only be achieved by addressing the high vacancy rate with adequately skilled officials .
- The accounting officer should implement and maintain a proper records management and filing system for financial and performance information.
- An efficient and effective performance management system should be implemented where there are consequences for poor performers and a reward for good performers.

## *Impact of key role players on audit outcomes*

For improved audit outcomes, the assurance levels should be enhanced by implementing the recommendations of internal audit and directing the work of the audit committee towards evaluating performance information. The appointment of competent officials in management positions is critical to ensure that the various role players are able to provide the desired level of assurance, which is key to good cooperate governance and financial management.

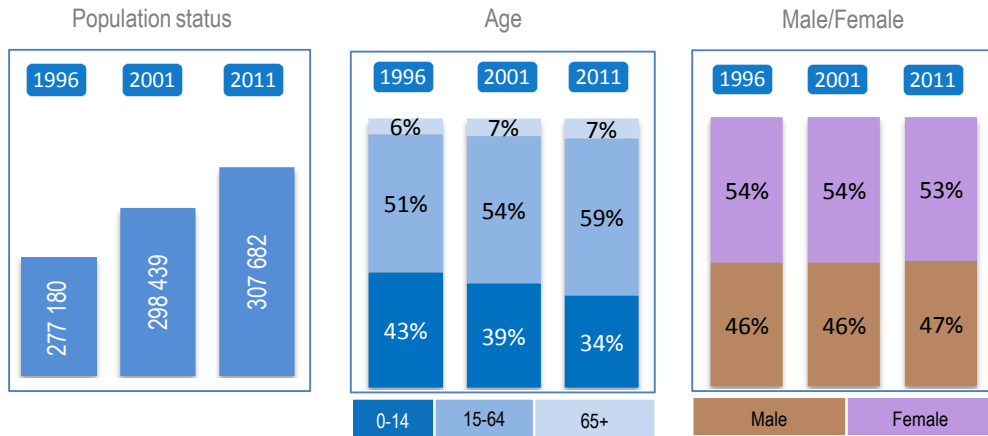
We met with the mayor on four occasions during the audit and, as no commitments were made, these interactions had a minimal impact on the audit outcomes.



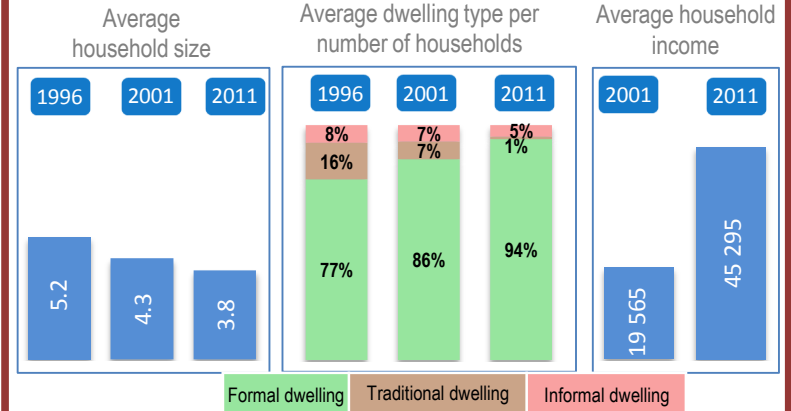
# MOGALAKWENA MUNICIPALITY

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## Population

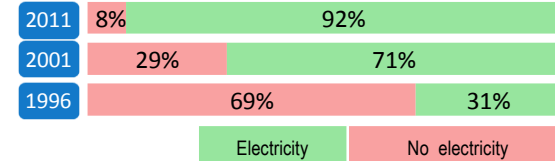


## Households

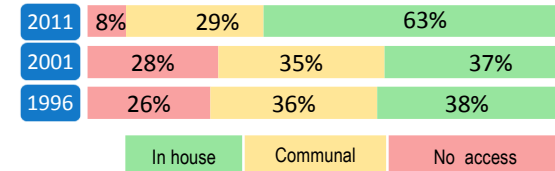


## Basic services

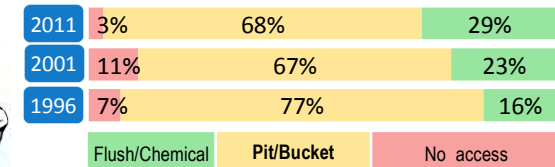
**92%** of the households have access to electricity



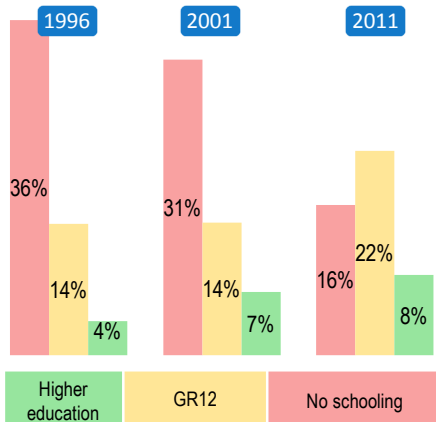
**92%** of the households have access to piped water



**97%** of the households have access to toilet facilities

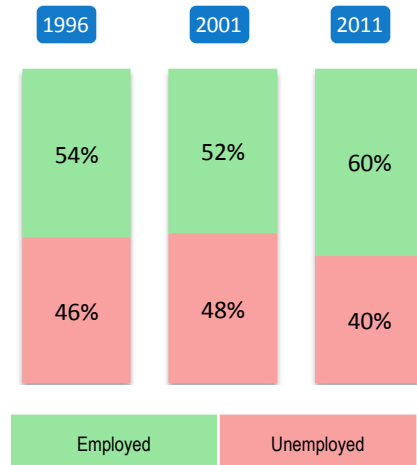


## Education

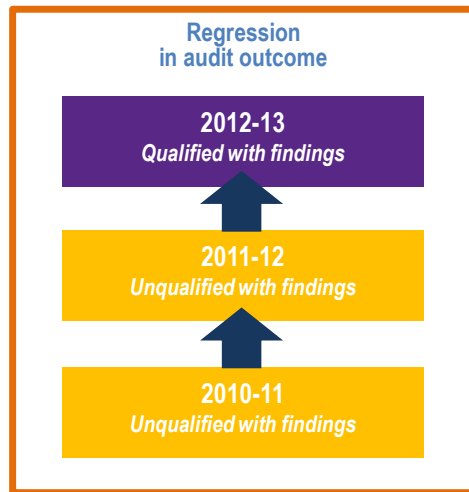


The statistics depicted above do not reflect persons with only partial primary or secondary schooling. The graphic therefore does not add up to 100%.

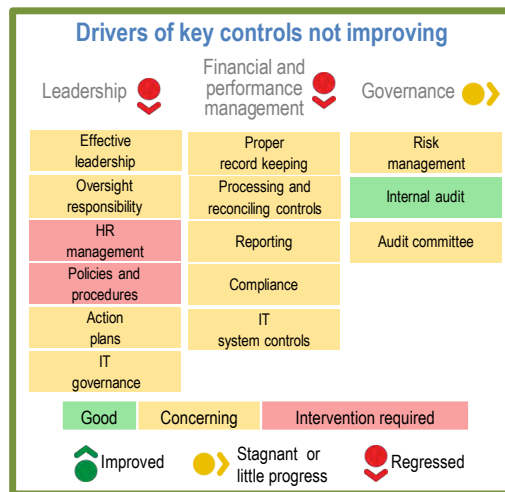
## Labour



# Mogalakwena Municipality



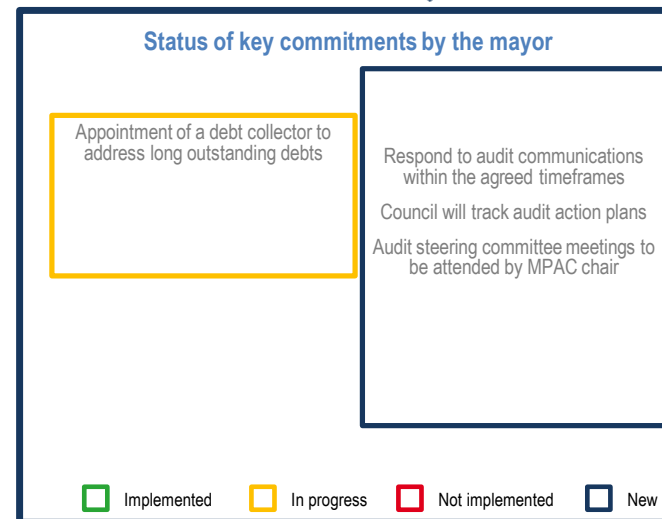
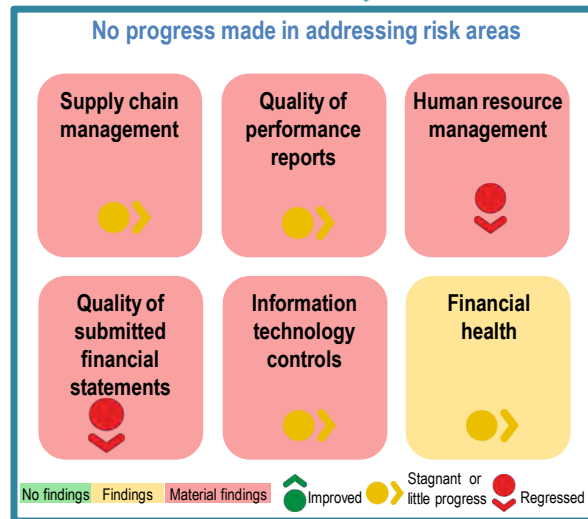
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



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



## Mogalakwena Municipality

### *Regression in audit outcome*

The municipality moved from an unqualified to a qualified opinion. Management was not able to address a qualification finding on property, plant and equipment and a contingent liability.

### *Six key risk areas*

No progress was made in addressing the six key risk areas. Non-compliance with SCM regulations remains unsatisfactory. The procurement of goods and services still contravened SCM regulations, which resulted in the municipality incurring irregular expenditure of R39 million. This could be attributed mainly to the vacancy in a key position in the SCM unit and the accounting officer and management's inability to enforce the municipality's SCM policy.

Although concerns were raised regarding the quality of the performance information report, the number of findings had reduced since the previous year. This was mainly due to the services of a consultant and internal audit's quarterly performance information reviews. The one finding each on the usefulness and reliability of performance information revealed that the presentation of the performance report and validity of the reported achievement were not reviewed against the source documentation.

There were no significant financial health concerns. Little or no progress has been made on the design and implementation of formal controls over information technology to ensure the reliability of the systems and the availability, accuracy and protection of information. The position of the information technology manager was vacant during the financial year.

Findings on human resource management revealed that the senior management vacancy rate increased, while vacant positions were not filled within 12 months.

The quality of the financial statements regressed as a result of the two financial findings not being corrected at year-end. The municipality continued to rely on the services of consultants, at a total contract value of R1,6 million, to assist with the preparation of financial statements for audit. Our concerns relating to the assistance sought from the consultant include the consultant being appointed for requirements that can be addressed by internal resources and the over-dependency on consultants as a result of the lack of transfer of skills. The poor internal control environment also restricts the consultants from being effective in delivering the services for which they were appointed.

### *Key controls and root causes*

There has been no improvement in the key controls for governance, while the leadership and the financial and performance management regressed since the previous year. The municipality should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise adequate oversight to enforce the municipality's SCM policy
- Implement a proper review of the performance report
- Implement controls over identifying and accounting of municipal roads

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

- Capacitate the SCM unit with adequately skilled and competent officials. Consequences for poor performance and transgression must be enforced
- Host quarterly meetings to ensure that the reported achievements are valid when compared against source documentation
- The finance and technical unit must coordinate their efforts in identifying and accounting for roads and the leadership must request for feedback on the progress made in addressing this matter.

### *Impact of key role players on audit outcomes*

We met with the mayor and the speaker twice in the financial year and these interactions had a minimal impact on the audit outcomes. Improvements are expected in the next financial year. For improved audit outcomes the assurance levels that the accounting officer, management, officials and governance structures can provide is dependent on the political stability within the executive and administrative authorities. Due to the political instability in the municipality, the council was unable to effectively discharge its oversight role. This instability also had a negative impact on the morale of the officials in the municipality.

The following commitments were made by the mayor:

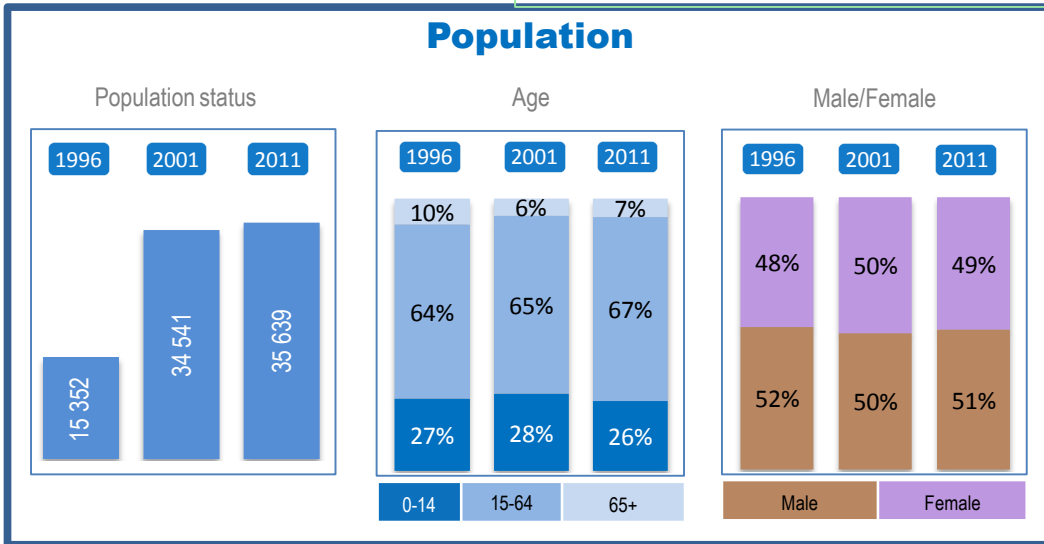
- To provide timely responses to all audit findings
- Chairpersons of the MPAC and the finance portfolio committee will attend audit steering committee meetings
- The council will track the progress of the action plan



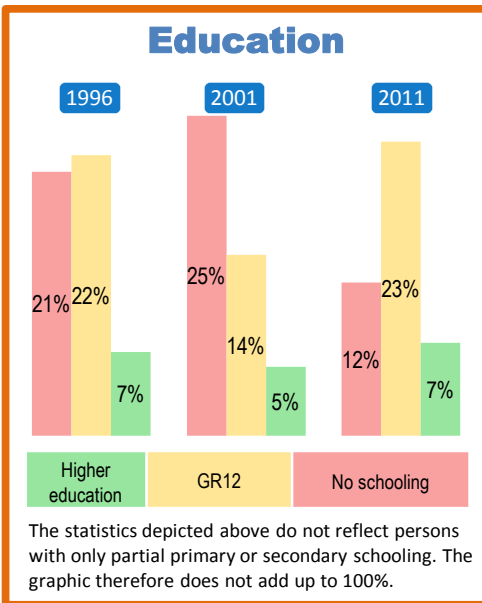
# MOOKGOPONG MUNICIPALITY

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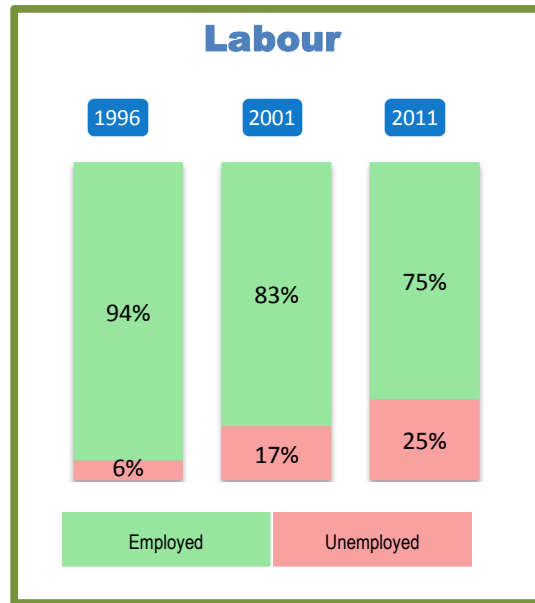
## Population



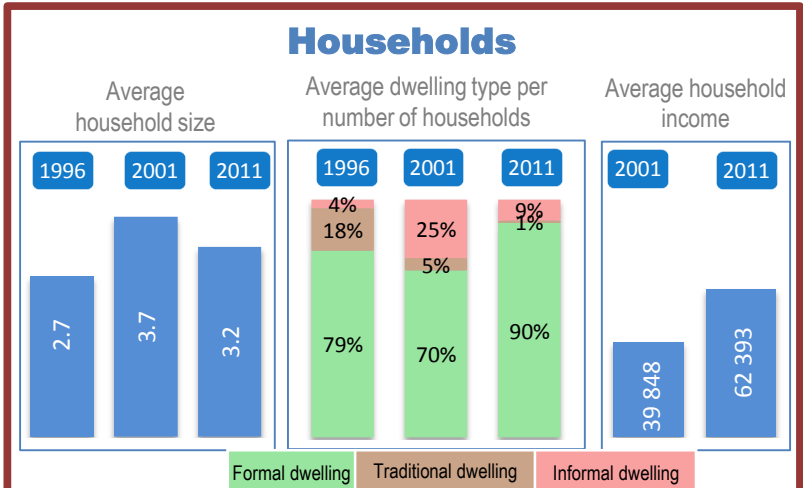
## Education



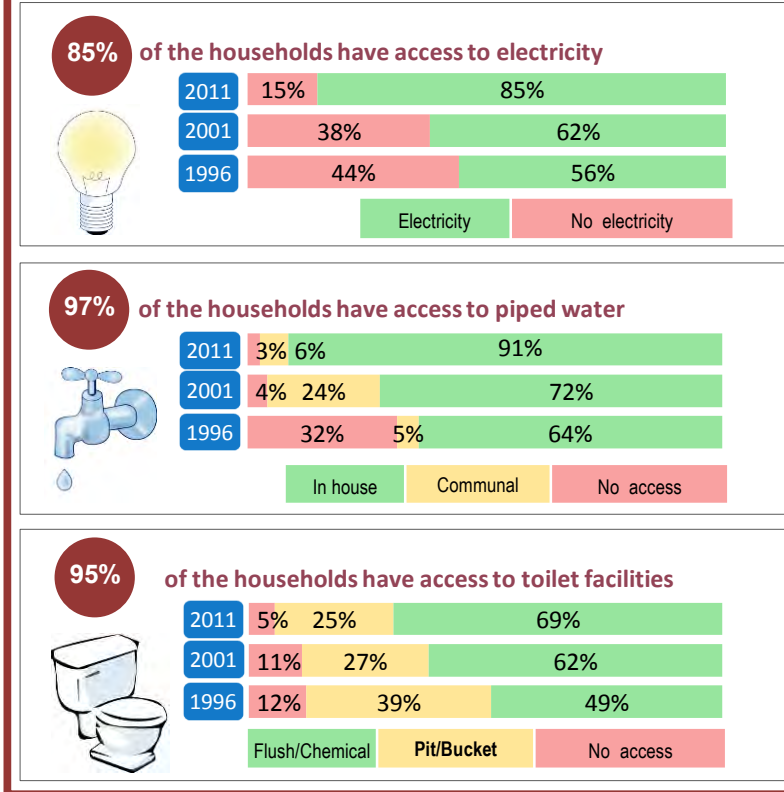
## Labour



## Households

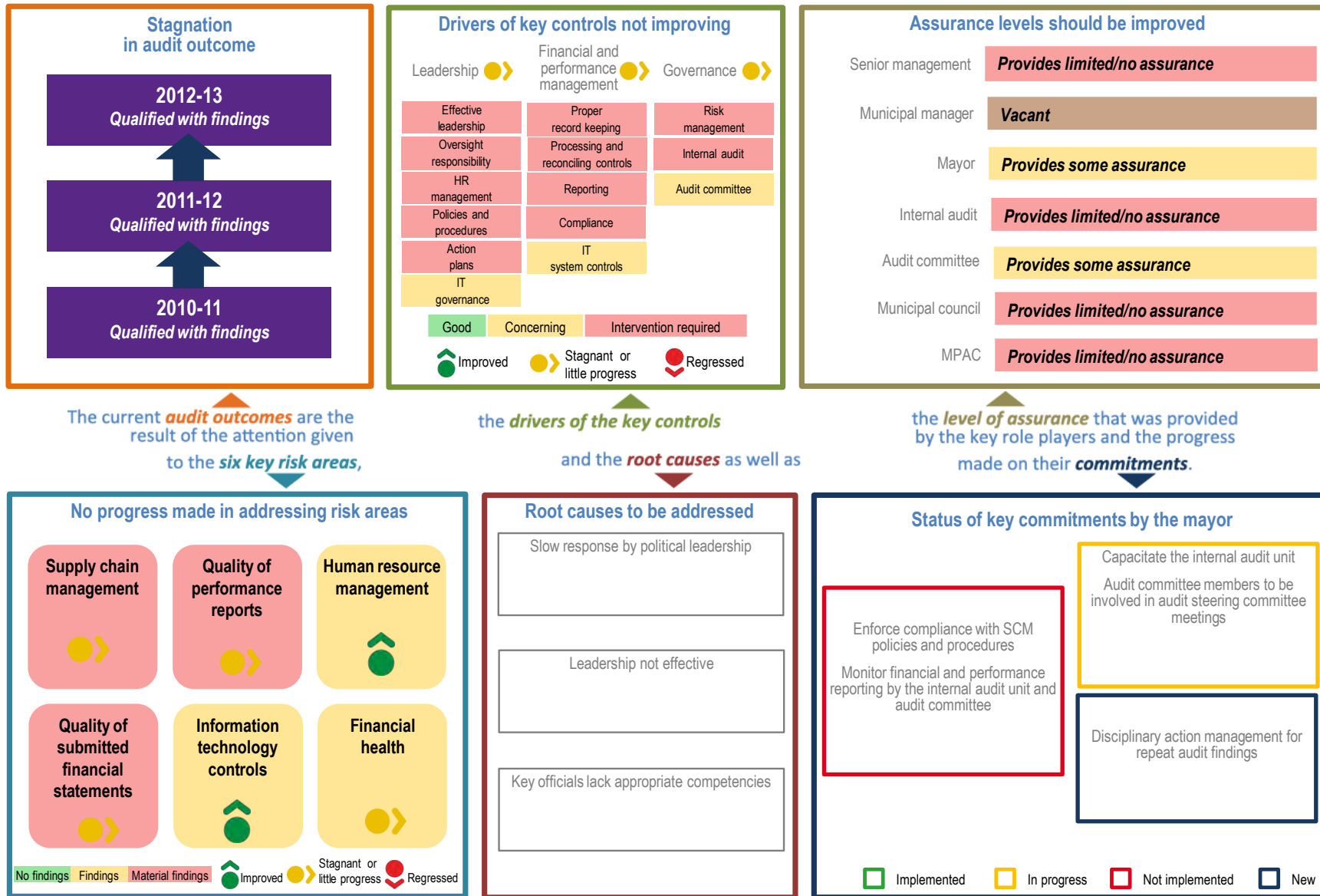


## Basic services





# Mookgophong Municipality



# Mookgophong Municipality

## *No movement in audit outcome*

The municipality received a qualified opinion for three consecutive years. There has been minimal progress by the municipality in addressing the previous year's issues. The municipality did not successfully address the qualification on assets, revenue and accounts receivable.

## *Six key risk areas*

Progress has been made under information technology controls and human resource management, where the non-compliance findings reported in the previous year were adequately resolved. The municipality improved on their information technology service continuity controls, as adequate business continuity and disaster recovery plans were introduced. However, no significant progress was made on the other key risk areas of SCM, quality of performance and financial reports, and the municipality's financial health.

The services of consultants were again engaged in connection with financial reporting at a cost of R10 million. Our concerns relating to the continued assistance sought from consultants include:

- the ineffective management of consultants
- consultants being appointed for requirements which can be addressed by internal resources
- the lack of transfer of skills resulting in the continued dependence on consultants.

The effectiveness of consultants is also hampered when the municipality does not have a strong internal control environment.

The measurability of the performance information to address material findings on the usefulness of the performance report remains a challenge and must be addressed.

## *Key controls and root causes*

The lack of improvement in the key controls results from ineffective leadership and the accounting officer's failure to exercise oversight of financial and performance reporting. The municipality should carry out a staff competency audit to ensure that the staff it has are capable of implementing

financial controls resulting in clean administration. Action plans to address deficiencies highlighted by internal and external auditors must be implemented and monitored to ensure that all audit findings are addressed on time. The following controls must be strengthened to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The leadership must regularly monitor the action plans to address audit findings and intervene where necessary
- The leadership must implement effective human resource management to ensure adequate and sufficiently skilled officials
- The leadership must be able to effectively deal with the challenges and strive for improvement

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

- Capacitate the finance unit with adequately skilled resources
- Prepare a comprehensive action plan, taking into account the root causes that have given rise to the findings
- The accounting officer must ensure that daily and monthly reconciliations are performed and should provide feedback to the council on the status of the internal control environment.

## *Impact of key role players on audit outcomes*

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

We met with the mayor twice, with audit committee twice and once with the MPAC in the financial year. These interactions had no impact on the audit outcomes as there was no impact by the mayor on the control environment of the municipality and none of the commitments previously given were implemented. The resolutions of the MPAC were not fully implemented.

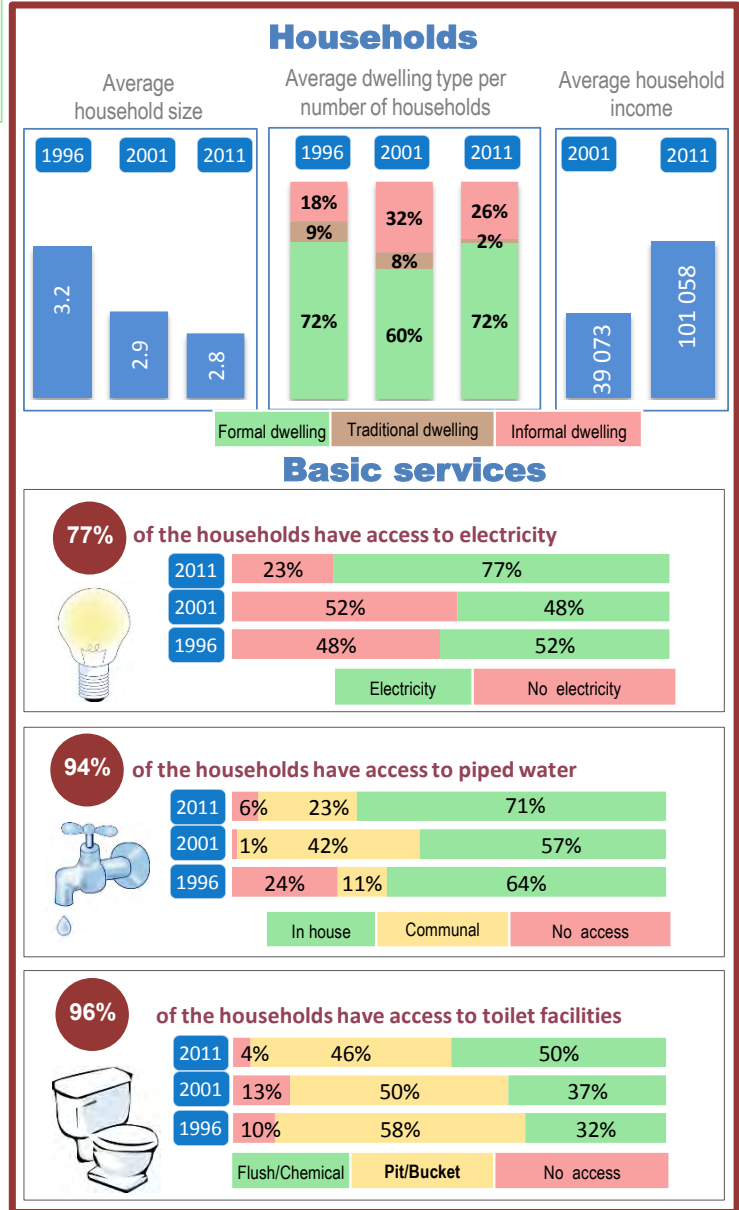
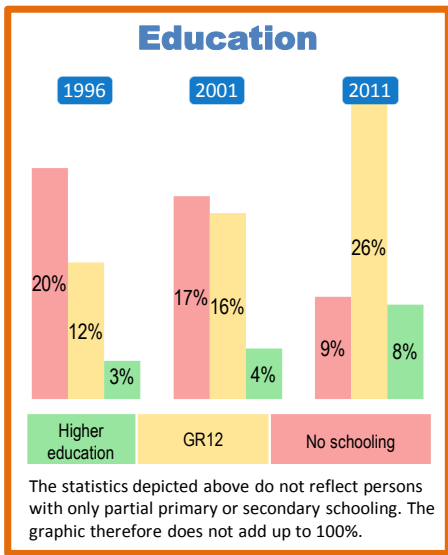
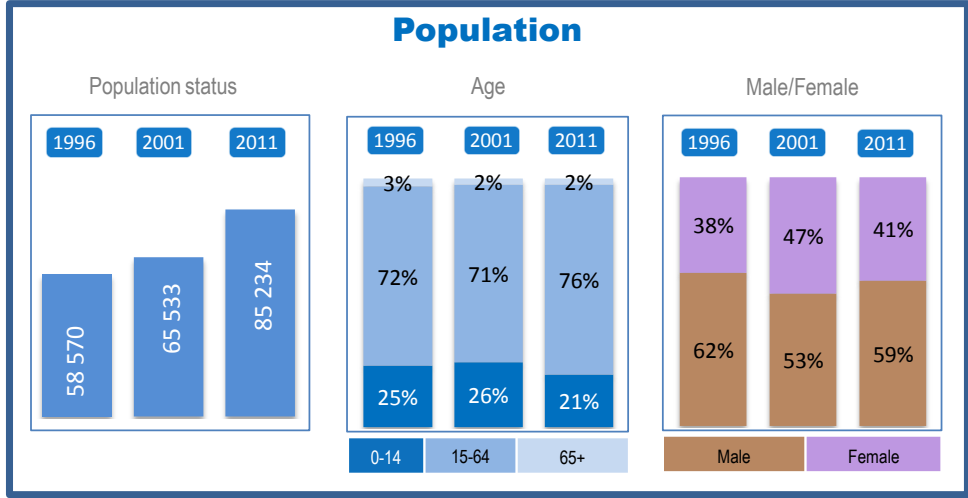
The mayor committed to fully implementing the previous year's commitments, which included the development and implementation of an action strategy to resolve audit findings of the previous years. The mayor also made new commitments which include the following:

- Implement an action plan to resolve the previous years' audit issues and enforce SCM policies.

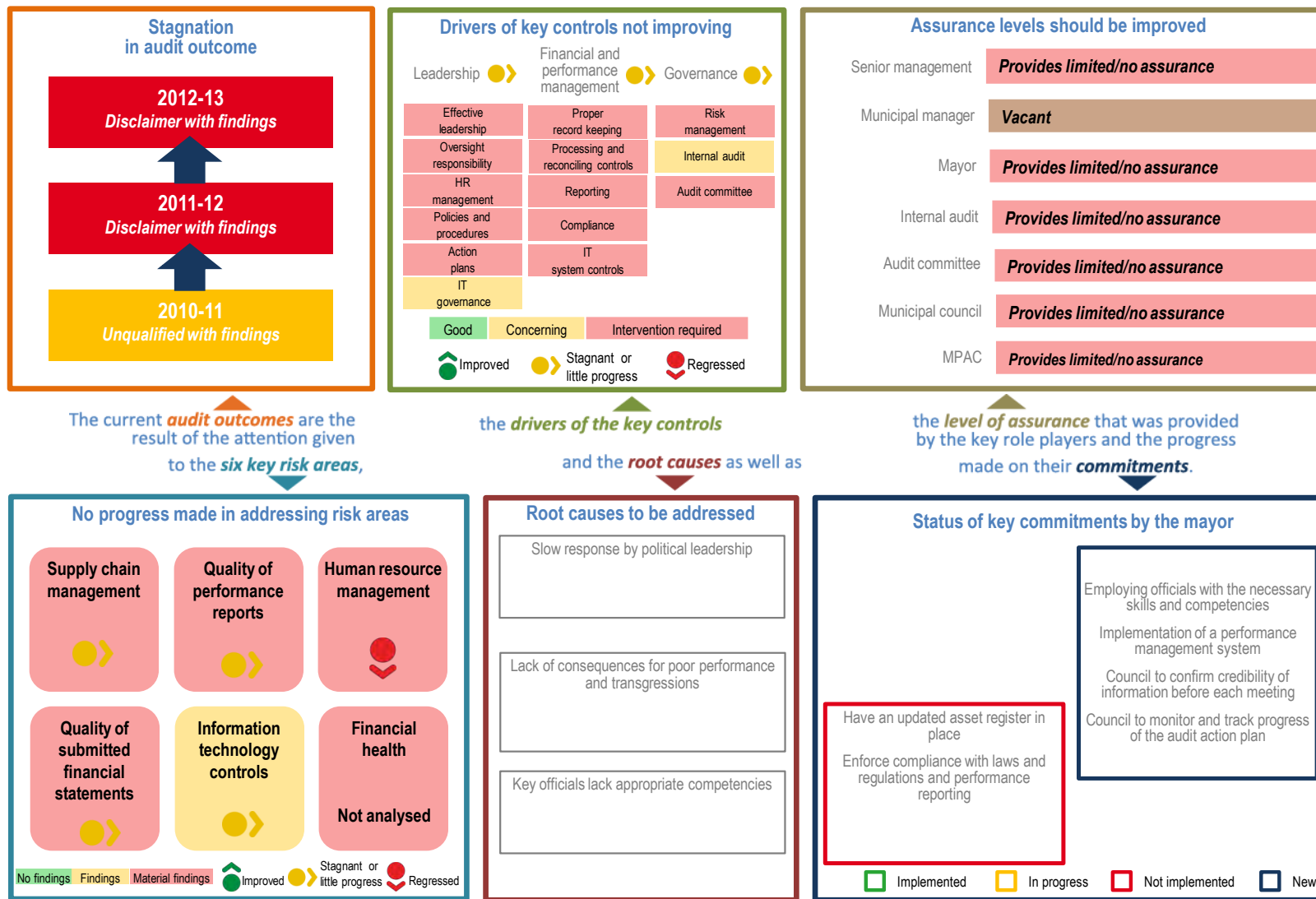


# THABAZIMBI MUNICIPALITY

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# Thabazimbi Municipality



## Thabazimbi Municipality

### *No movement in audit outcome*

The municipality received a disclaimer of opinion for second year in a row. Limited progress was made in addressing the previous year's audit findings.

### *Six key risk areas*

There has been no improvement by the municipality in five of the six key risk areas. The financial health of the municipality was not analysed as the financial statements were not reliable. Non-compliance with SCM regulations did not receive adequate attention. The procurement of goods and services still contravened SCM regulations, which resulted in the municipality incurring irregular expenditure of R210 million. This is the highest of all the municipalities and accounts for 26% of the total irregular expenditure incurred in the province. Even though the municipality has appointed a head of SCM, the performance is not being adequately monitored.

The quality of the annual performance report and financial statements has not improved. Findings on both the usefulness and reliability of its reported performance information recurred as the municipality did not have dedicated resources to manage performance information. Due to lack of competencies and skills on senior management level, consultants were appointed to assist with financial reporting at a cost of R3,5 million. The work done by the consultants did not help to prevent material findings on the financial statements as the information used to compile annual financial statements were not reliable and credible due to the lack of skills in the finance unit.

Little or no progress has been made on the design and implementation of information technology controls for user access and security management. Although the municipality had designed information technology service continuity controls, they were not tested and implemented during the year under review. The position of information technology manager was vacant at year-end. Findings on human resource management revealed poor controls of leave administration, overtime and the recording of these. An official was also acting in a position of senior manager for more than six months.

### *Key controls and root causes*

There was no improvement in leadership, financial and performance management and governance. It was also of concern that most of internal audit's findings and recommendations were never addressed or implemented. The municipality should strengthen the following controls to create a control

environment that supports reliable financial and performance reporting and compliance with legislation:

- Review the financial statements and the annual performance report prior to their submission for auditing
- Document policies and procedures to ensure compliance with the Municipal Finance Management Act

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

- The accounting officer should ensure adequate review of the financial statements and annual performance report by involving the internal audit section as well as the audit committee
- Appoint competent officials in key managerial positions
- Prepare a comprehensive action plan, taking into account the root causes of the audit findings. There should be consequences for poor performance and transgressions of legislation

### *Impact of key role players on audit outcomes*

The level of assurance provided by the audit committee and internal audit is limited, as is evident in the poor quality of the financial statements and the high number of non-compliance findings. The level of assurance the audit committee can provide is dependent on the function performed by the internal audit unit.

We met with the mayor only once in the financial year. The timing of this meeting meant that all commitments made by the mayor were too late for implementation in the year under review and will only have an impact on the 2013-14 financial year if implemented correctly.

The following commitments were made by the mayor:

- Skills assessments will be conducted, people will be placed in the right positions and an effective and efficient performance management system will be implemented
- The council will confirm the credibility of information submitted by the administrative leadership before each meeting and track the progress made in respect audit action plans

The municipal council and the MPAC have not made any commitments. Their lack of involvement during the course of the audit also contributed to the poor audit outcome.

# ANNEXURES

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

Auditee	2012-13 audit outcomes		2011-12 audit outcomes		Financial statement qualification areas				Findings on predetermined objectives				Findings on non-compliance										Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure																
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful	Aggregate misstatements	Reported information not useful	Reported information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R	
<b>Financial audits</b>																																										
<b>District municipalities</b>																																										
Capricorn District	R	R	R	R	R	N	R	R	A	N	R	R	A		A	N		R	R	A	N		N	A	N	A	A	A	N	N	R				R	R	R	F	18.10	23.00	0.10	
Mopani District				R	R																																					
Sekhukhune District																																										
Vhembe District	R	R	R	R	R	R	R	A	R	R	A	A		A	R			R	A	A	R			R		A	N	R	A		R	R		R	R	R	M		139.70	0.69		
Waterberg District		N				N				N								N			N															R	F		0.00	0.00		
<b>Local municipalities</b>																																										
Aganang	R	R	R	R	R	A	R	A	R	R	A	A		R	R			R	R	A	R	N	N	R	N	A		R	N		A	N		R	R	R	F		3.90	0.00		
Ba-Phalaborwa	R	R	R	R	R	R	R	A	N	R	A	R	R	R	R			R	A	A	R	A	R	R	A	A	R	N		R	N		R	R	R	M	12.60	64.40	0.97			
Bela-Bela	R	R	R	R	R	R	A	A	R	A	A	A		R	R			R	R	R		N	R		A				R	R		R	R	R	F	30.90	6.70	0.27				
Blouberg		R	A	R	R	A	A	A	R	A		R						R	R	A	R	N	N	R	N			R	N	N	R	N		R	R	R	F	7.40	0.27	0.09		
Elias Motsoaledi (Greater Groblersdal)	R	R	R	R	R		R		N		A	R	N	R	R			R	R	A	A		R		A	R	R	N		R	R		R	R	R		41.10	18.50	0.08			
Ephraim Mogale	R	R	R	R	R	N	R		R	R	R	R	N	R	R			R	R	A	R	N	N	R		A	A	N	R	N	R	N		R	R	R	M	35.30	65.80	0.01		
Fetakgomo	A	R		N	N	R			N		R		A	A				R		R	N	N								R			R	A	R			3.90	0.11			
Greater Giyani																																										
Greater Letaba	R	R	R	R	R	R	R		R	R		R	N	R				R	A	R	R		R	N	N	R	A	R		R		R	R	R	M	38.70	56.60	0.10				
Greater Tzaneen				R	R																																					
Lepelle Nkumpi	R	R	R	N	R	R	R	A	R	R		R	N	R	R			R	R	R	R	A	A	R	A		A	R	R		R	N		R	R	R	M	0.00	30.00	0.03		
Lephalale	R	R	R	R	R	N	R		N					R	R			R	N	A	N			N	R	N			R		R	R	R	F	5.90	22.40	0.00					
Makhado	R	R	R	R	A	R	A		R	A		A		R	R			R	A	A	R		A	N			N		R		R	R	R	F	0.00	47.40	17.0					
Makhudutamaga	R	R	R	R	A	A	N		R			R		R	R			R	R	R			A	N	R	R	A	R	N	R	R		R	R	R	M	0.00	14.30	0.00			
Maruleng	R	R	R	R	R	N	N		N		N		N	R	R			R	R	A	A		N	R			N	N		R	A		R	R	R			6.50				
Modimolle	R	R	R	R	R	R		N	A	R	R	A	R	R				R	R	R	A	N	R	R	N	R	R	A	N	N	R	N		R	R	R	M	0.52	20.50	0.27		
Mogalakwena	R	R	R	R	N			N						N	R			N	R					N	A				R	N		R	R	R	M	30.00	39.90	0.50				
Molemole				R	R																																					



Auditee	2012-13 audit outcomes		2011-12 audit outcomes		Financial statement qualification areas						Findings on predetermined objectives		Findings on non-compliance											Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure																
	Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful	Aggregate misstatements	Reported information not useful	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R		
Mookgophong	R	R	R	R	R	R	R	N	R	R	R	R	R	R	R	R	R	R	R	R	N	R	N	R	N	A	R	N	A	A	R	A	R	R	R	F	15.80	10.30	0.22				
Musina	R	R	R	R	R	A			R				A	R	R				R	R	A			A	R	N	R	R		R	N		R	R	R	F	32.10	2.40	0.12				
Mutale	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R			R	R	R	R	R	A	R	N	A	A	R	R	R	R	R	R		R	R	R	M	0.00	0.74	0.03	
Polokwane																																											
Thabazimbi	R	R	R	R	R			A	N	R	R	N	A	R	R				R	R	R	R		R	R	N	R	A	R	R	R	R	R	N		R	R	R	M	7190	210.20	4.50	
Thulamela	R	R	R	R	R	R		A	N	A				R	R				R	R	A	R		A	A		A		R	N		R	R		R	R	R	F		0.85	0.46		
Tubatse	R	R	R	R	R	N	N	R	N				N	R	R				R	R	R	R	N	N	R	N	N	N	R		R	N		R	R	R	M	77.70	7130	0.13			
<b>Municipal entities</b>																																											
Polokwane Housing Association		R	R	R	R	A	A			A				R	N			A	A	R	N			R	N		A				A			A		N	F		0.54	0.00			
Sekhukhune Development Agency																																											
<b>Consolidation audits</b>																																											
<b>District municipalities</b>																																											
Sekhukhune District				R	R																																						
<b>Local municipalities</b>																																											
Polokwane				R	R																																						

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Financial health findings	Material unfavourable indicators	Unfavourable indicators	No material unfavourable indicators	Legend (Expenditure)	Improved	Regressed
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# Annexure 2 Assessment of auditees' key controls at the time of the audit

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

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 Systems 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	F	P	C	F	P	C	F	P	C			
<b>District municipalities</b>																																																			
Capricorn District	↔	↔	↔																																																
Vhembe District	↔	↔	↔																																																
Waterberg District	↔	↓	↓																																																
<b>Local municipalities</b>																																																			
Aganang	↑	↔	↑																																																
Ba-Phalaborwa	↔	↔	↔																																																
Bela-Bela	↑	↑	↑																																																
Blouberg	↑	↔	↔																																																
Elias Motsoaledi (Greater Groblersdal)	↓	↓	↓																																																
Ephraim Mogale	↓	↓	↓																																																
Fetakgomo	↔	↑	↔																																																
Greater Letaba	↓	↔	↓																																																
Lepelle Nkumpi	↔	↔	↔																																																
Lephalale	↓	↑	↓																																																
Makhado	↑	↑	↑																																																
Makhudutamaga	↔	↔	↔																																																
Maruleng	↔	↓	↓																																																
Modimolle	↔	↔	↔																																																
Mogalakwena	↓	↓	↓																																																
Mookgophong	↔	↔	↔																																																
Musina	↑	↑	↑																																																
Mutale	↔	↔	↔																																																
Thabazimbi	↔	↔	↔																																																
Thulamela	↔	↔	↔																																																
Tubatse	↓	↓	↓																																																
<b>Municipal entities</b>																																																			
Polokwane Housing Association	↑	↑	↑																																																

### Annexure 3 Auditees' five-year audit opinions

Auditee	Audit outcomes				
	2012-13	2011-12	2010-11	2009-10	2008-09
<b>Financial audits</b>					
<b>District municipalities</b>					
Capricorn District	Qualified	Qualified	Qualified	Disclaimer	Disclaimer
Mopani District	Audit not finalised at legislated date	Disclaimer	Qualified	Unqualified with findings	Unqualified with findings
Sekhukhune District	Audit not finalised at legislated date	Disclaimer	Disclaimer	Disclaimer	Disclaimer
Vhembe District	Disclaimer	Disclaimer	Qualified	Qualified	Disclaimer
Waterberg District	Qualified	Unqualified with no findings	Unqualified with no findings	Unqualified with findings	Unqualified with findings
<b>Local municipalities</b>					
Aganang	Qualified	Disclaimer	Adverse	Disclaimer	Unqualified with findings
Ba-Phalaborwa	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
Bela-Bela	Qualified	Adverse	Adverse	Unqualified with findings	Qualified
Blouberg	Qualified	Disclaimer	Qualified	Qualified	Disclaimer
Elias Motsoaledi (Greater Groblersdal)	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
Ephraim Mogale	Disclaimer	Qualified	Qualified	Qualified	Unqualified with findings
Fetakgomo	Qualified	Qualified	Unqualified with no findings	Unqualified with no findings	Unqualified with findings
Greater Giyani	Audit not finalised at legislated date	Disclaimer	Disclaimer	Qualified	Qualified
Greater Letaba	Disclaimer	Qualified	Adverse	Unqualified with findings	Unqualified with findings
Greater Tzaneen	Audit not finalised at legislated date	Disclaimer	Qualified	Qualified	Qualified
Lepelle Nkumpi	Disclaimer	Disclaimer	Disclaimer	Qualified	Disclaimer
Lephalale	Qualified	Qualified	Qualified	Qualified	Disclaimer
Makhado	Qualified	Disclaimer	Disclaimer	Disclaimer	Disclaimer
Makhudutamaga	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
Maruleng	Qualified	Qualified	Unqualified with findings	Unqualified with findings	Qualified
Modimolle	Adverse	Disclaimer	Adverse	Qualified	Qualified
Mogalakwena	Qualified	Unqualified with findings	Unqualified with findings	Unqualified with findings	Qualified
Molemole	Audit not finalised at legislated date	Disclaimer	Disclaimer	Disclaimer	Disclaimer

Auditee	Audit outcomes				
	2012-13	2011-12	2010-11	2009-10	2008-09
Mookgophong	Qualified	Qualified	Qualified	Disclaimer	Disclaimer
Musina	Qualified	Qualified	Qualified	Unqualified with findings	Unqualified with findings
Mutale	Disclaimer	Disclaimer	Qualified	Unqualified with findings	Qualified
Polokwane	Audit not finalised at legislated date	Disclaimer	Qualified	Qualified	Unqualified with findings
Thabazimbi	Disclaimer	Disclaimer	Unqualified with findings	Qualified	Disclaimer
Thulamela	Qualified	Qualified	Qualified	Qualified	Qualified
Tubatse	Adverse	Qualified	Qualified	Qualified	Disclaimer
<b>Municipal entities</b>					
Polokwane Housing Association	Unqualified with findings	Qualified	Qualified	Qualified	Qualified
Sekhukhune Development Agency	Audit not finalised at legislated date	Disclaimer	Unqualified with findings	New auditee	New auditee
<b>Consolidation audits</b>					
<b>District municipalities</b>					
Sekhukhune District	Audit not finalised at legislated date	Disclaimer	Disclaimer	New auditee	New auditee
<b>Local municipalities</b>					
Polokwane	Audit not finalised at legislated date	Disclaimer	Qualified	Qualified	Unqualified with findings

# 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.

<i>Consolidated financial statements</i>	Financial statements that reflect the combined financial position and results of a municipality and those of the municipal entities under its control.
<i>Creditors</i>	Persons, companies or organisations that the auditee owes money to for goods and services procured from them.
<i>Current assets (in financial statements)</i>	These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, infrastructure and equipment as well as long-term investments.
<i>Disclaimer of opinion (on financial statements)</i>	The auditee provided insufficient evidence in the form of documentation on which we could base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.
<i>Financial and performance management (as one of the drivers of internal control)</i>	<p>The performance of internal control and monitoring-related tasks by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee.</p> <p>These controls include the basic daily and monthly controls for processing and reconciling transactions, preparing regular and credible financial and performance reports as well as reviewing and monitoring compliance with legislation.</p>
<i>Financially unqualified audit opinion (on financial statements)</i>	The financial statements contain no material misstatements (see 'material misstatement'). Unless we express a clean audit opinion, findings have been raised on either the annual performance report or non-compliance with legislation, or both these aspects.
<i>Fruitless and wasteful expenditure</i>	Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on the late payment of creditors or statutory obligations as well as payments made for services not utilised or goods not received.
<i>Going concern</i>	The presumption that an auditee will continue to operate in the near future, and will not go out of business and liquidate its assets. For the going concern presumption to be reasonable, the auditee must have the capacity and prospect to raise enough financial resources to stay operational.
<i>Governance (as one of the drivers of internal control)</i>	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.

*Human resource (HR) management*

The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled people as well as the adequate management of their performance and productivity.

*Information technology (IT)*

The computer systems used for capturing and reporting financial and non-financial transactions.

*IT controls*

Computer-related controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security.

*IT governance*

The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its strategies and objectives.

*IT security management*

The controls preventing unauthorised access to auditee networks, operating systems and application systems that generate financial information.

*IT service continuity*

The processes managing the availability of hardware, system software, application software and data to enable auditees to recover or re-establish information system services in the event of a disaster.

*IT user access management*

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

*Internal control / key controls*

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

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

*Irregular expenditure*

Expenditure incurred without complying with applicable legislation.

*Key drivers of internal control*

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

*Leadership (as one of the drivers of internal control)*

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



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

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.

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.

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

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.

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

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 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.

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.

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.

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

*Material finding (from the audit)*

*Material misstatement (in financial statements or annual performance reports)*

*Misstatement (in financial statements or annual performance reports)*

*Net current liability*

*Net deficit (incurred by auditee)*

*Operational budget / operating budget*

*Oversight structures as well as coordinating and monitoring departments*

*Property, infrastructure and equipment (in financial statements)*

*Qualified audit opinion (on financial statements)*

*Receivables / debtors (in financial statements)*

*Reconciliation (of accounting records)*

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

*Root causes (of audit outcomes)*

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

*Supply chain management (SCM)*

Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.

*Unauthorised expenditure*

Expenditure that was in excess of the amount budgeted or allocated by government to the auditee, or that was not incurred in accordance with the purpose for which it was intended.

## Acronyms and abbreviations

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

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

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







AUDITOR - GENERAL  
SOUTH AFRICA

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