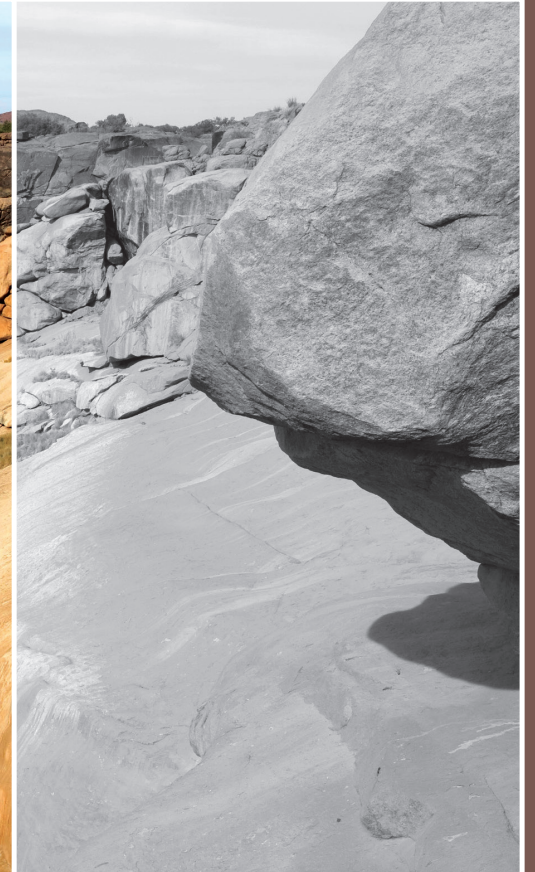
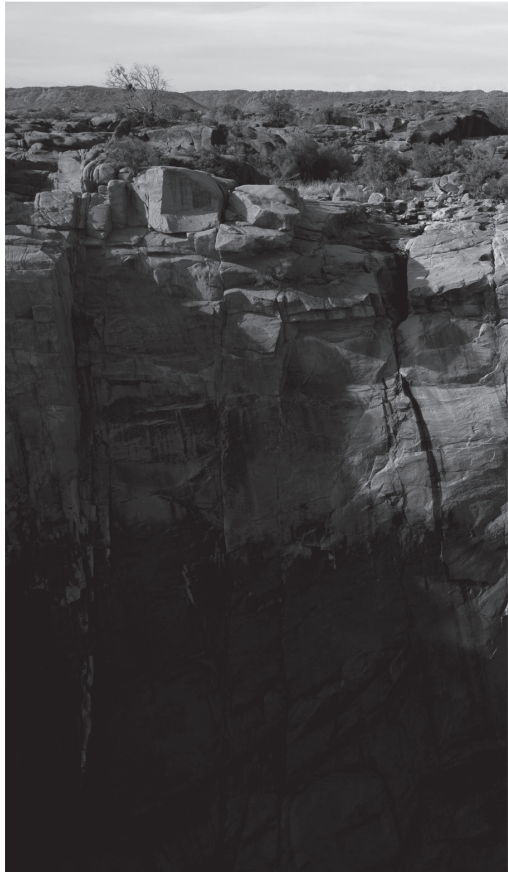


Northern Cape



AUDITOR - GENERAL
SOUTH AFRICA

General report

on the audit outcomes of local government

MFMA 2012-13

Our reputation promise/mission

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



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

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

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

Kimi Makwetu
Auditor-General



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NORTHERN CAPE CLEAN AUDITS 2012-13

6



MUNICIPALITY

ZF Mgcawu District



FOREWORD

FOREWORD

It is with pleasure that I hereby present to the Northern Cape Legislature and municipal councils my 2012-13 general report summarising the results of the audit outcomes for local government for the financial year ended 30 June 2013.

The province recorded five (18%) improvements in audit outcomes for 2012-13 and celebrated their first clean audit in three years. The three (11%) regressions and 13 (46%) disclaimers for 2012-13 remain a concern. The audit opinions of four municipalities were not included in this report as their audit reports had not been finalised in time for reporting. As in the prior year, a large number of municipalities had findings on predetermined objectives and compliance with laws and regulations. Only one municipality had no findings on supply chain management.

ZF Mgcawu District Municipality built on the progressive improvements in internal controls of the past few years to achieve a clean audit. The mayor and municipal manager of this municipality took ownership of achieving a clean audit and held staff accountable for the implementation of a credible action plan to address prior year audit findings. I urge management and the political leadership to continue monitoring and improving internal controls at this district municipality, despite the resignation of the municipal manager after the conclusion of the audit, to ensure the sustainability of the clean audit outcome and sharing of good practices with local municipalities within the district. We emphasise this point as the province has a history of municipalities obtaining clean audit outcomes, only to regress the very next year.

The fact that 12 of the 13 municipalities had repeat disclaimers is a concern. The underlying problem in this regard is that municipalities do not implement controls, particularly effective record management. This problem is not confined to the audit of the financial statements. Similar concerns were raised during the audit of predetermined objectives and compliance. The basic disciplines of obtaining, filing and safekeeping of supporting documents are not institutionalised and the recurrence of this problem indicates a lack of transparency and accountability at a number of municipalities in the province.

As in the prior year, high levels of unauthorised and irregular expenditure were reported. The reasons for this relate to many municipalities not having systems in place to prevent and detect unauthorised expenditure; a lack of leadership oversight, and officials not being held accountable for irregular expenditure. These weaknesses, combined with the issues raised in the previous paragraph, clearly indicate that the leadership at many municipalities in the province still do not take my office's messages seriously. Leadership needs to ensure that people with the relevant skills and experience are appointed when positions become vacant and that the performance of staff is measured and action is taken against non-performers.

A further concern is that financial statements submitted for audit require adjustments as a result of material misstatements identified during the audit process. Despite the continued use of consultants at 23 municipalities to assist in preparing financial reports, 78% of these municipalities still received a modified



Kimi Makwetu
Auditor-General

opinion. The number of municipalities that once again failed to submit their performance information for auditing is a worrisome indication that many municipalities still do not prioritise performance information.

Although there was a slight improvement in the assurance provided by internal audit and audit committees, much still needs to be done to ensure that the leadership and management provide the required level of assurance. In line with this, inadequate key controls under leadership and financial and performance management were still evident at most municipalities.

My message for the 2011-12 financial period confirmed the following commitments from the provincial leadership: they undertook to strengthen their ability to perform oversight by enhancing the capacity of municipal councillors through training and continuous development; to coordinate the efforts of all those charged with responsibilities for cooperative governance; and to focus on initiatives that will improve the quality and credibility of information, human resource capacity and performance management.

Most of these commitments were not honoured, resulting in the root causes of poor audit outcomes remaining unaddressed. In my assessment the root causes of these audit outcomes remain as follows: key officials lacked minimum competencies and skills; a general lack of consequences for poor performance and transgressions; and a slow response by political leadership in addressing the root causes of poor audit outcomes. The recurrence of unfavourable audit outcomes will only be avoided if the efforts of leadership at both provincial and municipal level are focused on addressing these shortcomings in a well-coordinated manner.

During my engagements with the leadership and executive in March 2014, leadership undertook to appoint consultants and 12 graduates to assist struggling municipalities; to improve the level of coordination between the department of Cooperative Governance, Human Settlements and Traditional Affairs (CoGHSTA) and the provincial treasury and to up-skill staff in the finance departments of municipalities by means of a focused training programme.

Providing struggling municipalities with additional capacity is a good initiative and the oversight structures need to ensure that the purpose and expected impact of these appointments are communicated to all relevant parties at the inception of the project. It is essential that sustainable benefits should flow from this and therefore proper monitoring processes need to be implemented. The training of staff in the finance department will improve the quality of financial information, only if the content of the training is practical and focused on assisting staff in their day-to-day activities. In addition to this, standard operating procedures for all financial components need to be developed and implemented. It is recommended that the oversight departments play a significant role in the development of these procedures.

I wish to thank the audit teams from my office and the audit firms that assisted with the audits for their diligent efforts towards fulfilling our constitutional mandate.



Auditor-General
Pretoria
July 2014

SUMMARY OF AUDIT OUTCOMES AND KEY RECOMMENDATIONS FOR IMPROVEMENT

Our audit and reporting process

We audit all municipalities in the province so that we can report on

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

We also assess the root causes of any errors or non-compliance, based on the internal controls 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 municipal managers of municipalities, 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 municipality's annual report and dealt with by the municipal council.
- We report annually on the audit outcomes of all municipalities 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 their audit outcomes by identifying the **key controls** that should be in place at municipalities, assessing these on a quarterly basis and sharing the assessment with mayors, municipal managers and audit committees.

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

During the audit process, we work closely with the municipal manager, senior management, audit committee and internal audit unit, as they are **key role players** in providing assurance on the credibility of the municipalities' 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 as well as the provincial legislature, as we are convinced that their involvement and oversight should play – and will continue to play – a crucial role in the performance of local government in the province. We share our messages on key controls, risk areas and root causes with them and obtain and monitor their commitments to implement initiatives that can improve audit outcomes.

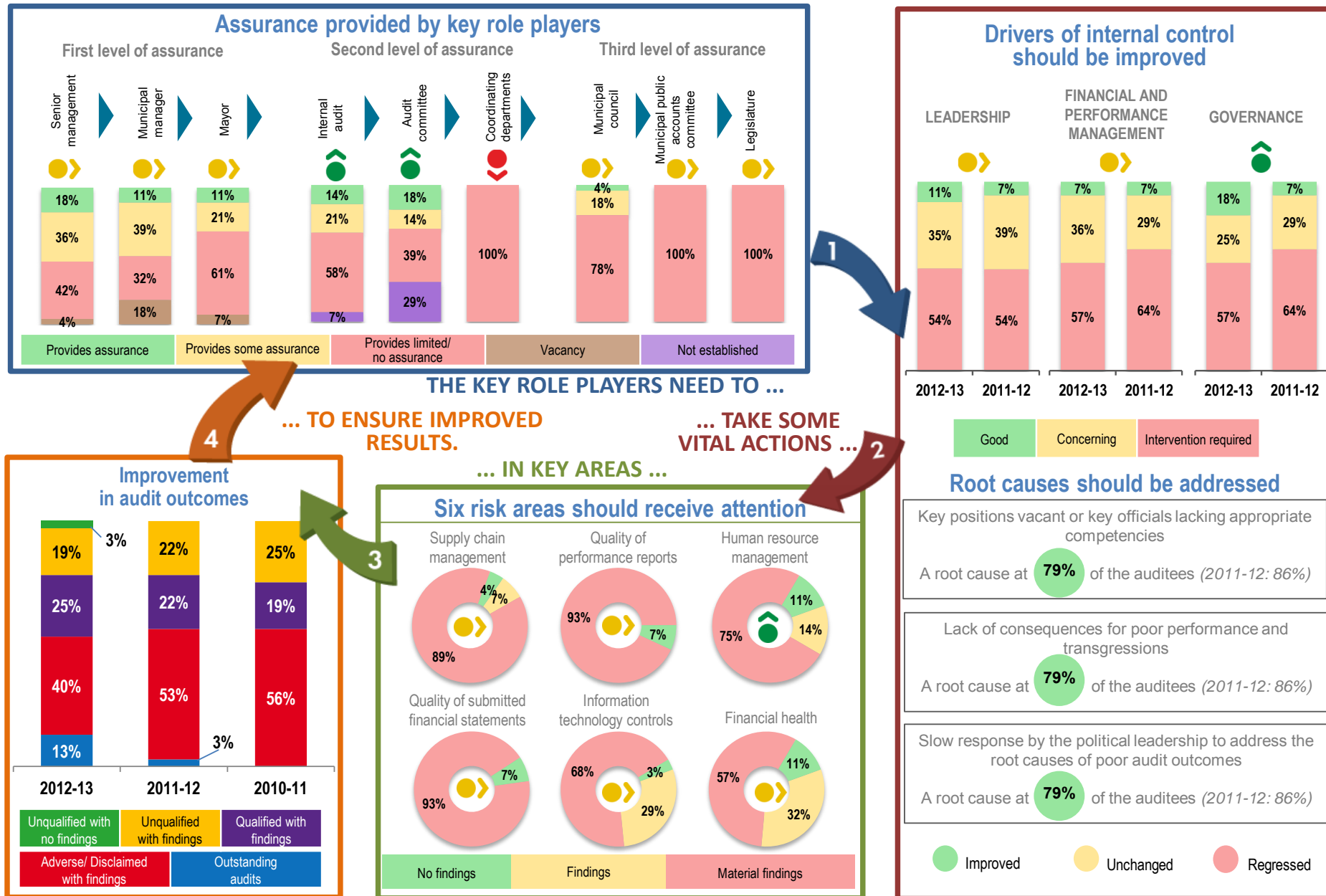
Figure 1 provides an overview of our message on the 2012-13 audit outcomes, which is a continuation of what we had reported and recommended in our last report on the audit outcomes of local government in the province. Please note the following about the figure and when reading the rest of the report:

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

 Improved  Stagnant or little progress  Regressed

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

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



Status of the three areas that we audit and report on

Audit outcomes have improved

There has been a slight improvement in the audit outcomes of local government. Due to municipalities' late submission of or failure to submit financial statements for audit purposes, we had not finalised the audits of four municipalities (Karoo Hoogland Local Municipality, Magareng Local Municipality, Nama Khoi Local Municipality and !Kheis Local Municipality) by 15 February 2014, which was the cut-off date for inclusion of audit outcomes in this general report.

Significant aspects of the 2012-13 audit outcomes of the 28 municipalities shown in figure 1 are listed below:

- Five municipalities' audit outcomes have improved (ZF Mgcawu District Municipality, Gamagara Local Municipality, Khara Hais Local Municipality, Ubuntu Local Municipality and Emthanjeni Local Municipality), while three regressed (Namakwa District Municipality, Kareeberg Local Municipality and Mier Local Municipality), resulting in a slight improvement for the province over the last financial year. The regression by three municipalities serves as a clear indication that they did not prioritise the objectives of the *Clean audit 2014* drive.
- The two district municipalities, ZF Mgcawu and Pixley ka Seme, showed the most improvement, with both recording an improvement in their audit outcomes. The fifth municipality that improved was in the John Taolo Gaetsewe district. The ZF Mgcawu District Municipality received a clean audit opinion, the only municipality in the province to achieve this status for the 2012-13 financial year.
- Twenty-seven (84%) of the 32 municipalities submitted their financial statements within the legislated deadline. This is a significant improvement since the previous year.
- The 13 disclaimers as reported on in this report are, however, still a big concern for the province.

The quality of annual performance reports has not improved

Municipalities 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

arising 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

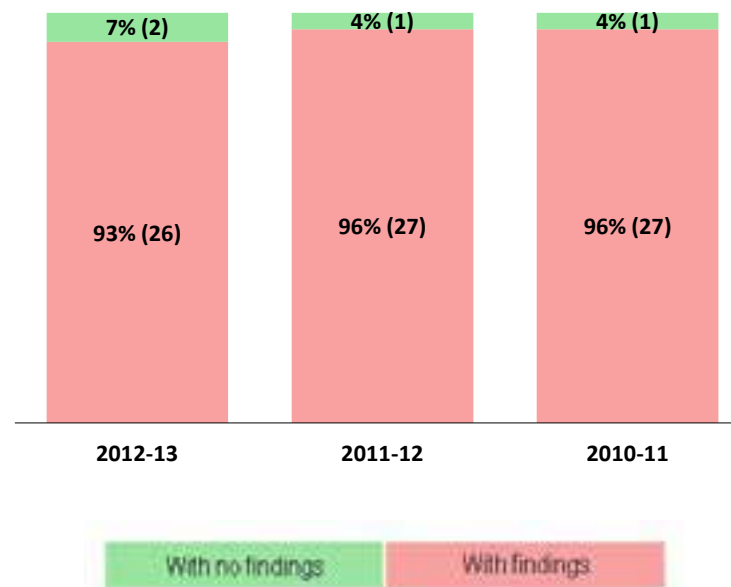


Figure 2 shows the number of municipalities in the province with material findings in this regard over the past three years, including those municipalities that did not prepare an annual performance report or submitted the report too late for auditing.

The outcomes on the quality of annual performance reports have stagnated over the past three years. Thirteen (46%) municipalities did not submit their annual performance reports in the current and prior year and are included in figure 2 above as having findings. This is mainly due to performance management systems not implemented at municipalities and the municipal officials not having the required skills and competencies for reporting on performance information.

The big challenge in respect of this area is that political and administrative leadership within the municipalities do not view this area as a critical component of their business that could be used to improve and monitor the quality of the services delivered to the citizens of the Northern Cape. In order to create a well-

functioning public service that inspires public confidence, interventions in this critical area must be expedited and appropriately monitored.

The ZF Mgcawu district showed an improvement in this area, with ZF Mgcawu District Municipality and \Khara Hais Local Municipality having no material findings on their performance information. ZF Mgcawu District Municipality appointed a specialist to manage the municipality's performance management system. This specialist brought sufficient skills and competencies to address the issues identified in the prior year on performance information. At \Khara Hais Local Municipality they ensured that the appropriate reviews took place, compared to the prior year when reviews were not adequately performed. Internal audit also performed work on performance information.

The following improvements of the ZF Mgcawu district can be replicated in other districts:

- The political leadership and municipal manager should ensure accurate reporting of performance information.
- The necessary competencies and skills need to be put in place to ensure that performance information is monitored and reported in a consistent way.
- The necessary reviews must take place constantly to ensure valid, accurate and complete information.

We measured the usefulness of the reported information against the criteria of presentation, consistency, relevance and measurability. The number of municipalities with material findings in this regard has increased by 14% since the previous year. The most common findings on usefulness were the following:

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

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 municipalities with material findings in this regard has increased by 11% since the previous year. The findings on reliability were as follows:

- Reported performance information inaccurate
- Reported performance information incomplete
- Reported performance information invalid.

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

- Seventy-five per cent of the municipalities had material findings on non-compliance with the legislation that regulates strategic planning, performance management and reporting.
- Of the five municipalities with reliable annual performance reports, 60% failed to achieve 20% or more of the planned targets they reported on. Non-achievement was only reported for municipalities with reliable performance management systems which had not received adverse or disclaimed opinions on reliability in the management report.

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

The level of compliance with legislation has improved

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

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

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

Figure 3: Status of compliance with legislation

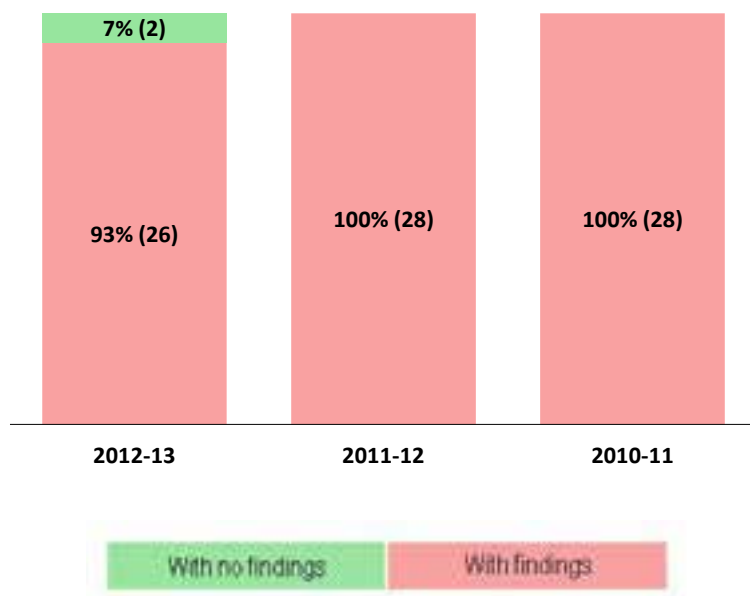


Figure 3 shows the number of municipalities with material findings in this regard over the past three years. All municipalities had findings consecutively for 2010-11 and 2011-12. Frances Baard District Municipality and ZF Mgcawu District Municipality improved in 2012-13 in that no compliance findings were reported in the audit report. Action plans drafted by these district municipalities were allocated to responsible staff and linked to their individual performance agreements. This ensured that all staff within the municipalities understood what they were responsible for and what needed to be done to avoid findings. This also ensured that the district municipalities could hold staff accountable for non-achievement.

These improvements can be replicated in other districts if the following are implemented:

- The municipal manager needs to ensure proper management of consequences for employees who are responsible for non-compliance with legislation.
- The area of compliance with legislation needs to be included in the performance agreement of the municipal manager and other relevant staff.
- The municipal manager must ensure that municipal staff understand their roles and responsibilities and how they impact on audit outcomes. This should not only be done for the financial side, but for all employees.

These district municipalities should ensure that the recommendations made above are also implemented in their district.

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

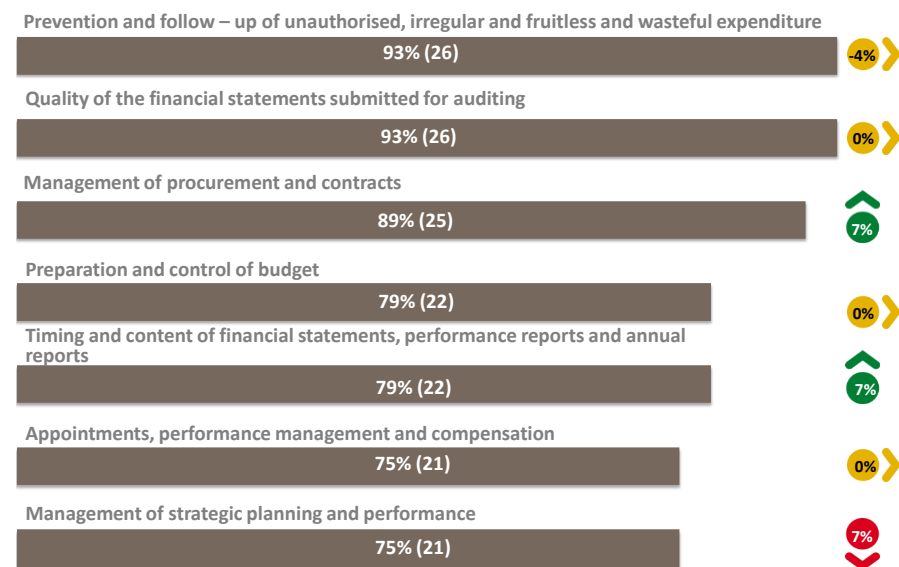


Figure 4 shows the compliance areas, indicating the most material findings and the progress made by municipalities in addressing these findings. The top three areas of non-compliance, namely prevention of and addressing unauthorised, irregular and fruitless and wasteful expenditure; procurement and contract management, and material misstatements in submitted financial statements, were the same top three areas as reported in the prior year. Minimal improvement was noted in these three areas.

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

- Unauthorised, irregular and fruitless and wasteful expenditure was not prevented or adequately dealt with.
- Three written quotations were not invited and deviations for procurement were not justified.
- There were material misstatements or limitations in the financial statements submitted for auditing.
- Expenditure was incurred in contravention of the approved budget.
- The performance report was not prepared for the financial year under review.

- Policies and procedures were not in place to monitor, measure and evaluate staff performance.
- Effective, efficient and transparent systems of financial and risk management and internal controls were not maintained, resulting in most of the findings in the management of strategic planning and performance area.

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

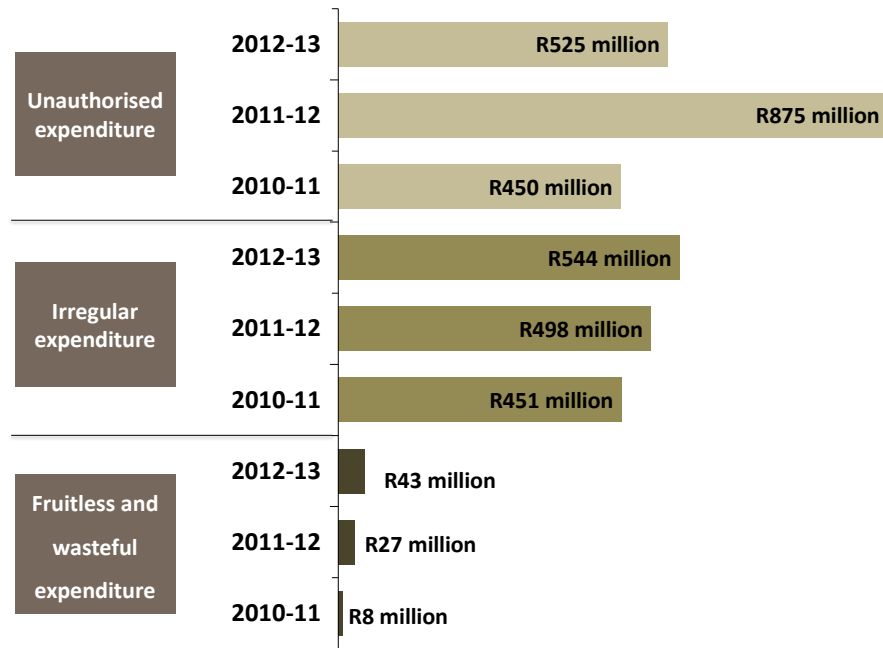


Figure 5 reflects the three-year trend in unauthorised, irregular and fruitless and wasteful expenditure incurred by municipalities.

Unauthorised expenditure refers to expenditure incurred in contravention of the approved budget. Notwithstanding a decrease in unauthorised expenditure, 12 municipalities had qualifications on this disclosure item, which casts doubt on the completeness of the unauthorised expenditure amount for the province.

Of the R525 million in unauthorised expenditure incurred in 2012-13, most (99%) was as a result of overspending of the approved budget. Instances were identified where municipalities overspend on their operating budgets, but

underspend on their capital budgets and conditional grants. This means that money earmarked for infrastructure development and improvement is being used to cover the operating costs of these municipalities, thus impacting negatively on service delivery. Sixty-one per cent of the expenditure was identified by the municipalities, while the other 39% was identified by the auditors, which indicates that many municipalities still do not have systems in place to detect and report unauthorised expenditure.

Irregular expenditure refers to expenditure that was not incurred in the manner prescribed by legislation. This 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 municipal councils to investigate all irregular expenditure to determine whether it constitutes misconduct, fraud or losses that should be recovered. Irregular expenditure has increased gradually over the last three years. The lack of consequences, slow responses by political leadership, as well as the lack of competencies on the part of heads of supply chain management at some municipalities contributed to an increase in irregular expenditure.

Of the R544 million in irregular expenditure incurred in 2012-13, 99% was as a result of supply chain-related matters. Eighty-eight per cent of such expenditure stemmed from instances of non-compliance in 2012-13, while the remainder resulted from transgressions in previous years. Thirty-seven per cent was identified by the municipalities, indicating that many municipalities do not have the ability to identify irregular expenditure due to a lack of training and failure to implement compliance checklists. A lack of leadership oversight and officials not being held accountable also contributed to this outcome.

Fruitless and wasteful expenditure refers to expenditure made in vain which would have been avoided had reasonable care been taken. The increase in fruitless and wasteful expenditure was mainly attributable to expenditure of R33 million incurred at Tsantsabane Local Municipality in the current year as a result of penalties and interest levied by SARS for incorrect and late submission of VAT returns.

Of the R43 million in fruitless and wasteful expenditure, 89% was identified by the municipalities. This indicates that most municipalities have systems in place to detect and report on fruitless and wasteful expenditure. Prevention thereof, however, remains a challenge.

Legislation prescribes the actions that municipal managers and municipal councils should take to investigate and deal with unauthorised, irregular and 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 provided as part of the human resource management risk area included below.

Quality of submitted financial statements

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

18 While most municipalities submitted their financial statements on time for auditing, figure 1 shows that 26 municipalities (93%) submitted financial statements that had material findings on the quality of the financial statements. Very little progress had been made in this area, with only ZF Mgcawu District Municipality improving since the previous year by reporting no material amendments made to the financial statements. The deputy chief financial officer prepared the financial statements and thereafter the chief financial officer, municipal manager and audit committee conducted an extensive review of the financial statements. Frances Baard District Municipality is the other municipality that submitted quality financial statements. This can be attributed to an experienced and competent chief financial officer who prepares the financial statements, as well as a proper review process that includes reviews by a consultant, the internal audit unit and audit committee.

The following improvements should be replicated in other districts:

- Internal controls must be effective all year round so that the municipality can prepare the financial statements regularly during the year to ensure timely submission of quality financial statements. These financials need to be subjected to extensive review processes.
- Timely and proper reviews by the relevant parties, including the chief financial officer, municipal manager and the audit committee.

Figure 6: Quality of submitted financial statements

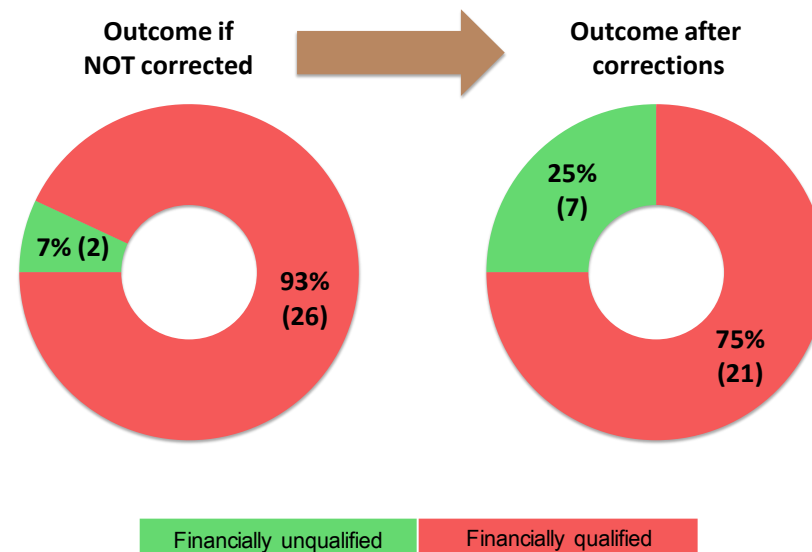


Figure 6 shows that five municipalities (18%) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

Although we reported the material misstatements to management for correction, 21 municipalities (2011-12: 21) could not make the necessary corrections to the financial statements mainly because the consultants appointed were unable to make the necessary adjustments. The reason for this was a lack of supporting documentation as indicated in figure 12. The need to appoint consultants originated from a lack of skills and competencies within the finance units.

The following were the three most common financial statement qualification areas:

Financial statement qualification area	2012-13	2011-12
Property, infrastructure, plant and equipment	86%	95%
Irregular expenditure – supply chain management	71%	81%
Receivables	71%	81%

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

Supply chain management

As part of our audits of supply chain management, we tested 431 contracts (with an approximate value of R1,9 billion) and 1 348 quotations (with an approximate value of R79 million), also referred to as *awards* in this report.

We tested to determine 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 municipal councillors and their close family members in suppliers to the municipality as well as the interests of other state officials, as legislation prohibits awards to such suppliers. We also performed an evaluation to determine whether municipalities had implemented adequate internal controls to prevent, detect or correct irregularities in the supply chain management processes.

We reported all the findings arising 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 little improvement since the prior year in the number of municipalities that had audit findings on supply chain management. The only municipality that improved, with no findings reported on supply chain management, was ZF Mgcau District Municipality. The municipal manager of this municipality ensured that his staff were trained on and understood and implemented effective supply chain management processes. Thereafter, all

procurement was scrutinised before approval to ensure that no supply chain regulations were contravened.

It is recommended to other municipalities that they should ensure that their staff understand the supply chain management processes and that this knowledge is implemented in their day-to-day activities. The municipal manager, including his/her delegated officials, should monitor the procurement processes.

Figure 7: Findings on supply chain management

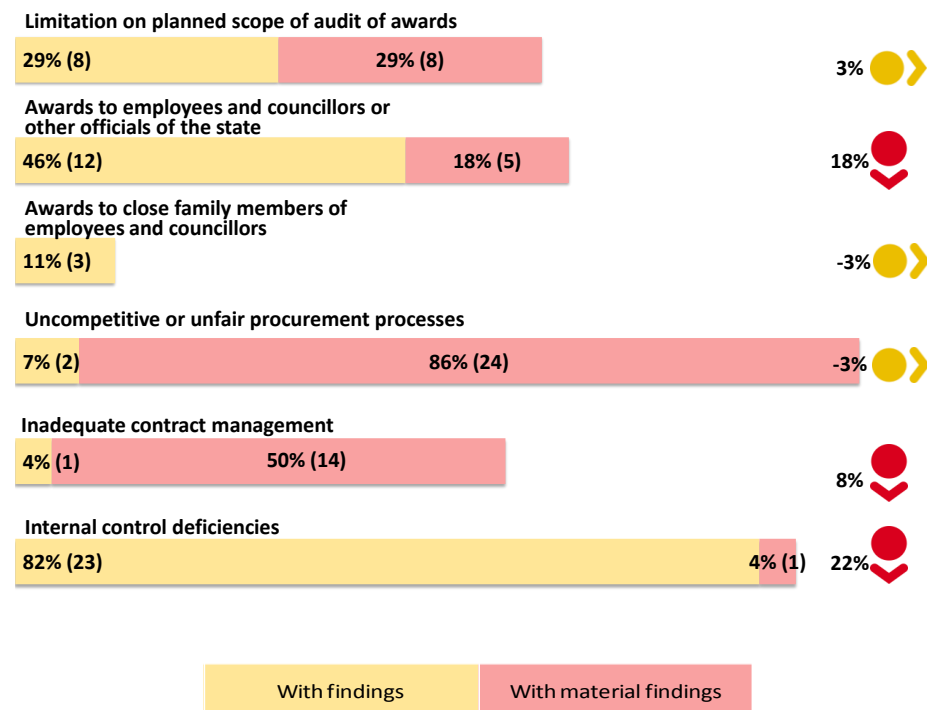


Figure 7 indicates the extent of findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- We were very concerned that limitations were again experienced this year in auditing supply chain management. We could not audit awards with a value of R84 million at 16 municipalities, as they could not provide us with appropriate documents as evidence that awards had been made in accordance with the requirements of supply chain management legislation. We could also not perform any alternative audit procedures to obtain assurance that the expenditure incurred in this regard was not

irregular. The main reason for the limitations was inadequate record management systems at municipalities and therefore supporting documentation could not be submitted for audit purposes.

- There were 24 instances of awards with an overall value of R315 592 to suppliers in which employees and municipal councillors of the municipalities had an interest. In all of these instances, the suppliers did not declare their interest, while the employees did not declare their interest in 13% of the cases.
- There were 81 instances of awards with an overall value of R1 300 804 to suppliers in which close family members of employees and municipal councillors of the municipalities had an interest. In 79% of these instances, the suppliers did not declare their interest, while the employees or municipal councillor did not declare their interest in 75% of the cases. The persons involved included a municipal councillor and municipal manager.
- There were 54 instances of awards with an overall value of R48 364 930 to suppliers in which other state officials had an interest.
- The most common findings on uncompetitive and unfair procurement processes were as follows:
 - Three written quotations not invited - deviation not approved (68%)
 - Procurement from suppliers without SARS tax clearance certificate (64%)
 - No declaration of interest submitted by provider (57%)
- The most common findings on contract management were as follows:
 - Construction contracts not registered with the Construction Industry Development Board (CIDB) within 21 working days (29%)
 - Performance of contractors are not monitored on a monthly basis (25%)
 - Lack of or inadequate contract performance measures and monitoring at municipalities (18%)
- The most common findings on internal control deficiencies were as follows:
 - Lack of or inadequate record keeping at municipalities (58%)
 - The audit committee review of compliance with laws and regulations did not include supply chain management processes (43%)
 - Municipalities did not have adequate controls to ensure that interest is declared (43%).

Human resource management

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

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

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

We reported all the findings arising 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 a reduction since the prior year in the number of municipalities that had audit findings on human resource management. Findings arising from the assessment of human resource management were reported in the management reports of 25 (89%) municipalities, while at 21 (75%) municipalities the findings were material enough to warrant reporting in the auditor's report. This is an improvement since the prior year when only one municipality had no findings on human resource management compared to three in the current year.

The most prevalent findings on human resource management were as follows:

- No signed performance agreements in place for senior managers and municipal managers (43%)
- Competencies of key financial reporting personnel were inadequate (36%)
- Senior managers acted in positions for more than three months (36%)
- Employees received overtime pay for more than the maximum hours allocated (36%)
- Written authorisation not provided in advance for overtime to be worked (36%)
- Job descriptions did not exist for each post or group of posts (32%)

Figure 8: Vacancies in key positions

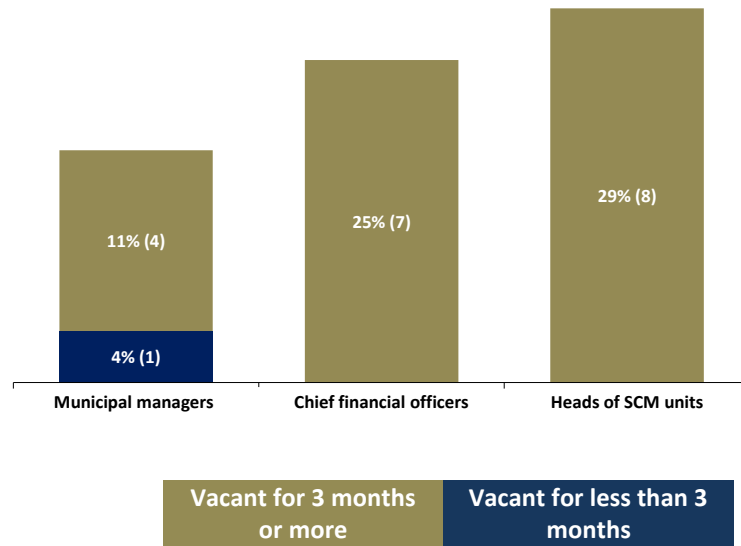


Figure 9: Stability in key positions (average number of months in position)

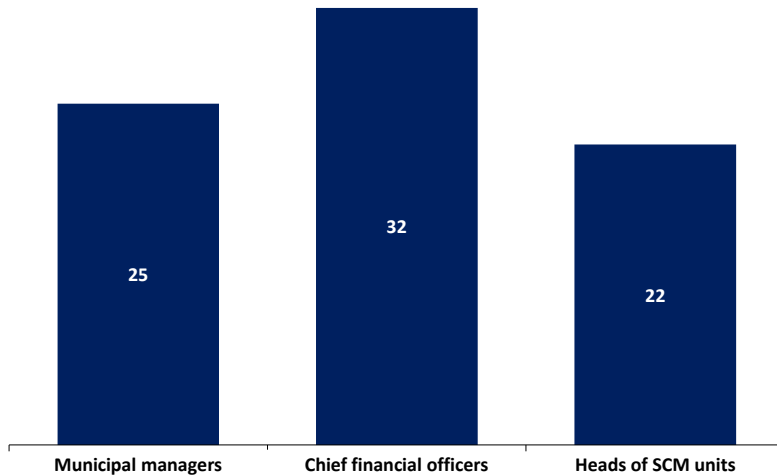


Figure 8 shows the number of municipalities where the positions of municipal manager, chief financial officer and head of the supply chain management unit were vacant at year-end and also indicates the period during which the positions had been vacant. Figure 9 shows the average number of months that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

Five municipalities had a vacancy at municipal manager level at year-end. In terms of chief financial officers there was a vacancy at seven municipalities, while a vacancy in the position of head of the supply chain management unit was identified at eight municipalities.

As shown in figure 9, the chief financial officer position is more stable than the municipal manager position in the province. Figure 9 further indicates that the head of Supply Chain Management was identified as the most unstable position in the province and this instability contributed to the significant number of supply chain management deficiencies reported. It must be noted, however, that only 16 of the 28 municipalities had established head of supply chain management positions.

The most common findings on the management of vacancies and acting positions were that senior managers acted in positions for more than three months and that the overall vacancy rate increased since the prior year.

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

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

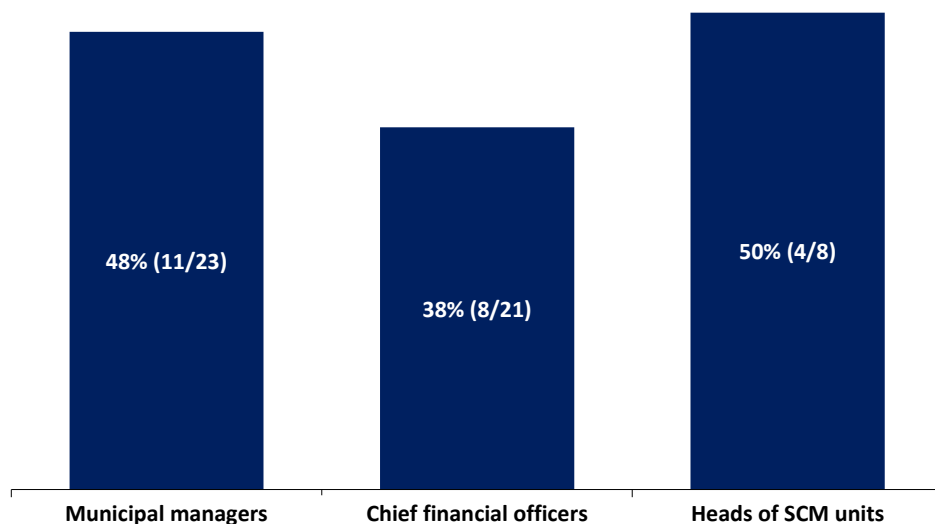


Figure 10 shows the percentage and number of municipalities where key officials in filled positions at year-end did not meet the competency levels defined in the regulations.

Eleven (48%) of the 23 municipalities where the position of municipal manager had been filled did not have municipal managers who met the required competencies. At the chief financial officer level, eight (38%) of the 21 chief financial officer positions filled did not have the required competencies, while of the eight (29%) positions filled for heads of supply chain management, four did not meet the required competencies.

Where competencies were not met in these three positions it was due to the required qualifications not being obtained and/or the key competencies not being achieved. Only two of the 28 municipalities reported on did not apply for extension for the achievement of minimum competencies. This is of concern and indicates that numerous senior municipal officials in the province do not have the required competencies because the Northern Cape struggles to attract skills to the rural areas. Municipalities in these areas cannot afford to pay the salaries offered by municipalities in the urban areas. This supports the significant root cause of key officials lacking competencies as highlighted in the root cause

section of this report. Although extension was obtained, we still reported on the fact that the minimum competencies had not yet been achieved.

The most common finding on the competencies of key officials was the inadequate competencies of key personnel responsible for financial reporting and compliance.

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

At 30% of the municipalities, senior managers did not have performance contracts or contracts had not been signed in time. In addition, 35% of the municipal managers did not have performance contracts.

It was further noted that at six (21%) municipalities a performance management system was not in place for employees other than senior managers.

Legislation prescribes how financial misconduct, improper conduct in the supply chain management processes as well as unauthorised, irregular or fruitless and wasteful expenditure should be dealt with through an investigative and disciplinary process, with possible sanctions and criminal proceedings. It is evident from the findings reported that there continues to be a lack of consequences at some municipalities for failure to investigate irregular, fruitless and wasteful and unauthorised expenditure. The purpose of these investigations should be to determine whether any person was liable for this expenditure.

Effective use of consultants

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

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

	Financial	Performance
Municipal officials lacked the required skills	52%	40%
Positions were vacant	9%	0%
Combination of lack of skills and vacancies	39%	60%

The cost of consultants assisting with financial reporting was R38 million (2011-12: R19 million). The cost of consultants assisting with performance information

was R7 million (2011-12: R1 million). All these costs were funded from the municipalities' own financial resources.

Figure 11: Audit outcomes of municipalities assisted by consultants

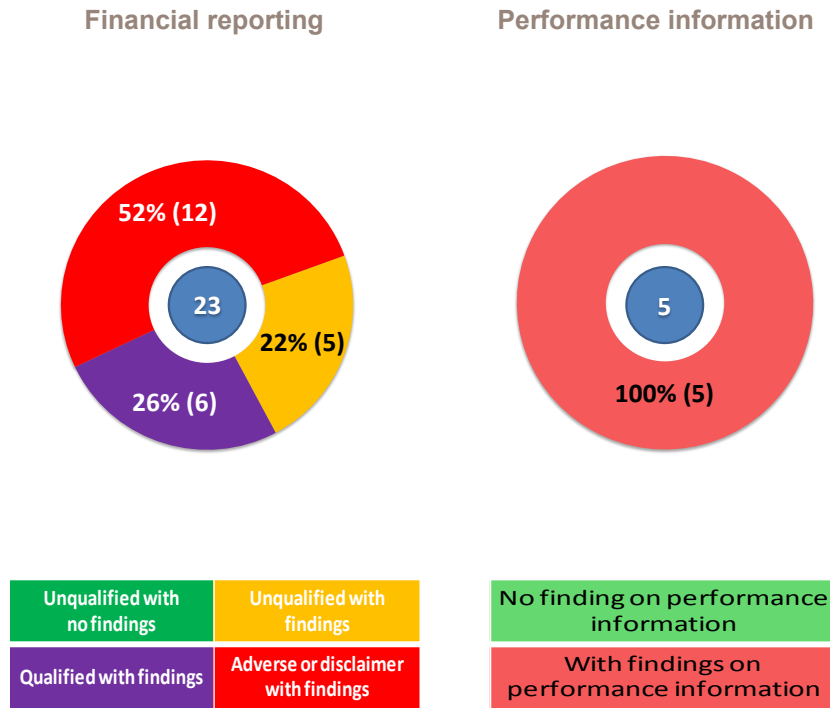


Figure 12: Reasons for material misstatements – financial reporting

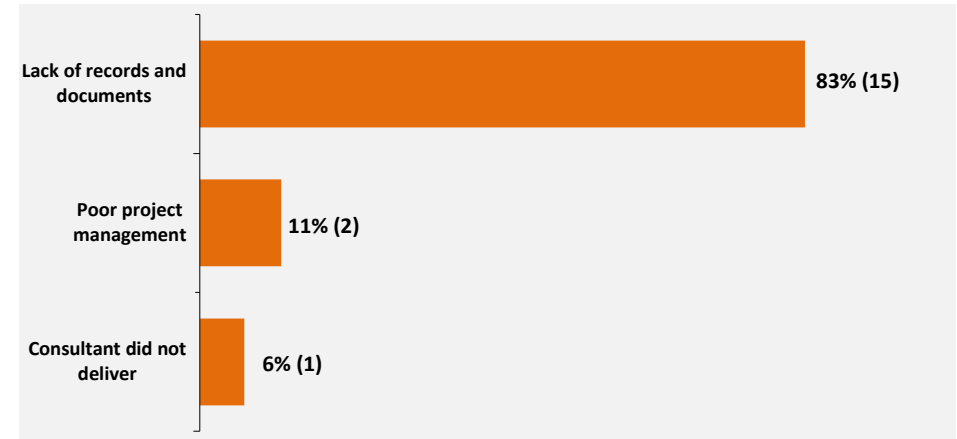
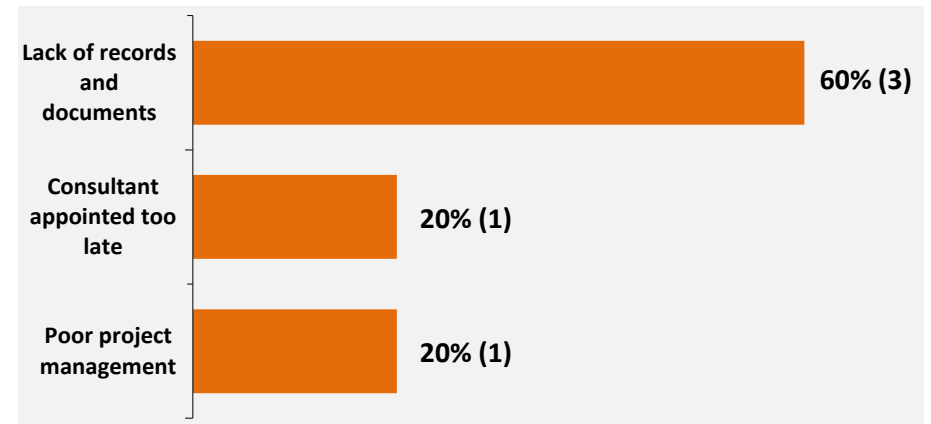


Figure 13: Reasons for material findings – performance information



Lack of records and documents provided by municipalities to consultants is still a big concern in the province. Although consultants are appointed, material misstatements in the financial statements and performance information will remain a problem if municipalities do not provide them with sufficient records and documentation. The proper management of consultants is also a key factor in ensuring value for money spent on consultants. Proper communication between the municipality and the consultant and the review/discussion of the work performed by the consultant are critical.

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

- Measures to monitor contract performance and delivery are not defined and/or implemented.
- Lack of skills transfer from the consultants to the officials of the municipality.
- Consultants are appointed without any terms of reference.
- Appointments of consultants do not comply with the prescribed procurement processes.

We also noted that in some instances where consultants seek to transfer skills this is hampered by employees who do not have the competencies or ability to work on their own. This results in reappointment of consultants. The appointment of consultants, however, is not the solution for the dire situation in the Northern Cape. Municipalities should rather concentrate on the implementation of daily disciplines and controls.

The role that provincial treasury and CoGHSTA play regarding consultants was very limited (appointed consultants to assist some struggling municipalities in the prior year) and it would be advisable for these bodies to start playing a more central role in the appointment and management of 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 therefore essential that good information technology governance, effective information technology management and a secure information technology infrastructure should 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 service continuity.

Figure 1 shows that little improvement had been made since the previous year. Sixty-eight per cent of the municipalities are still struggling with the design of controls in all three focus areas, namely user access, security management and IT continuity, as they have not developed and approved policies and procedures that govern the management of the aforementioned control areas. Generally, only minor improvements have been achieved in the status of information technology controls. However, at three municipalities, namely the ZF Mgcawu District Municipality, Sol Plaatje Local Municipality and Frances Baard District Municipality, more substantial improvements have been achieved.

Figure 14: Status of information technology controls

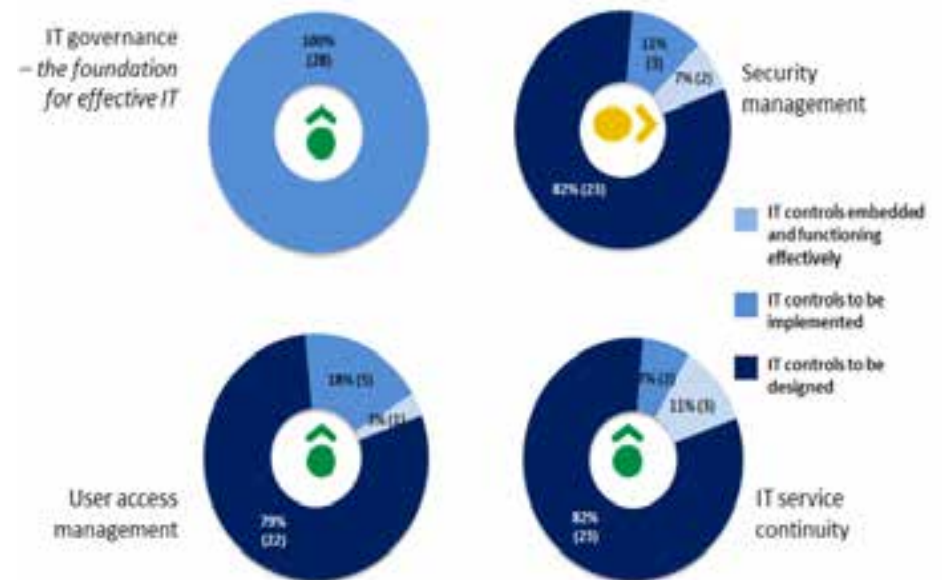


Figure 14 above indicates the status of the information technology controls in the areas we audited and the movement since the previous year. It shows the number of municipalities where the controls are either not in place (not designed) or not implemented, as well as those where the controls are functioning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

Effective **information technology governance** ensures that the organisation's information control environment functions well and enables service delivery. The information technology governance framework developed for government has not yet been implemented. All municipalities are, however, required to adopt and implement the information technology governance framework and guidelines for local government in phases over the next three financial years. In 2013-14 the implementation of phase 1 should be prioritised. A task team was established by the minister of Cooperative Governance and Traditional Affairs (CoGTA) to guide municipalities, among others, in the implementation of the governance framework. This process is driven in the Northern Cape by the office of the premier, while the provincial government information technology officer is responsible for the roll-out.

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

- **Security management**

Municipalities experienced challenges with the implementation of their security management policies and some municipalities had still not designed formal security policies.

Attempts were made at some municipalities to address the audit findings of the previous cycle by implementing informal controls. However, these attempts were found to be inadequate as security measures such as firewalls and passwords were insecurely configured.

- **User access management**

Seventy-nine per cent of municipalities still have not developed and formalised user access management policies and procedures. The lack of formal policies to structure the management of user accounts resulted in the access rights of former employees and consultants to the municipalities' information technology network and applications remaining active. System administrators also did not consistently execute their monitoring duties to ensure that users' access remained valid.

- **Information technology service continuity:**

Only two municipalities had formally approved backup management policies and procedures. At some of the municipalities, backup management policies had been drafted, but not adequately implemented. In these instances backups were inadequately performed and/or no tests were done to confirm that backups could be successfully restored and used in the event of a system disruption.

Management should prioritise the design and implementation of security management, user access management and information technology service continuity controls. This will mitigate the risk of unauthorised access to, and unavailability of information technology systems, as well as incompleteness of data in the event of major system disruptions or data loss. The following recommendations should be implemented by management to ensure improvement of the information technology environment within the Northern Cape local government:

- Municipal managers to provide “hands-on leadership” on information technology audit engagements.
- Municipal managers to include information technology findings in municipal action plans.

- Once developed, these action plans must be continuously monitored to ensure that remedial action is implemented.
- Prioritise key information technology matters to be addressed and ensure that they are included in each municipality's report issued by the AGSA.
- CoGHSTA should be capacitated to enable them to adequately support municipalities.
- District municipalities should provide support to local municipalities that are under-capacitated in terms of information technology skills.
- Executive management should ensure that service providers transfer skills to municipal officials to build capacity at municipalities.
- CoGHSTA, with PGITO, should facilitate knowledge sharing with municipal councils and management regarding the importance of information technology.

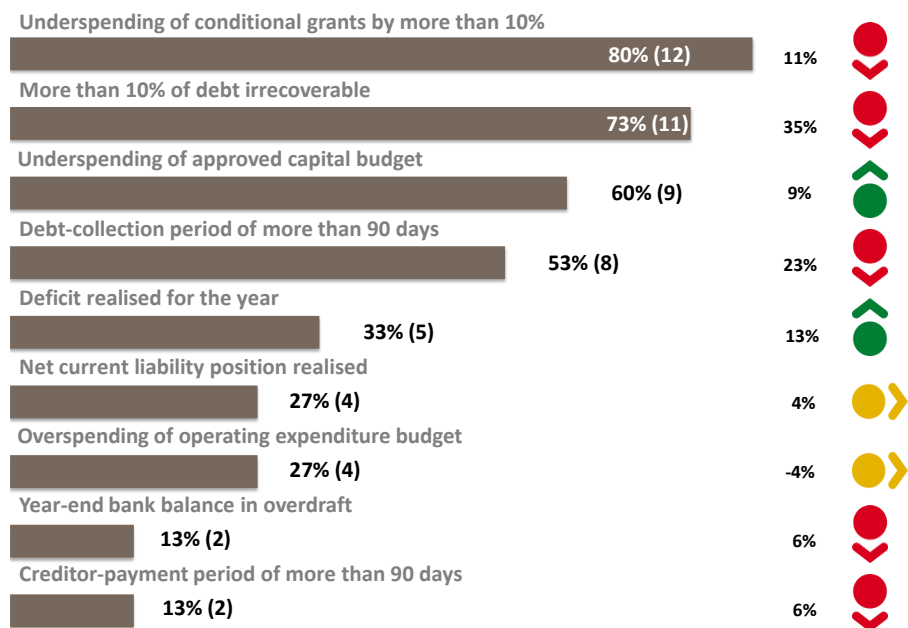
Financial health

Our audits included a high-level analysis of municipalities' 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 municipalities' 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 municipalities' ability to continue as a going concern.

Figure 1 indicates the number of municipalities that had more than two of the indicators shown in figure 15 below (with findings) and municipalities with material going concern uncertainties or disclaimed audit opinions (with material findings). There has been little improvement since the previous year in the number of municipalities that had findings on financial health.

Sixteen municipalities have material findings regarding financial health. Included in these 16 municipalities are the 13 municipalities with disclaimed audit opinions. The outcome remained stagnant when compared to the prior year. Only three municipalities had no findings on financial health.

Figure 15: Areas of financial health concerns



Note: All disclaimed audit opinions (13) and financial health indicators with limitations were excluded from the assessment made above as we could not rely on the information. The assessment therefore only includes findings in which limitations were not noted.

The high-level analysis of municipalities' financial health indicators shown above demonstrates that municipalities in the province are facing serious financial health risk issues. The regressions in debt collection and recoverability of debt are big concerns.

The most common financial health risk among municipalities is the underspending of conditional grants by more than 10%. This was reported at 12 (80%) of the 15 municipalities included in the analysis.

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

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

Figure 16: Status of drivers of key controls

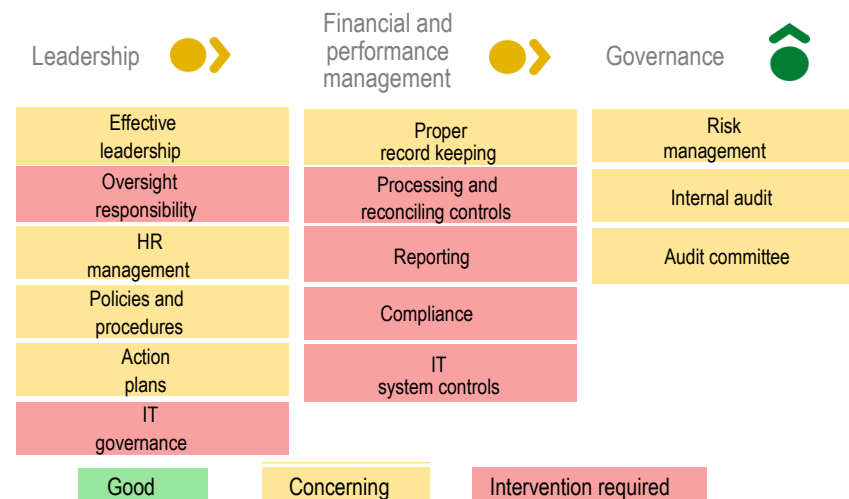


Figure 1 and figure 16 above show the status of the different areas of control and the overall movement since the previous year.

The governance area improved in respect of risk management activities and effectiveness of audit committees. As shown above, financial leadership showed no movement since the prior year and improvement is required in the areas of oversight responsibility and information technology governance. The financial and performance management area requires attention, with specific focus on implementing controls over daily and monthly processing and reconciling of transactions. Municipalities should also focus on preparing regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Further attention should be given to the review and monitoring of compliance with applicable laws and regulations.

Many municipalities did not receive a clean audit opinion as their financial and performance reports were of a poor quality and they had high levels of non-compliance with legislation. The most common root causes of the audit outcomes that need to be addressed, as shown in figure 1, and recommendations to address them are listed below:

Root causes:

- Key positions are vacant or key officials lack appropriate competencies (79%).
- Lack of consequences for poor performance and transgressions (79%).
- Slow response by the political leadership to address the root causes of poor audit outcomes (79%).

Recommendations:

Key positions are vacant or key officials lack appropriate competencies

- Recruit and retain suitably **qualified staff**.
- Ensure that key officials have the **minimum competencies** as required by the *Municipal regulations on minimum competency levels*.
- Ensure that **contracts with consultants** include the **transfer of skills** and that this is implemented at municipalities.

Lack of consequences for poor performance and transgressions

- The mayors and municipal managers should **hold staff accountable for work performed** and the related internal controls and incidents of non-compliance.
- **Accountability** for, and remedies to address transgressions and poor performance as per the MFMA should be fully implemented at municipalities.
- A proper **performance management system** should be implemented, with individual performance contracts for all staff linked to internal control drivers.

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

- Municipal councils, mayors and oversight committees should request **regular feedback on commitments** made and ensure that they are implemented.

The high occurrence of these root causes at municipalities across the province is a strong indicator of the political and administrative leadership's inability to effectively manage municipalities in the province. Leadership needs to take their

role far more seriously and work much harder in an effort to create a more accountable and effective local government in the Northern Cape.

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

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

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

Senior management

Senior management, which includes the chief financial officer, chief information officer and head of the supply chain management unit, provides assurance by implementing basic financial and performance controls.

The assurance provided by senior managers stagnated at municipalities, with only 18% able to provide assurance. It is still a concern that 36% provided some assurance and 42% provided limited to no assurance, which indicates why there was only a slight improvement in audit outcomes for the province. This can be attributed to senior managers not being held accountable for non-performance of duties they were responsible for and a number of them not having the required skills and competence to do what was necessary to provide the level of assurance required. The municipal manager as well as the mayor should make sure that an effective performance management system is in place to ensure that performance contracts are aligned to what the municipality needs to achieve. This will ensure that senior managers are held accountable and that they acquire the necessary skills and competence to perform these duties.

Municipal manager

Municipal managers are responsible for municipalities' internal controls, including leadership, planning, risk management as well as oversight and monitoring. While municipal managers depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that helps to improve such controls.

Municipal managers remained stagnant with regards to the level of assurance they provided to the municipality. This was evident in that 39% provided some

assurance and 32% provided limited to no assurance. This is attributed to the municipal managers not instilling the required disciplines as they hold a critical position in the municipality. The municipal manager should set the tone at the top and establish a culture of adhering to the disciplines within the municipality, whether daily, weekly or monthly. This will assist them in holding staff accountable for not following the example that they have set. It was noted that the municipal manager positions at 18% of municipalities were vacant. This issue needs to be addressed at an oversight level and will be further discussed where oversight by provincial departments is assessed.

Mayor

Mayors have a monitoring and oversight role at municipalities. 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 and ensuring that municipalities address the issues raised in the audit reports.

Mayors can bring about improvement in the audit outcomes of their municipalities by being actively involved in key governance matters and managing the performance of the municipal managers.

The mayors' level of assurance has remained stagnant for the year, which is evident in that 21% provided some assurance and 61% provided limited to no assurance. This low level of assurance can be attributed to the lack of involvement of the mayor in the drive to improve service delivery and thereby municipal audit outcomes. The mayor should be actively involved in the drive towards clean administration and improved service delivery by being informed on the status of issues and by holding the municipal managers accountable for what they are supposed to do. This should be done through continuous feedback requested from the municipal manager. The information provided by the municipal manager should be reviewed and the necessary questions asked to reassure the mayor with regard to the status of the municipality in improving their audit outcomes.

The above is currently not happening in the Northern Cape and most mayors are not fulfilling their responsibilities. Many mayors lack management and financial skills, which impacts negatively on the effectiveness of political leadership. While these issues are not being addressed, the role of mayor will remain a position providing limited audit assurance, without offering leadership and guidance in ensuring effective service delivery and oversight of the administration.

Internal audit

Internal audit units assist municipal managers in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation.

The assurance provided by internal audit has improved since the previous year. Four municipalities implemented effective internal audit units that provided the required assurance. Only two municipalities in the province reported that they had not established internal audit units.

The internal audit units at 79% of the municipalities are not adequate and effective. It was further noted that internal audit units are not adequately staffed and, where positions are filled, the officials lack the required skills. It is recommended that district municipalities implement effective shared internal audit units that can assist the local municipalities with proper oversight.

Audit committee

An audit committee is an independent body that advises the municipal council, mayor, municipal manager 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 municipal council on the adequacy, reliability and accuracy of financial reporting and information.

Audit committees have improved the assurance they provide since the previous year. Fully functional audit committees that provide assurance were implemented at five municipalities. It is, however, a concern that eight municipalities did not have audit committees in place.

Eighty per cent of the 20 municipalities where audit committees were established at year-end were not fully compliant with legislation. This led to 53% of audit committees established at municipalities not providing the required assurance. It is recommended that district municipalities assist local municipalities under their oversight by implementing fully functional shared audit committees for the district.

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

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

The provincial departments that have a direct role to play in supporting and monitoring local government, and so-doing provide a level of assurance, are the provincial treasury, the department of cooperative governance, human settlements and traditional affairs and the office of the premier. Our assessment

of the assurance provided by these departments is based on their initiatives to support and monitor local government and the impact they have had on improving the internal controls of municipalities.

The coordinating departments' support has regressed since the prior year due to a lack of coordination between the three departments. The operation clean audit committee in the province is ineffective and only met three times during the year under review.

The AGSA regularly follows up on the commitments made by the three coordinating departments, but often finds it difficult to obtain feedback from the relevant leaders, while the responsibility for providing feedback is often delegated to lower-level staff, which questions the commitment of leadership to ensure that the committee functions as intended.

The three departments need to define their roles and responsibilities in this oversight process and ensure proper coordination by working together more closely. Frequent meetings need to be arranged by the coordinating departments and the AGSA should be invited to these meetings. Coordinating departments need to take ownership of the effective functioning of this committee by tracking and updating commitments on a timely basis without intervention from the auditors.

It is recommended that the coordinating departments assess the vacancies at the levels of mayor, municipal manager, chief financial officer and head of Supply Chain Management and work with municipalities to ensure that these positions are promptly filled with competent individuals.

Municipal council and municipal public accounts committee

The municipal council is required to provide assurance through monitoring and oversight. This includes approving or overseeing certain transactions and events as well as investigating and acting on poor performance and transgressions, such as financial misconduct and unauthorised, irregular as well as fruitless and wasteful expenditure. This is an area where the oversight bodies are not taking their responsibility seriously.

The limited level of assurance provided by municipal councils can be attributed to the lack of oversight and involvement to improve municipal outcomes. Seventy-eight per cent of municipal councils provide limited to no assurance. Many municipal councillors do not understand the technical issues that municipalities face. The municipal council should be actively involved in the drive towards clean administration and service delivery. This should be done through continuous feedback and response to feedback requested from the mayor. Relevant questions need to be asked by the municipal council to provide reassurance on

the status of the municipality and to get a proper idea of the challenges the municipality is facing.

The municipal public accounts committee (MPAC) was introduced as a committee of the municipal 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 to the municipal council on the credibility and reliability of financial and performance reports, compliance with legislation as well as internal controls.

MPACs have not yet had the desired impact on audit outcomes and clean administration in local government due to members not understanding their roles and responsibilities in providing oversight at the various municipalities. Although MPACs had been established for the 28 municipalities reported on, none of the MPACs in the province have yet been fully effective and therefore provided limited to no assurance. Most MPACs did not meet as frequently as they were supposed to and were therefore not able to fulfil their intended role. My office in the Northern Cape has now embarked on the third round of training with the Standing Committee on Public Accounts (SCOPA) and South African Local Government Association (SALGA) to ensure that MPACs are equipped to perform their duties. Provincial oversight bodies should perform an assessment on the competencies of MPAC members to identify gaps that should be addressed. Members should be held accountable if they do not contribute positively towards improved audit outcomes.

All MPACs have been trained three times and we hope to see the fruit it bears in the next audit cycle.

Provincial legislature

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

The level of assurance provided by the legislature stagnated when compared to the prior year as the department does not have a unit that is properly capacitated and focuses on oversight in local government.

The SCOPA for local government visited some municipalities during the year, but these visits did not have any impact as is evident from the lack of improvement in the audit outcomes in the province.

It is recommended that more time and resources be invested in focused meetings with municipalities where resolutions are prepared and monitored

subsequent to these meetings. Non-adherence by municipalities should be referred to the speaker for follow-up and the speaker should intervene where municipalities are not responding to requests from SCOPA.

SCOPA has very little authority in the province at the moment and municipalities are not taking this committee seriously as problems raised by SCOPA are not addressed by municipalities. The result of this is that SCOPA is not having any impact to improve service delivery or audit outcomes.

District municipalities

There is a drastic need for district municipalities to improve their support to local municipalities given the number of disclaimer outcomes in the province. We do not assess the assurance provided by the district municipalities, but if they were to provide the necessary support to the local municipalities it should lead to further improved audit outcomes. The ZF Mgcawu district needs to share the good practices that enabled it to achieve a clean report with the municipalities within the district, all of which attained negative audit outcomes.

An example would be for the district municipalities to assist the struggling local municipalities to establish a fully functional audit committee and/or internal audit unit where the municipality does not have one in place. District municipalities should also ensure that the local municipalities share their knowledge and implement shared service functions.

It is important for district municipalities to become centres of excellence by providing support to local municipalities in their district. This support may be in the form of:

- shared internal audit and audit committee.
- procuring consultants to assist all municipalities on technical issues, for example the valuation of landfill sites.
- providing chief financial officers in the district with technical advice on issues like accounting, taxes, debtor and asset management.
- district-wide information technology support.
- appointing a technical specialist (engineer) to be shared by the municipalities in the district.

In the Northern Cape, internal audit and audit committees are a shared function of the district municipality in most instances, but we found that the quality and quantity of work performed by these two assurance providers at district level in most instances differed drastically from the work performed at local level.

This can be attributed to the fact that many local municipalities are not taking the role of internal audit and the audit committee seriously. In other instances the state of accounting records at local municipalities is such that the internal auditors are not able to perform their work effectively.

It should also be acknowledged that in some instances district municipalities are too focused on ensuring good audit outcomes for themselves and, in the process, neglect the local municipalities in their district. This was identified when the work performed by shared internal and audit committees was assessed.

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 municipal managers, mayors, municipal councils and municipal public accounts committees through our reports and interactions with them.

Figure 17: Interactions with mayors

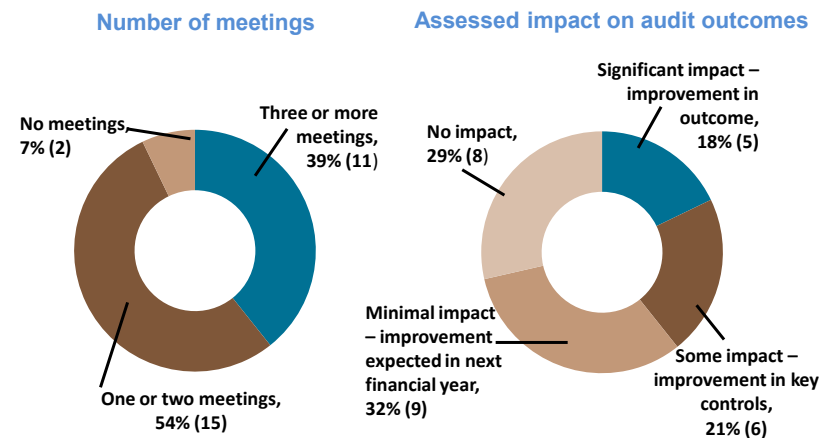


Figure 17 shows the number of meetings we had with mayors during 2012-13 and our assessment of the impact of these interactions. At 61% of municipalities two or fewer meetings were held with the mayor. This aligns well with the 61% of municipalities where interactions had a minimal or no impact. Key controls highlighted and discussions we had with mayors have not been taken seriously or been implemented, which resulted in the high number of modified opinions for the province.

Throughout the year, we obtain and monitor the commitments of mayors, municipal councils and municipal public accounts committees to implement initiatives that can improve audit outcomes. The progress made with such commitments in response to the previous year's audit outcomes and new

commitments are included in the section on the results of municipalities. In general, many of these commitments were not honoured and were either not implemented or are in the process of being implemented. A commitment that was made by many municipalities, and honoured in many instances, was to submit financial statements by the legislated deadline. Twenty-seven of the 32 municipalities in the province submitted their financial statements on time. Commitments that were in many instances not honoured are the following:

- Preparing and monitoring of action plans to prevent a repeat of prior year findings.
- Submitting an audit file to support the annual financial statements.
- Submitting an annual performance report for auditing.
- Addressing all the material non-compliance with laws and regulations paragraphs in the audit report.
- Submitting sufficient and appropriate audit evidence timeously during the audit to ensure that the municipality moves to a better audit outcome.

During our roadshow on audit outcomes, we also shared this message with the provincial legislature, the premier, the provincial treasury and the provincial department of cooperative governance. We furthermore confirmed the progress on the commitments made by these role players in response to the previous year's audit outcomes. An assessment of the prior year commitments indicates that in many instances these commitments were not fully implemented and therefore did not have the intended impact on the outcomes of municipalities. Oversight departments need to consider the commitments they are making to ensure that the actions they commit to will address the root causes of the issues that prevent municipalities from improving service delivery and achieving better audit outcomes. Departments need to assess their capacity before committing to actions that are not achievable.

The following key prior year commitments have not yet been implemented:

- Standing invitation to be extended to the AGSA leadership to provide inputs to the Premier Inter-Governmental Forum.
- The member of the executive council for CoGHSTA will be playing a leading role in *Operation clean audit* and the roles of CoGHSTA and the treasury will be synergised.
- District operation clean audit forums to be established to deal with issues pertaining to key controls, compliance and internal audit units.

The legislature undertook to track SCOPA resolutions through the office of the chair of chairs and feedback will be provided to the speaker on a quarterly basis. The legislature further committed to intensify its oversight of all departments and the following seven municipalities: Khara Hais, Frances Baard, Kareeberg, Sol Plaatje, John Taolo Gaetsewe, Renosterberg and Kamiesberg. This intervention

had been implemented too late to have an impact on outcomes during this reporting period.

The following new commitments were obtained:

- Treasury to perform oversight at municipalities on a monthly basis and escalate key issues to TROIKA on a quarterly basis.
- Premier to provide feedback on issues such as attendance by the AGSA at the Premier Inter-Governmental Forum and municipalities' long-outstanding audit fees.
- The legislature will request municipal councils to provide their oversight reports on a quarterly basis and assess whether or not intervention is required.
- CoGHSTA committed to provide hands-on support for the following municipalities in the form of assisting with clearing of audit queries: Renosterberg, Kamiesberg, Mier and Karoo Hoogland.

The level of attendance of key control meetings by mayors, the lack of impact thereof and political leadership and oversight's failure to make progress on commitments are indicative of a leadership group that is not prioritising clean administration and is not serious about transparent financial and performance management reporting, to the detriment of ordinary Northern Cape citizens. This mindset will not address the multitude of problems the province is battling with and will not create a better Northern Cape for the next generation.

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

- Ensuring that key vacancies are filled with appropriately skilled and experienced staff.
- The implementation of a record-keeping system to ensure that all supporting documentation is obtained and filed timeously. This will be supported by the development and maintenance of standard operating procedures for all financial components within a municipality.
- The appointment of an internal audit unit and the establishment of audit committees. Where these bodies are in place, the commitment relates to ensuring their effective functioning.
- Regular preparation and review of financial statements, including improving controls over the daily and monthly processing and reconciliation of transactions.
- Leadership should ensure the implementation of action plans in an attempt to address prior year audit findings.

- The appointment of compliance officers and an official responsible for predetermined objectives. Municipalities further committed to implement performance management systems.

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

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

Water and sanitation

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

As local government is responsible for providing water and sanitation services, this function lies with municipalities that have been classified as water services authorities. There are 23 water services authorities (local municipalities with audit outcomes finalised) in the province, all of which were audited.

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

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

- Municipalities need to achieve targets set for providing households with access to basic water and sanitation (65%).
- Access to basic water is not reported as a key performance indicator by municipalities (52%).
- Municipalities did not adopt a water services development plan (52%).

**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 on 13 February 2014.*

Roads infrastructure

In terms of the Constitution, the functions and powers with regard to roads lie with those municipalities classified as roads authorities. There were 23 roads authorities (local municipalities with audit outcomes finalised) in the province, all of which were audited.

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

We identified warning signals that could seriously impact on municipalities' ability to provide the people with proper roads. These need urgent attention to ensure that government's objectives relating to roads are achieved:

- Municipalities do not have a policy on roads and do not plan and budget effectively for the maintenance, upgrading and construction thereof (83%).
- The municipalities do not have a road asset management system to ensure the building, maintenance and upgrading of roads and monitoring thereof (57%).
- Municipalities do not have a plan to address and eliminate backlogs relating to roads infrastructure (48%).

These factors contribute to the financial challenges facing the Northern Cape municipalities, which will result in the situation deteriorating further into the future.

The warning signals highlighted in respect of the delivery of water and sanitation as well as roads infrastructure are symptoms of a weak control environment where there is a lack of reporting and accountability.

To address these weak control environments and improve service delivery, the provincial executive, councils, MPACs and municipal managers should focus on the levers required to create a well-functioning public service that delivers services to the public in accordance with its mandate. These levers include the following:

- Implementing **performance reporting systems** that are managed and led by competent personnel with strong technical skills.
- Preparing accurate and empowering **monthly performance reports** that enable audit committees, councils and MPACs to execute their oversight functions with diligence. Improved performance reporting will empower councils to make credible decisions, which in turn will create an environment that supports improved service delivery.

- Building **internal audit capacity** to enable the internal audit function to verify the credibility of all reports submitted to the audit committee, MPAC and council.
- Taking **corrective action** during the year when it becomes apparent that planned targets will not be achieved and enforcing consequences for poor performance where necessary.

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

AUDIT OUTCOMES OF INDIVIDUAL MUNICIPALITIES

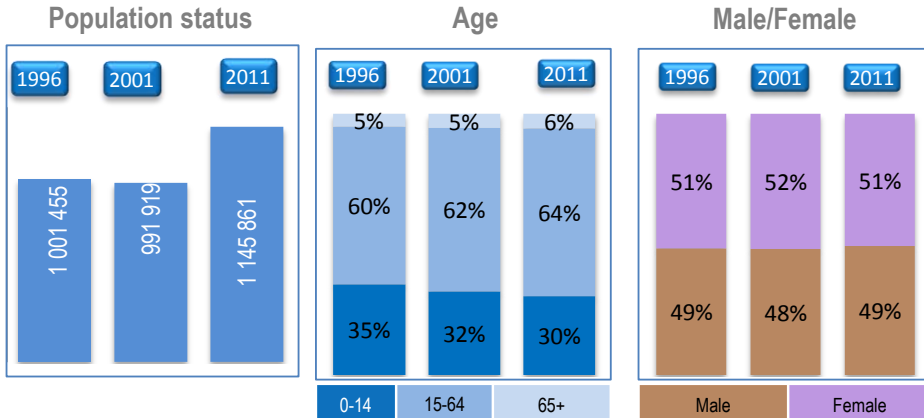
This section of the report is divided into two sections for each municipality which analyse the following:

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

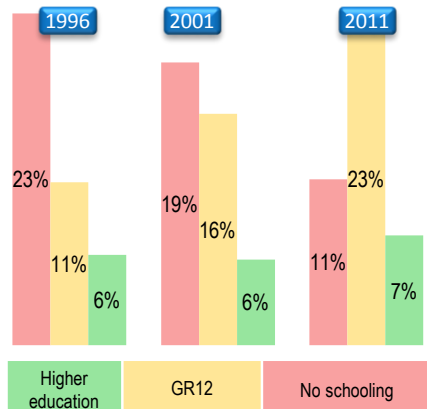
Provincial Northern Cape

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

Population

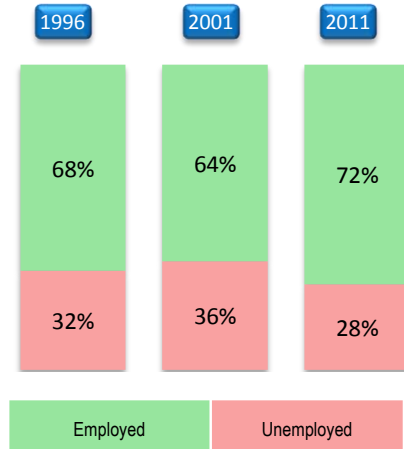


Education

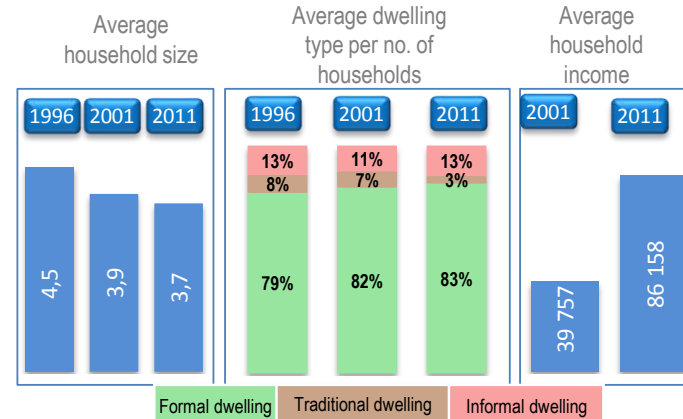


The statistics depicted above does not reflect those who only had partial primary or secondary schooling. The graphic therefore does not add to 100%.

Labour



Households

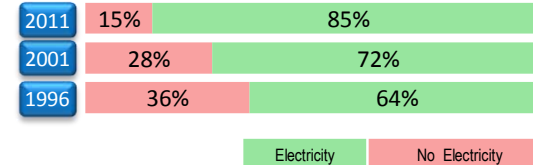


Basic services



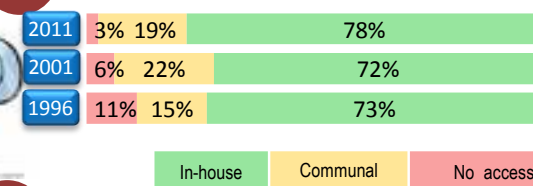
85%

Of the households have access to electricity



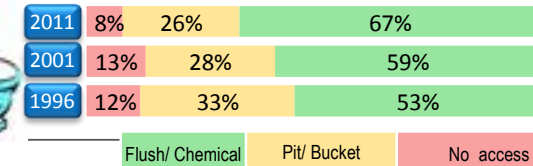
97%

Of the households have access to piped water

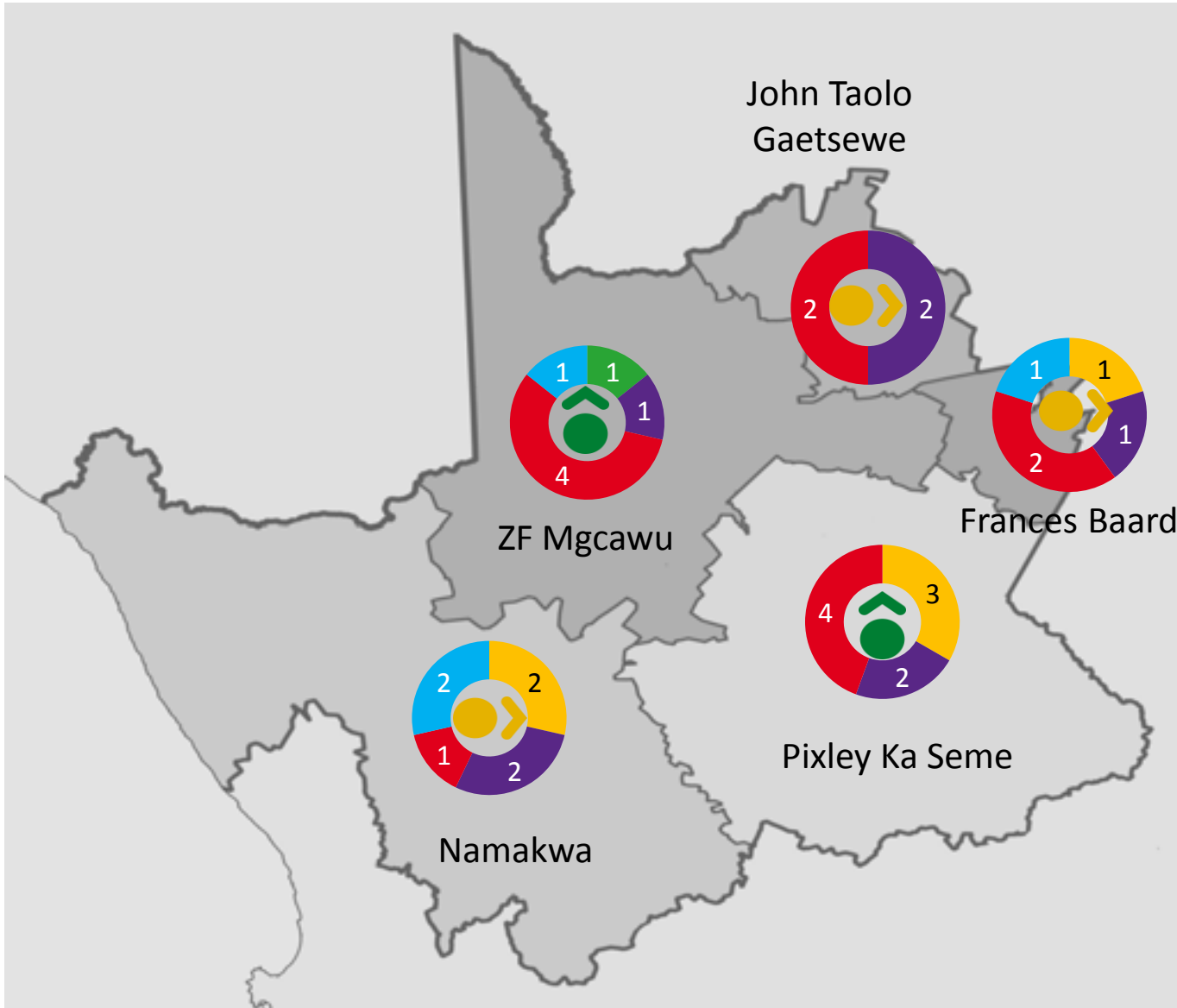


93%

Of the households have access to toilet facilities



Municipal audit outcomes per district

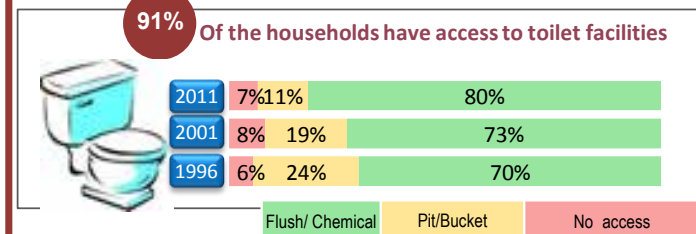
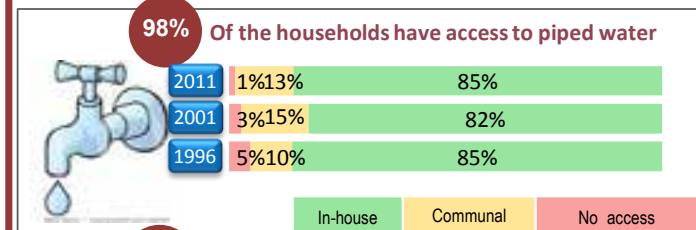
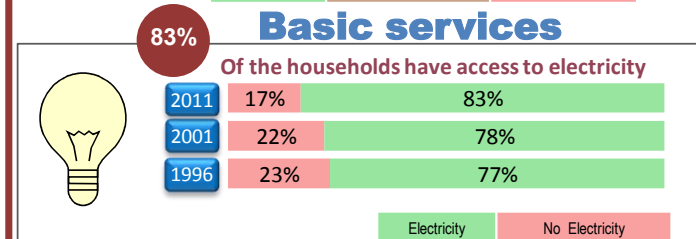
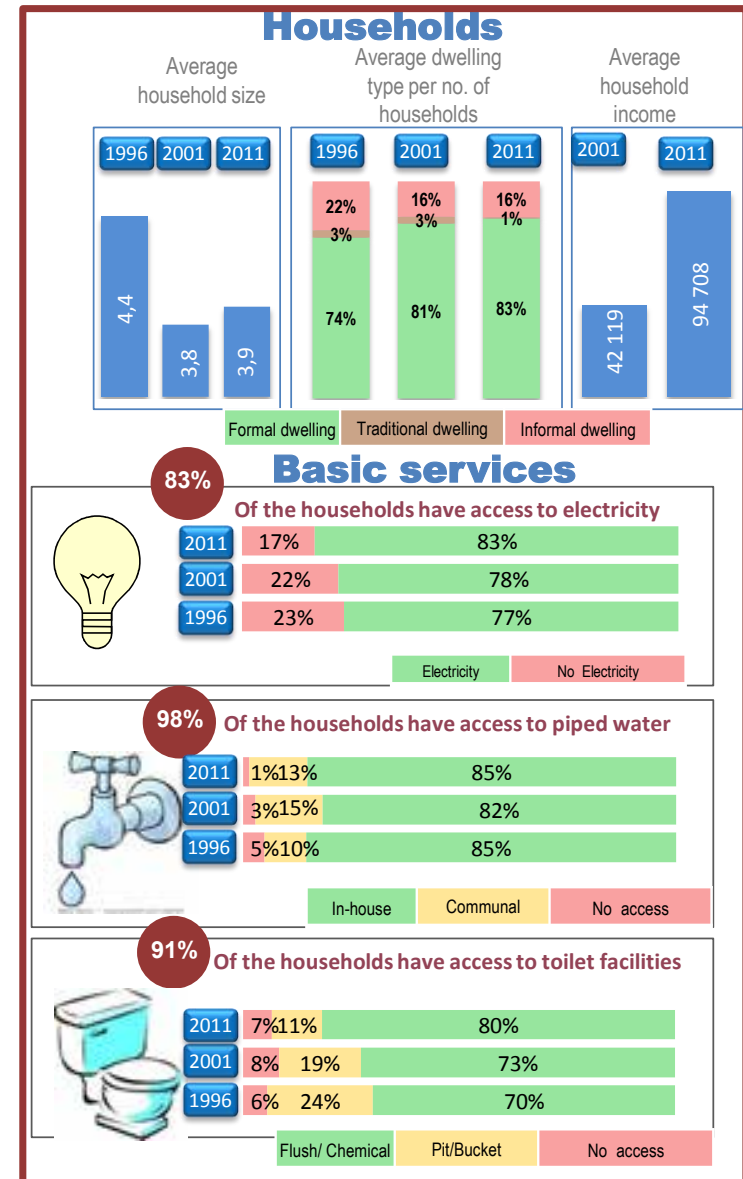
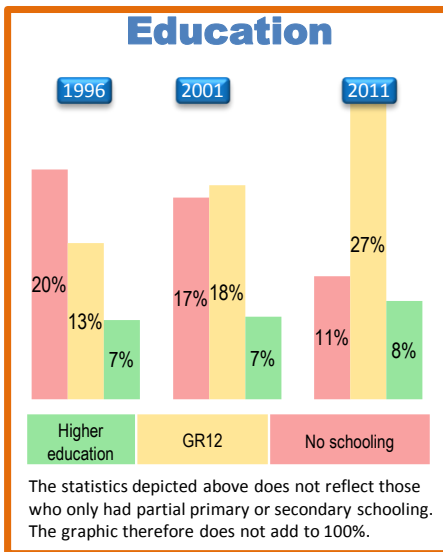
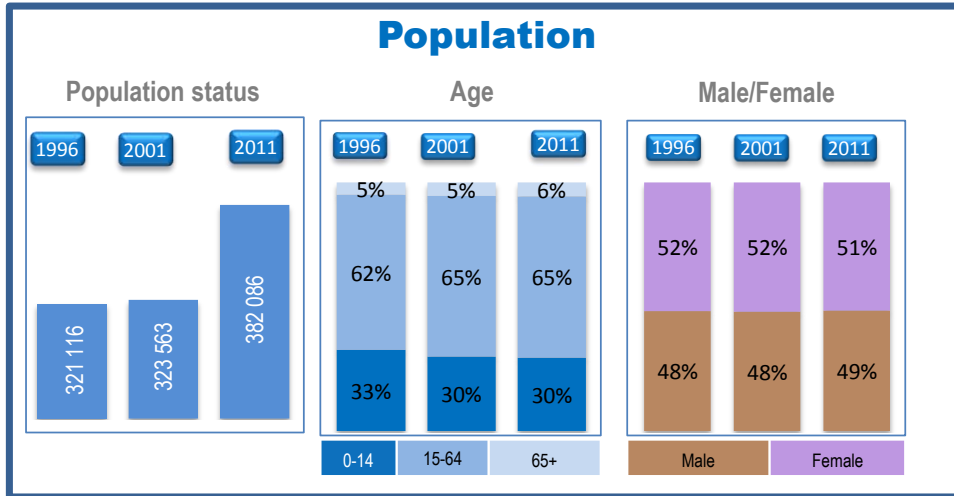


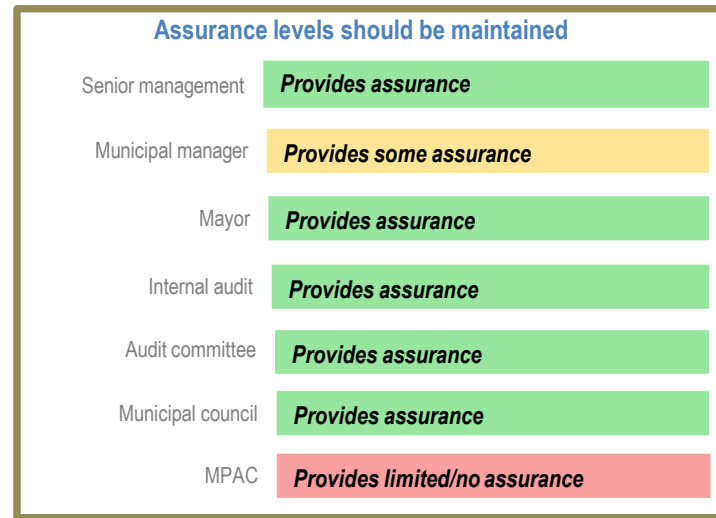
2012-13 MFMA

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

1.1 Frances Baard District Municipality

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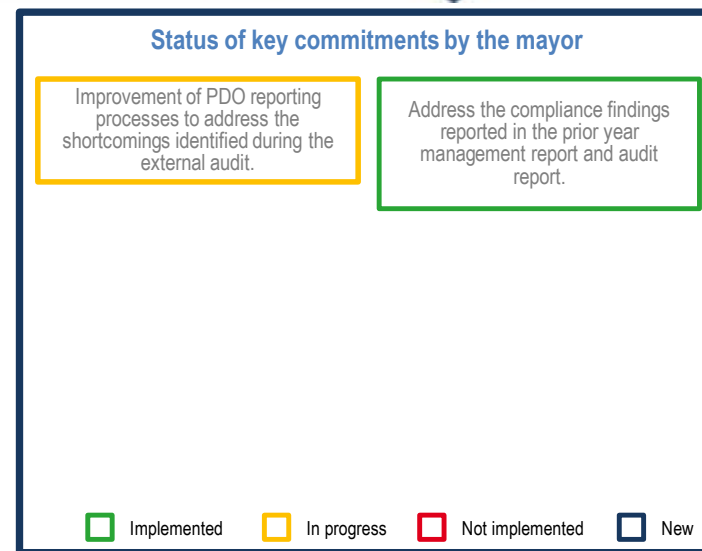
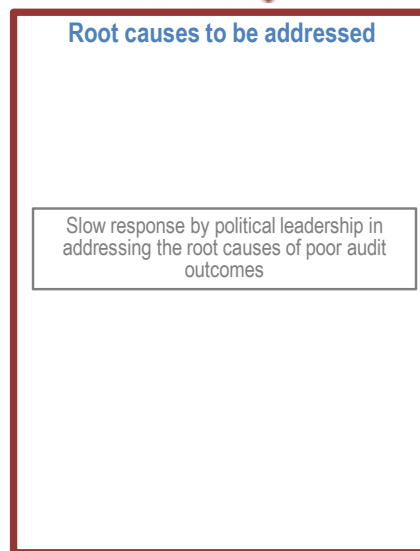
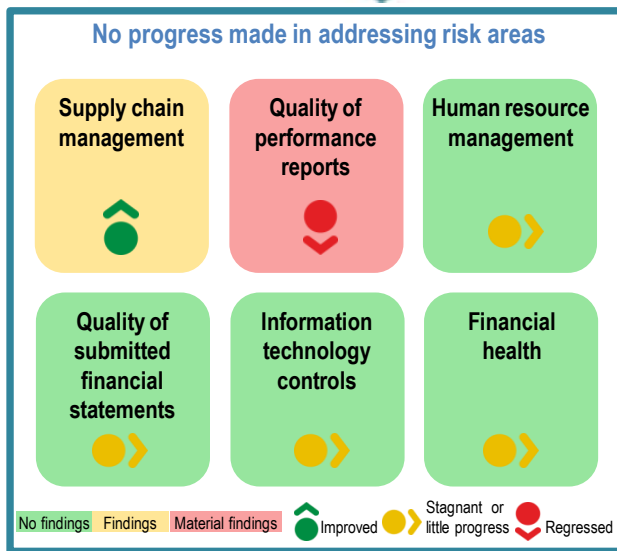




The current *audit outcomes* are the result of the attention given to the *six key risk areas*,

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*.



No change in audit outcome

The lack of improvement in the audit outcomes was caused by the municipality's failure to retain their unmodified status on reporting of predetermined objectives. The municipality, however, made progress in the area of compliance with legislation, while no material compliance findings were reported in the current year.

Six key risk areas

The most notable improvement relates to the area of supply chain management where no significant findings were raised. This can be attributed to a supply chain management unit that is properly managed. The assurance provided by the internal audit unit also contributed to the progress that was made.

The quality of the performance reports, however, deteriorated due to management's failure to properly apply policies and procedures for the collection, recording, processing, monitoring and reporting on predetermined objectives. This is evident from the fact that proper action was not taken to prevent the prior year predetermined objectives findings from recurring (immaterial findings reported in the management report in the previous year were not addressed, while the extent of these findings was more severe in the current year).

The improved status of compliance with legislation can be attributed to the fact that the audit action plan of the prior year was properly implemented and progress monitored throughout the year. Tasks were allocated to specific individuals and they were held accountable for the tasks allocated to them.

The areas of human resource (HR) management, quality of submitted financial statements, information technology (IT) and financial health remained unchanged with no findings.

Key controls and root causes

The overall lack of improvement in key controls was caused by management's failure to exercise adequate oversight of reporting on performance as well as inadequate maintenance and review of policies and procedures to ensure that regular, accurate and complete performance reports that are supported and evidenced by reliable information are prepared.

The following controls must be strengthened by the municipal manager and senior management to create a control environment that supports reliable financial and performance reporting:

- Exercise oversight of performance management by implementing and monitoring controls to address the weaknesses identified during the audit.
- Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.
- Prepare regular and credible performance reports.

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

- The development, monitoring and implementation of an action plan to address internal control deficiencies identified in the current and prior years. This action plan should focus on all management report findings, with more emphasis on the performance information findings that resulted in findings reported in the audit report.

Impact of key role players on audit outcomes

For improved audit outcomes the assurance levels should be maintained 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 during the financial year and these interactions had some impact on the audit outcomes. The reason for our assessment is the impact that the mayor had on some controls of the municipality as evident from the improvement in compliance with legislation (no material non-compliance reported in the current year) as well as the status and impact of the commitments previously given.

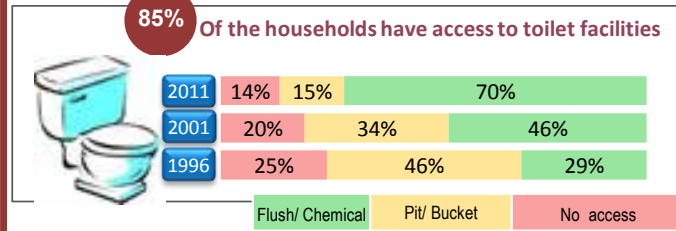
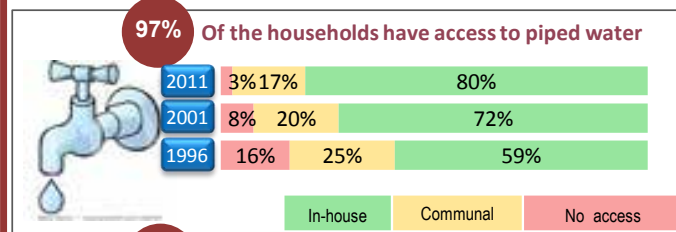
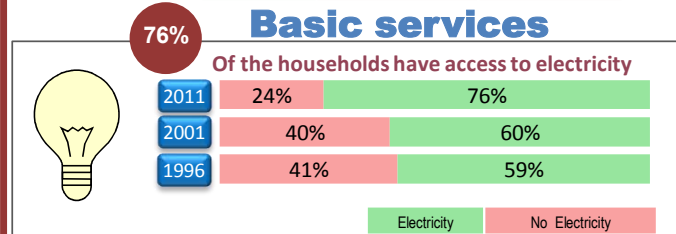
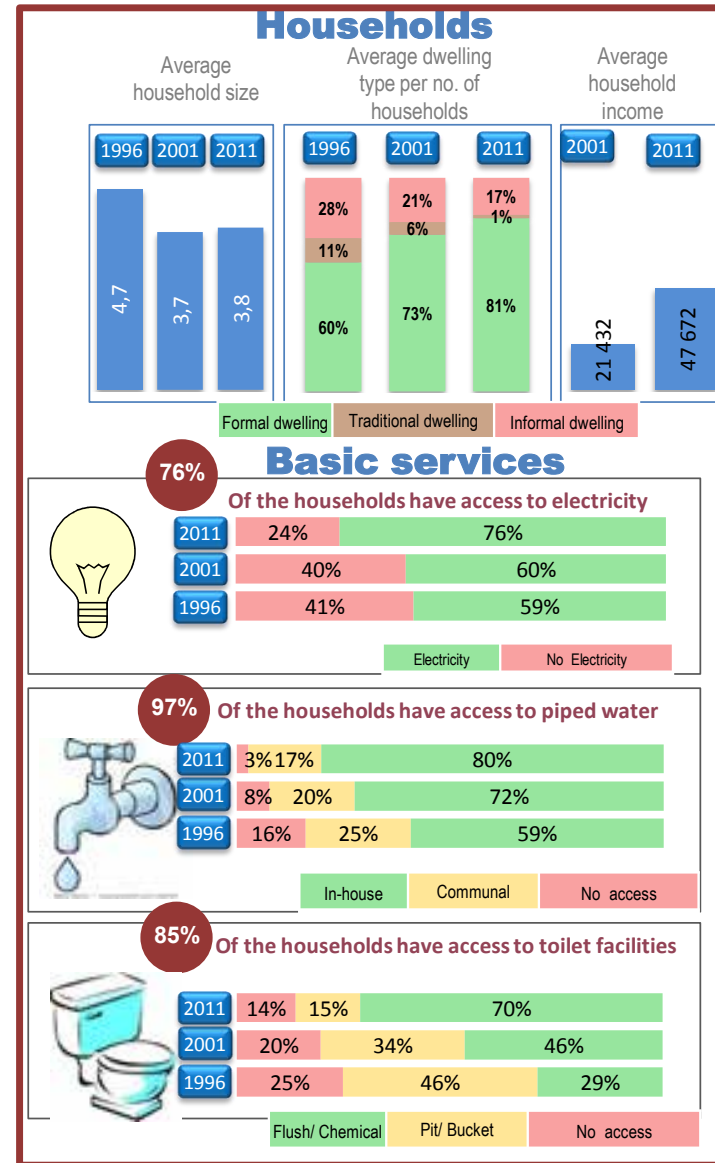
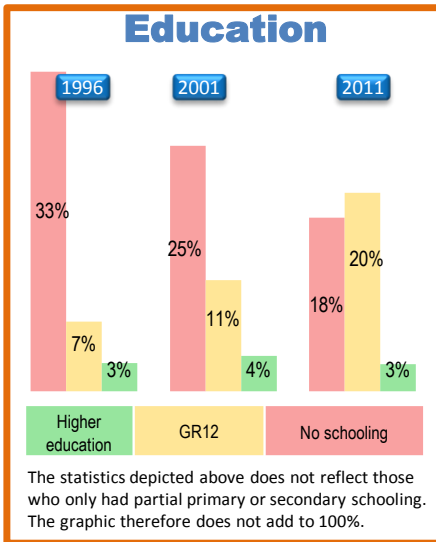
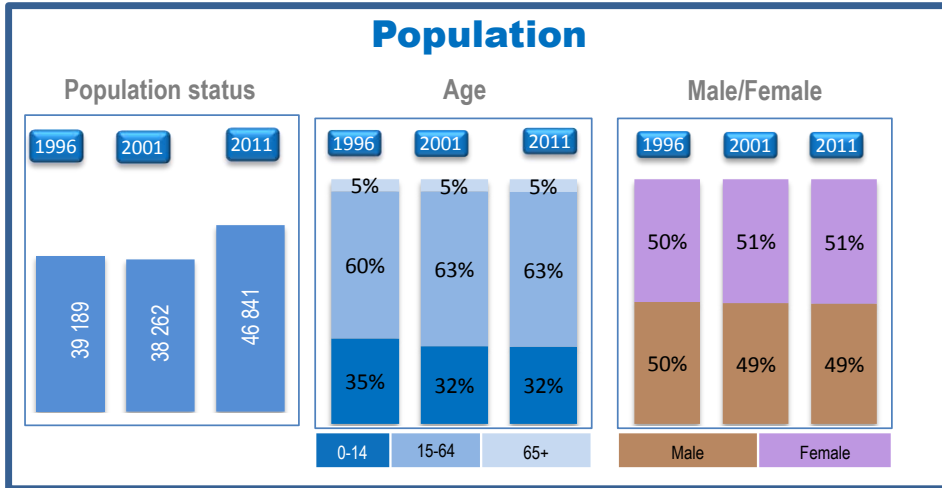
The leadership needs to be commended for implementing their prior year commitment to address non-compliance reported in the management report and audit report. However, management did not properly respond to the risks identified on predetermined objectives in the prior year. This resulted in a regression in the audit outcome on predetermined objectives. The leadership should investigate the reasons for this failure and hold accountable those staff members who were responsible for addressing these findings. Leadership also needs to ensure that this commitment is honoured in the current year.

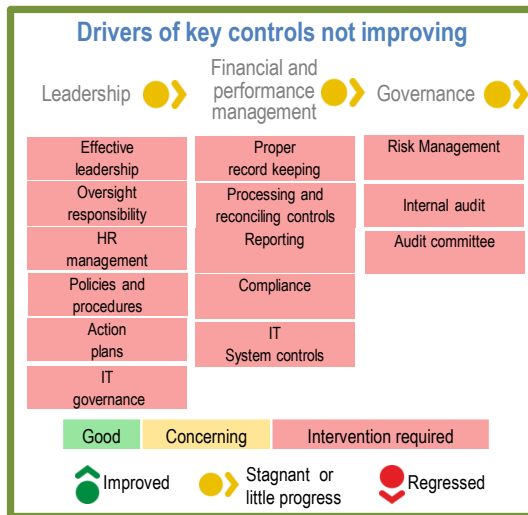
The internal audit unit and audit committee are shared functions within some municipalities in the district. It is of concern that these units are performing very well at district level, but are not fulfilling their mandate at the local municipalities in the district. This shows that the district municipality is not fulfilling its oversight role properly and leadership need to address this problem. The district municipality's oversight role is currently limited to the shared internal audit and audit committee

function. Their role needs to be expanded to ensure that the district municipality becomes a “centre of excellence” within the district.

1.2 Dikgatlong Local Municipality

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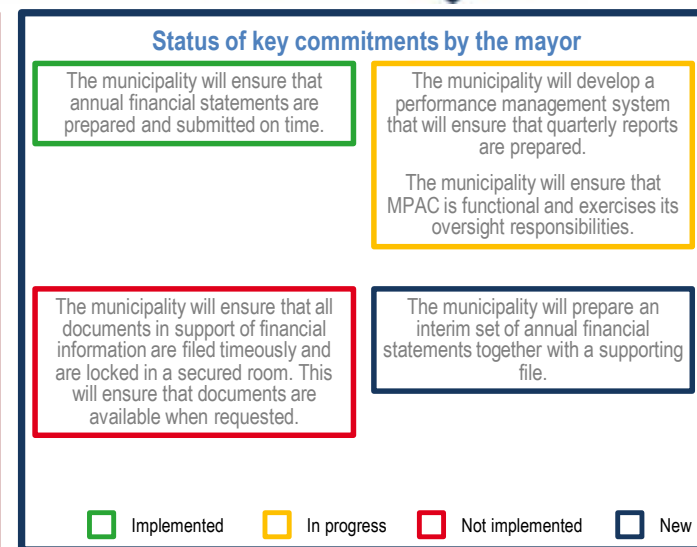
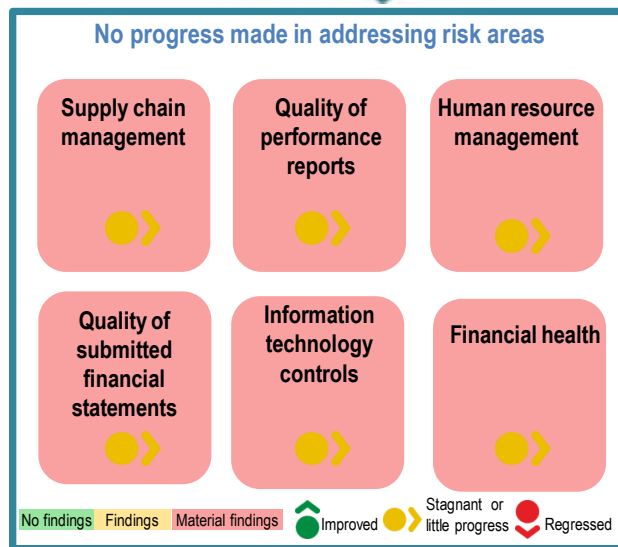




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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**.



No change in audit outcome

The lack of improvement in the audit outcomes was caused by the municipality's inability to provide sufficient supporting documentation for the financial statements and performance information. Furthermore, the municipality failed to prevent non-compliance with laws and regulations.

Six key risk areas

Overall, the six key risk areas have stagnated due to lack of progress made by the municipality in addressing prior year material audit findings.

There was no improvement in the annual performance report and the municipality should focus on the measurability of the performance information to address the significant audit findings on the usefulness of its performance report.

The limitations that were placed on the work of the auditors due to the unavailability of supporting documentation on key components impacted the financial health focus area to the extent that a proper evaluation of the municipality's financial health was not possible.

The financial statements, which were prepared by the deputy chief financial officer (CFO), were in general not of a good quality as various referencing note numbers in the financial statements did not agree with the note numbers and amounts to which they were referenced.

HR management was negatively impacted by vacancies within key management. Key positions that were vacant at year-end include that of senior manager (SM): Technical and manager: Performance Management.

The status of supply chain management remains unsatisfactory, because the municipality in many instances did not comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process.

Controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Key controls and root causes

The lack of improvement in the key controls was due to the leadership's failure to address weaknesses in the three key control areas, although management had been reminded of these weaknesses on a quarterly basis.

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

- Exercise oversight of financial and performance management.
- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, specifically in key positions such as that of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials is properly monitored.
- Ensure that adequate record keeping is implemented in a timely manner so that complete, relevant and accurate information is accessible and available.

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

- Vacancies in key positions (SM: Technical, manager: Performance and compliance officer) should be filled and an adequate training plan should be developed, implemented and monitored.
- There should be consequences for poor performance and contravention of policies and procedures. The municipality has a significant recurring problem relating to record management, but no action is taken against the responsible officials.
- The development, monitoring and implementation of action plans to address internal control deficiencies identified in the current and prior years

Impact of key role players on audit outcomes

The assurance levels should be improved by ensuring stability at the level of municipal manager and senior management. The work of internal audit and the audit committee will be more useful if the supporting documentation required by internal auditors is provided when requested and, in general, if the work of these units is taken more seriously.

We met with the mayor twice during the financial year, but these interactions had no impact on the audit outcomes. The reason for our assessment is the lack of impact the mayor had on the controls of the municipality.

The mayor undertook to ensure that the annual financial statements are prepared and submitted on time. This commitment was fully implemented. He further undertook to ensure that all documents in support of financial information are filed

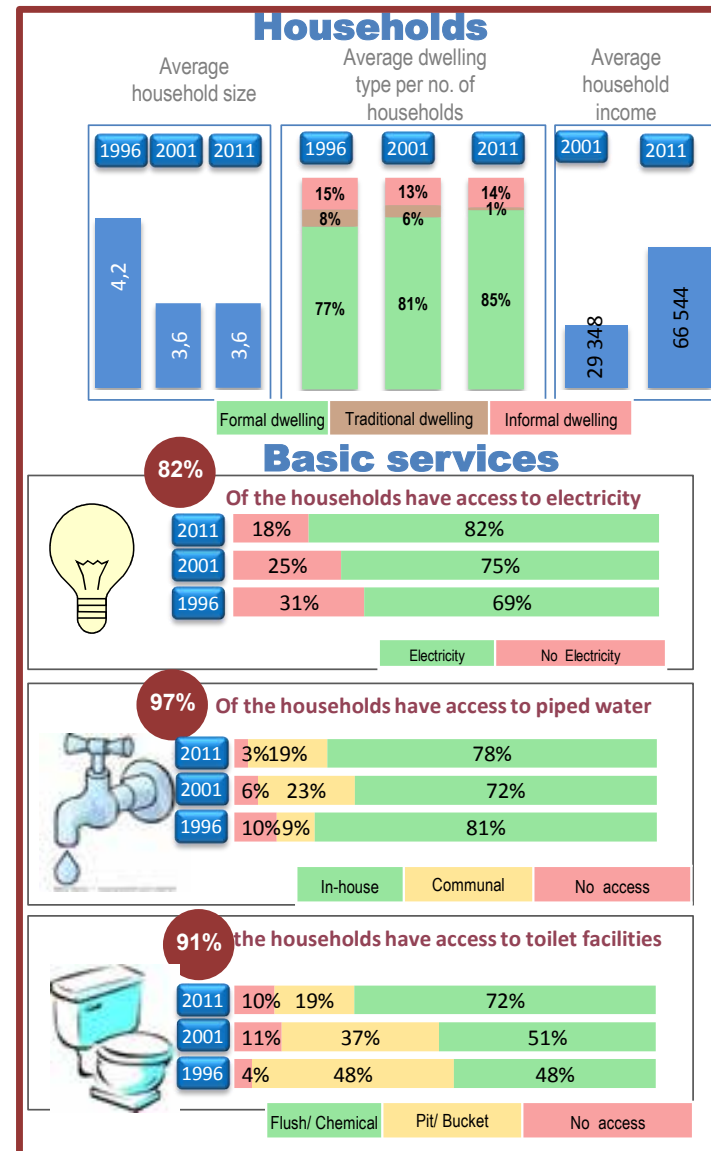
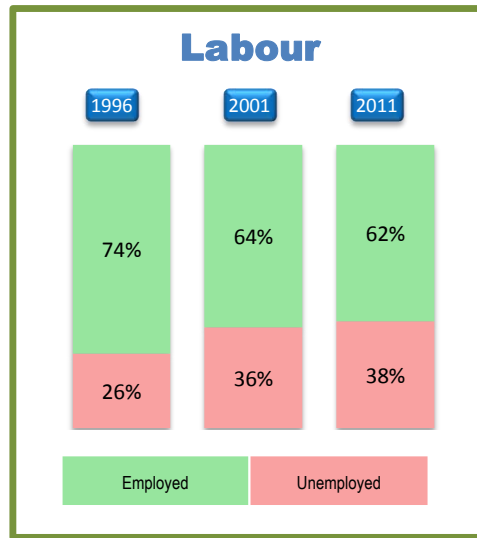
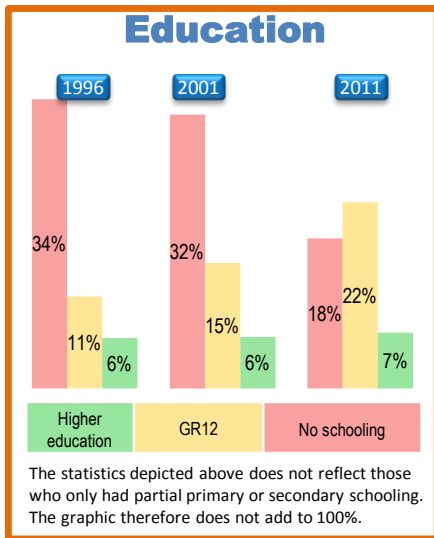
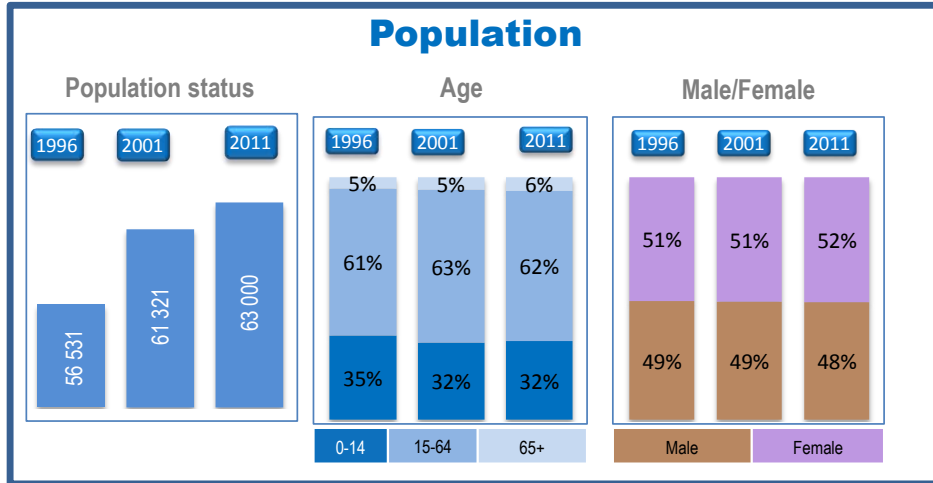
timeously and are locked up in a secure room, but this commitment was not implemented. The reason for this was a lack of processes to ensure that appropriate supporting documentation exists for all transactions entered into. These processes include the review of supporting information as well as consequence management in instances where officials do not perform as required. The prior year commitment to develop a performance management system that will ensure that quarterly reports are prepared and that the MPAC is functional and exercises its oversight responsibilities is still in the process of being implemented.

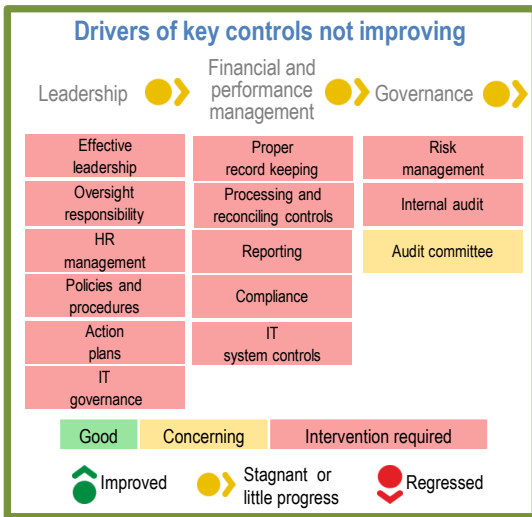
The mayor further undertook to prepare an interim set of financial statements together with a supporting file for the year ended 30 June 2014.

Management needs to put more effort into addressing prior year commitments. The prior year undertaking to ensure that supporting documentation is properly filed and stored is an important commitment, but judging from the audit outcome it is clear that this was not addressed. This is also an indication that leadership is not taking the messages from my office seriously, considering the recurrence of numerous scope limitation findings in the current year resulting in a disclaimer of audit opinion.

1.3 Phokwane Local Municipality

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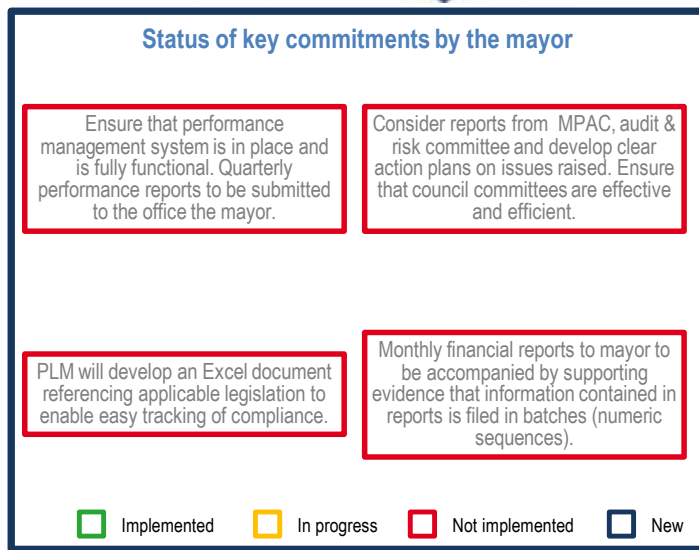
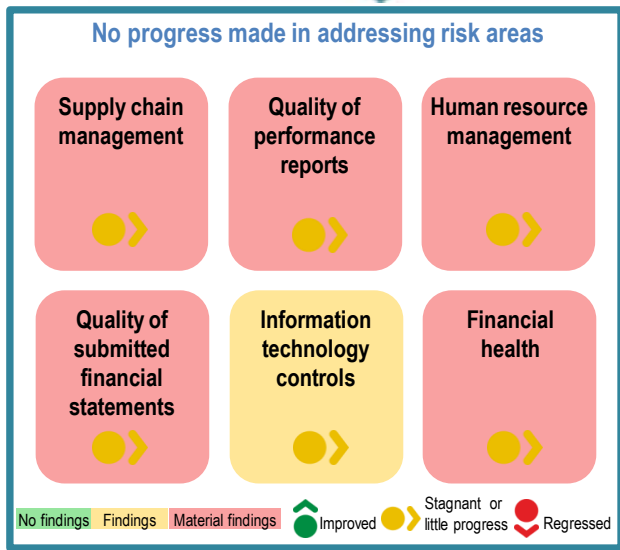




The current *audit outcomes* are the result of the attention given to the six key risk areas,

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*.



No change in audit outcome

The lack of improvement in the audit outcomes was due to the municipal leadership's inability to provide sufficient supporting documentation for the financial statements and performance information. Furthermore, the municipal manager could not prevent non-compliance with laws and regulations.

Six key risk areas

Overall, the six key risk areas stagnated due to lack progress made in addressing shortcomings relating to the key risk areas as highlighted in the prior year audit report.

The municipality did not report on their actual performance for the year under review as they do not have a proper performance management system in place.

The municipality made material amendments to the financial statements, but despite this, the final set of financial statements still contained material misstatements as reported in the audit report.

The limitations that were placed on the work of the auditors due to the unavailability of supporting documentation on key components impacted the financial health focus area to the extent that a proper evaluation of the municipality's financial health was not possible.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances did not comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process.

The status of HR management remains unsatisfactory, primarily because the municipality failed to comply with key legislative requirements relating to human resources. This includes the fact that job descriptions were not established for certain positions, while policies and procedures to monitor, measure and evaluate the performance of staff were not developed. The municipal manager and SMs also did not sign performance agreements.

Consultants were again engaged to assist with financial reporting (preparation of financial statements and update of the fixed asset register) at a cost of R3 553 856 (2012: R4 255 721). Our concerns relating to the continued assistance sought from consultants include the municipality's ineffective management, over-dependency on consultants as a result of unfilled vacancies and lack of competencies and transfer of skills resulting in continued dependence on consultants.

Key controls and root causes

The overall lack of improvement in key controls was due to the leadership's unwillingness to take ownership of improving audit outcomes.

The municipal manager and senior management should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight of financial and performance management and compliance and internal controls by tasking internal audit to perform work on areas where findings were raised in the past. Senior officials need to review the work performed by junior officials on a timely basis and consequences should follow where work performed is inadequate.
- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, specifically in key positions such as that of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored.
- Introduce policies and procedures that will ensure improved record management. These policies need to be implemented and monitored and the internal audit unit should assist in monitoring the effective implementation of such policies and procedures.

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

- Ensure that staff obtain the necessary qualifications and competencies as required by legislation
- Hold staff accountable for shortcomings identified during the internal and external audit processes.
- Develop and monitor an action plan to ensure that all the internal control deficiencies identified are addressed. The mayor should request feedback on a monthly basis.

Impact of key role players on audit outcomes

The internal audit unit and audit committee were not able to fulfil their responsibilities because their recommendations were not implemented by the municipality.

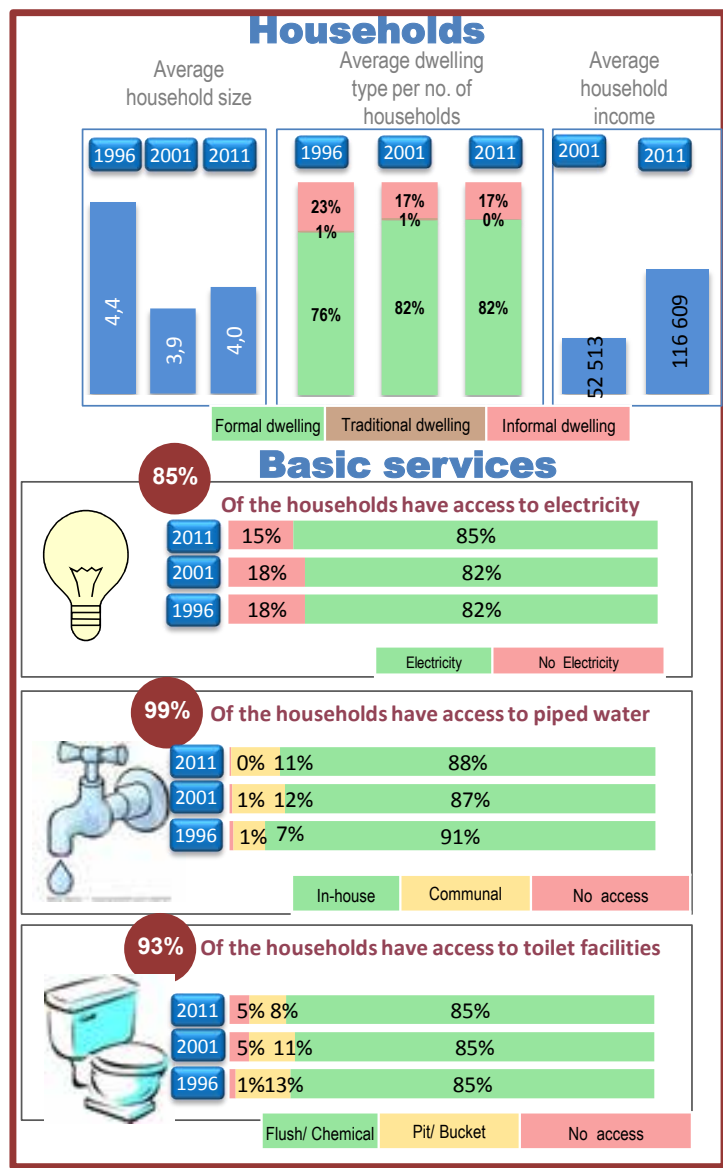
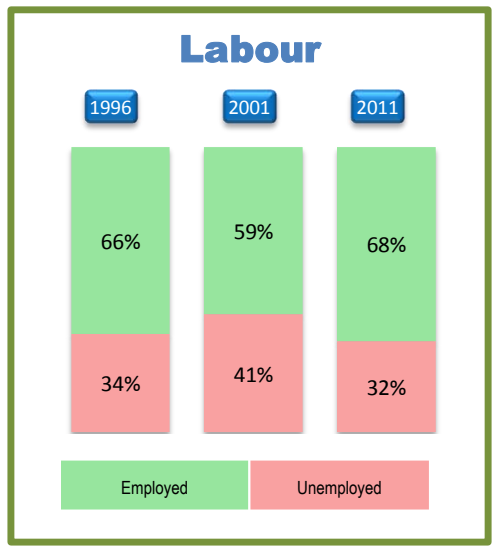
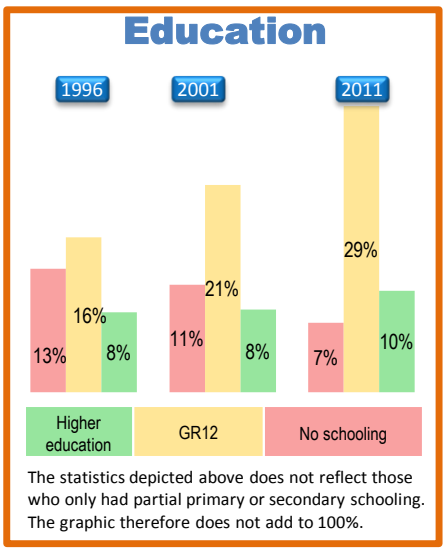
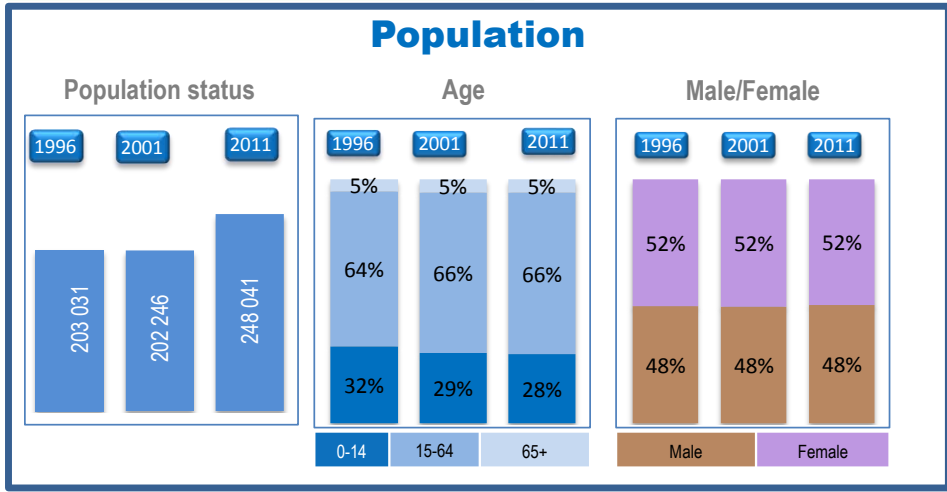
We met with the mayor twice during the financial year, but these interactions had no impact on the audit outcomes. The reason for our assessment is the lack of

impact that the mayor had on the controls of the municipality as well as the status and impact of the commitments previously given.

None of the commitments made by the mayor were implemented during the year and no new commitments were obtained from management. This is a clear indication that leadership is not serious about improving the situation at this municipality and if significant changes are not made, this municipality will not improve. The significant changes required for improvement can be summarised by the three key root causes and refer to the filling of key vacancies by appointing competent individuals, implementing consequences for poor performance and leadership taking the messages of my office seriously.

1.4 Sol Plaatje Local Municipality

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





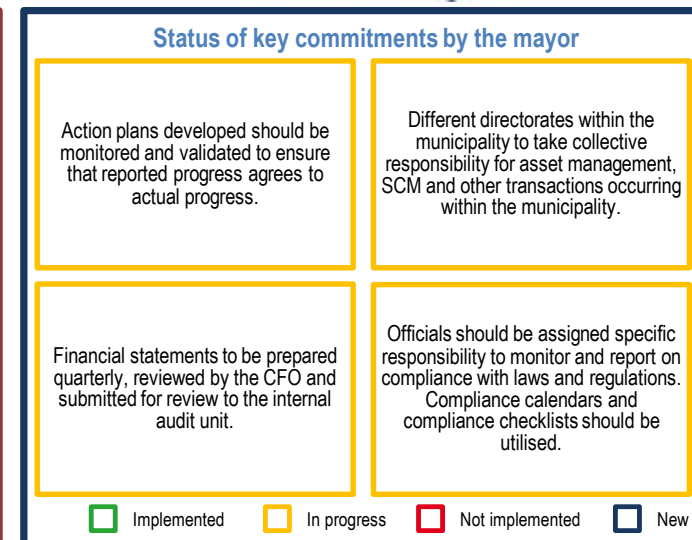
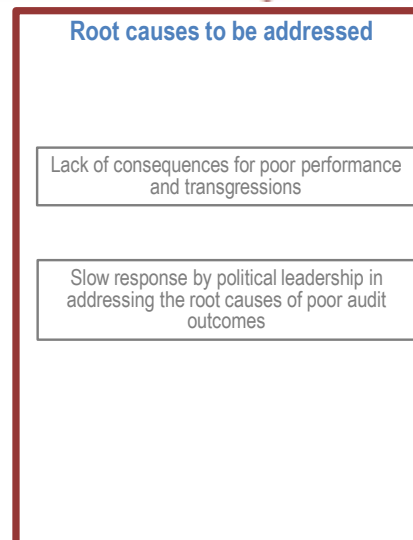
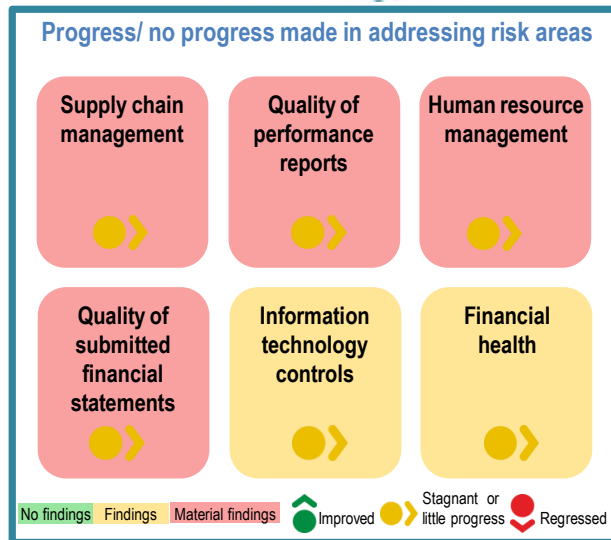
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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**.



No change in audit outcome

The municipality has addressed most of the previous year's qualifications with the exception of those on revenue and receivables. This has resulted in it retaining the qualified audit outcomes as well as the reported compliance findings. There has also been no improvement in the reliability of the annual performance report while the findings on usefulness of the report regressed.

Six key risk areas

Overall there has been a lack of improvement in the six key risk areas due to lack of progress made in appropriately addressing shortcomings relating to these key risk areas.

The quality of the annual performance report has not improved as material findings were raised on the reliability and usefulness of municipality's annual performance report.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances did not comply with the legislative requirement to obtain three quotations.

The financial statements, which were prepared without any assistance from consultants, required material amendments which resulted in stagnation in the quality of submitted financial statements.

No progress was made in addressing the risks pertaining to HR management as material findings were again reported in this area. Findings were raised in relation to senior managers who act for a period longer than three months, the lack of proper verification processes followed before appointment, and SM positions remaining vacant for a period longer than 12 months.

The focus area of financial health remains stagnant, with findings on underspending of conditional grants, poor debt collection and the fact that total expenditure exceeded total revenue.

Key controls and root causes

The lack of improvement in key controls was due to the municipality's failure to adequately address control weaknesses previously identified.

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

- Reconciliations (specifically relating to the revenue department) should be performed and reviewed regularly.
- Phase I of the IT governance framework, which supports the operations, delivers value and improves performance, should be established during 2014.
- A complete set of quarterly financial statements and quarterly performance reports should be prepared, reviewed and validated against supporting documentation to ensure reliability.
- Compliance with relevant laws and regulations should be regularly reviewed and monitored.

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

- Consequences for poor performance should be communicated to all staff and applied strictly.
- The audit action plan should be updated, implemented and monitored to ensure that prior year audit findings are addressed. The municipal manager needs to take responsibility for this process.

Impact of key role players on audit outcomes

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

We met with the mayor once during the financial year, but this interaction had a minimal impact on the audit outcomes. The reason for our assessment is the lack of impact that the mayor had on the controls of the municipality as well as the status and impact of the commitments previously given.

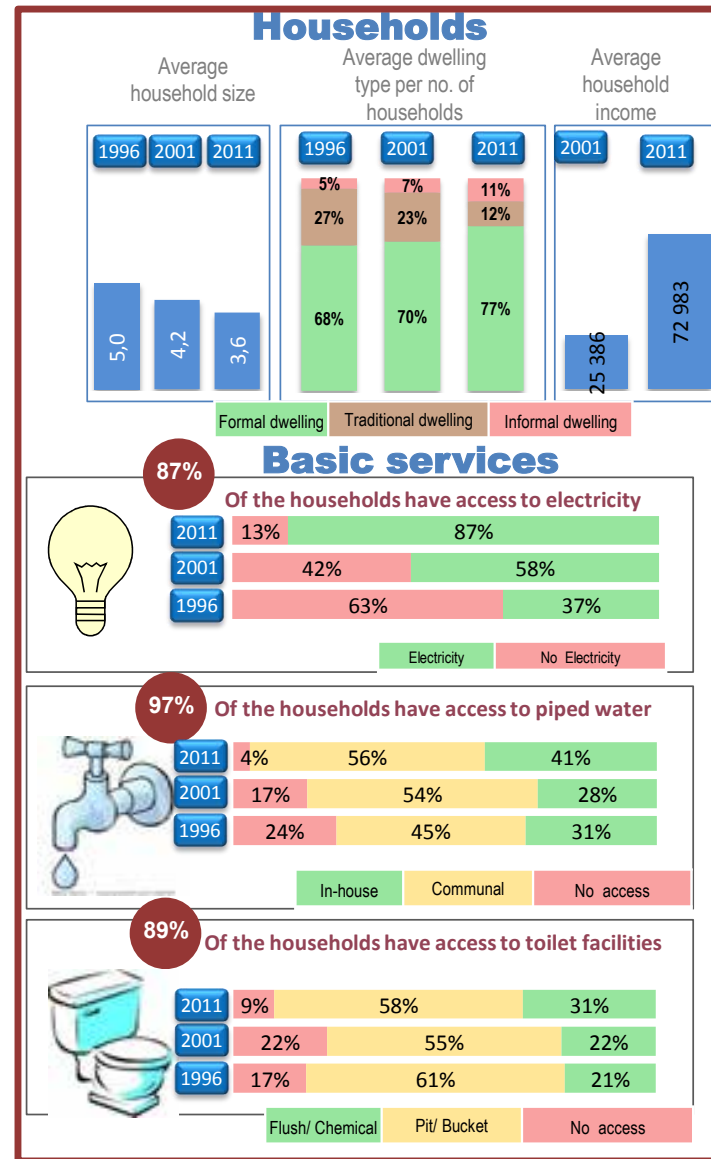
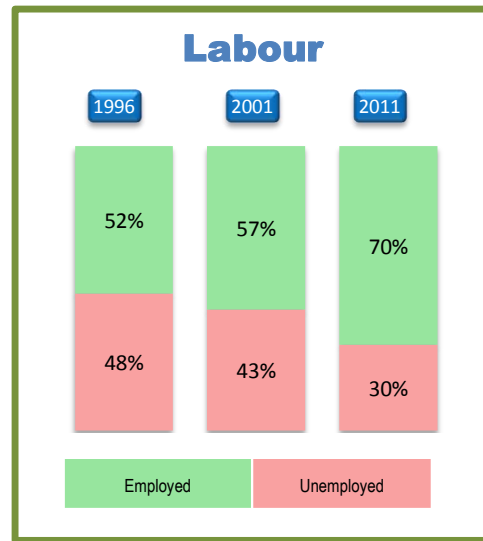
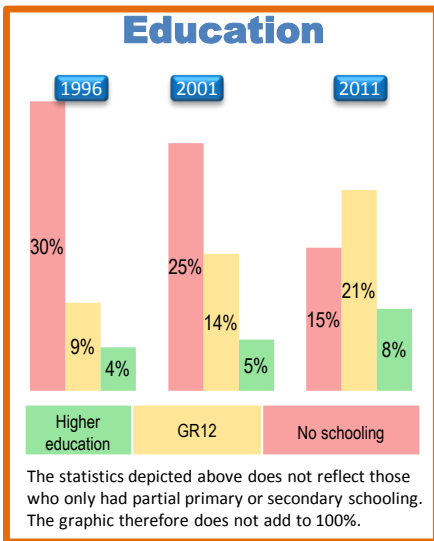
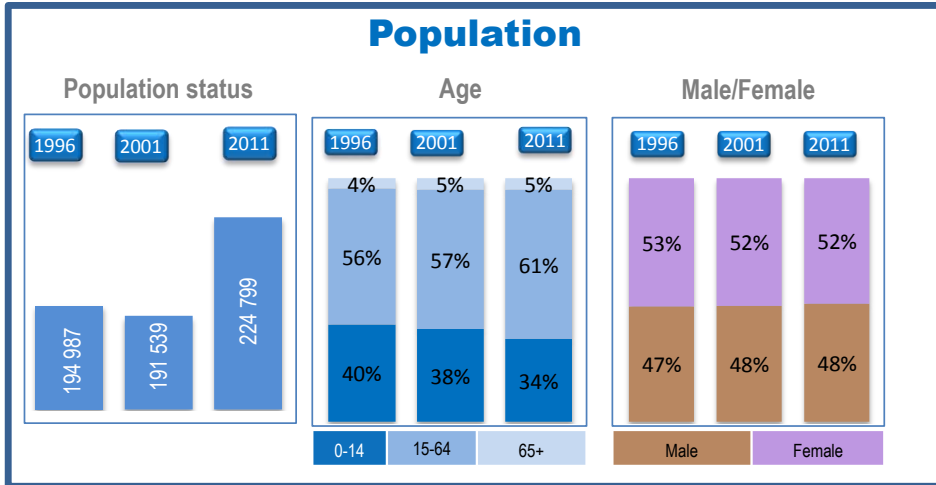
The municipal council undertook to fully implement the previous year's commitments but this was not done and all commitments are still in progress.

We need to acknowledge the efforts made by the municipal manager and CFO in addressing most prior year qualifications. This indicates the prior year audit findings were taken seriously and were significantly addressed by management during the year. The issues that gave rise to qualifications on the 2012-13 audit report now need to be attended to with the same vigour, which should result in an even more positive audit outcome in future.

An unqualified audit opinion is within the municipality's reach if the above commitments are honoured, with specific reference to the commitment to implement and properly monitor an action plan. Leadership needs to ensure proper assignment of responsibilities in terms of the action plan, as well as frequent monitoring and corrective actions if required.

1.5 John Taolo Gaetsewe District Municipality

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

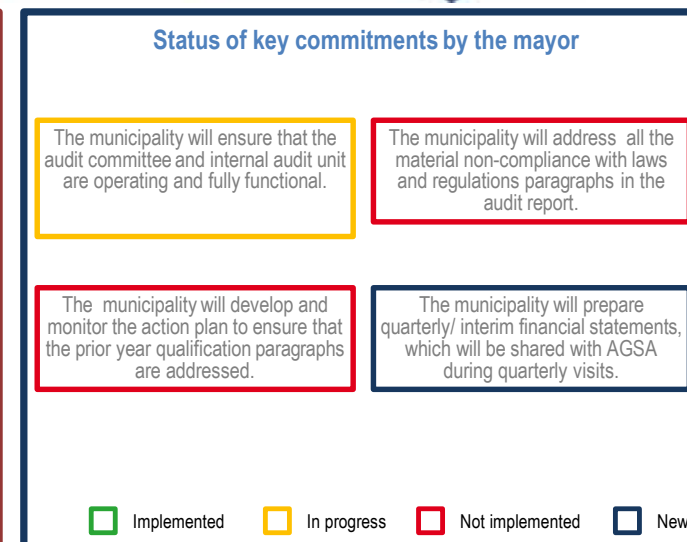
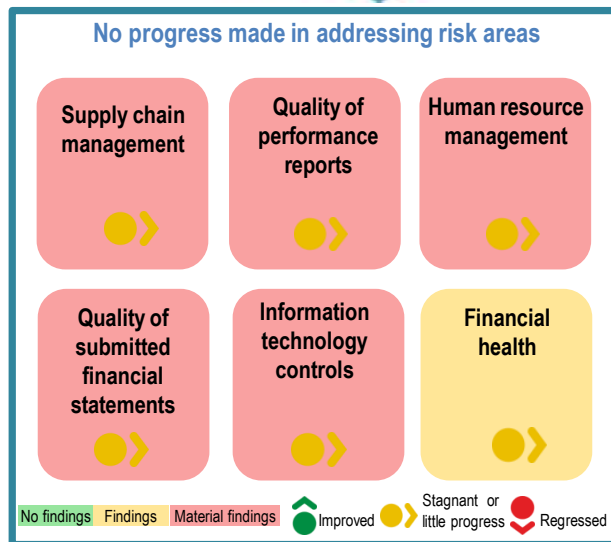




The current **audit outcomes** are the result of the attention given to the **six key risk areas**.

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**.



No change in audit outcome

The lack of improvement in the audit outcome was caused by a failure to address prior year findings, which in turn led to a qualified audit opinion and failure to address material findings on the annual performance report and findings relating to non-compliance with laws and regulations. The reason for this failure relates to vacancies in key positions (for example, CFO and asset manager), but also leadership's inability to implement consequences for individuals who perform poorly.

Six key risk areas

Overall, the six key risk areas stagnated because findings similar to those raised in previous years were again reported in the current year. The CFO position has been unstable for the past year, which contributed to the problem. This position was still vacant at year-end.

The quality of the annual performance report has not improved and the municipality should focus on the measurability of performance information to address the significant audit findings on the usefulness of its performance report.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances did not comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive a bidding process.

The municipality made material amendments to the financial statements, but despite this, the final set of financial statements still contained material misstatements as reported in the audit report.

Consultants were again engaged to assist with financial reporting (preparation of the financial statements and update of the asset register) at a cost of R1 590 721 (2012: R309 288). Our concerns relating to the continued assistance sought from consultants include their ineffective management, consultants being appointed for requirements which can be addressed by internal resources, over-dependency on consultants due to unfilled vacancies and lack of transfer of skills resulting in continued dependence on consultants. The lack of records and documents also hampered the effectiveness of the consultants that were used.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

The focus area of financial health remains stagnant, with findings on debt collection, underspending of the capital budget, underspending of conditional grants and high impairment of debtors during the year.

Key controls and root causes

The overall lack of improvement in key controls was due to failure to address weaknesses in the leadership and financial and performance management as well as governance areas.

The municipal manager should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored.
- Vacancies in key positions (CFO and asset manager) should be filled and an adequate training plan should be developed, implemented and monitored.
- There should be consequences for staff members who perform poorly and fail to comply with laws and regulations.
- The audit action plan should be updated, implemented and monitored to ensure that prior year audit findings are addressed. The municipal manager needs to take responsibility for this process.

Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring stability at the level of senior management, implementing the recommendations of internal audit and directing the work of the audit committee towards evaluating performance information. The shared internal audit unit needs to provide proper support to all local municipalities in the district as this was a concern expressed by some local municipalities.

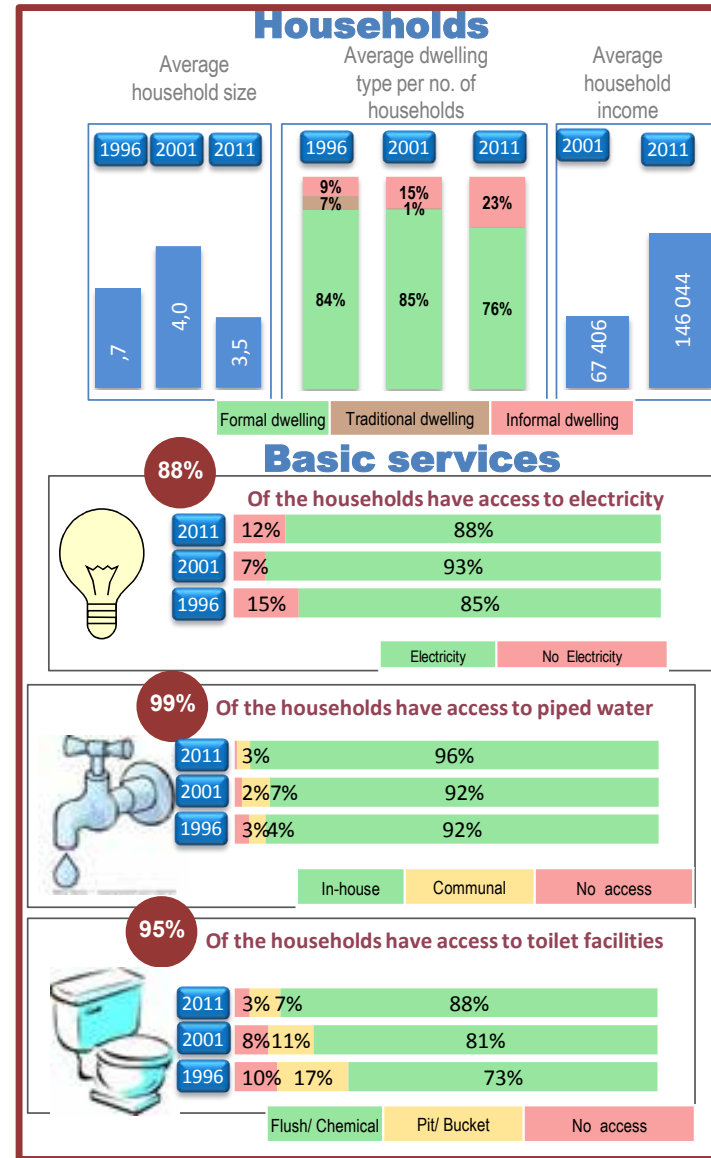
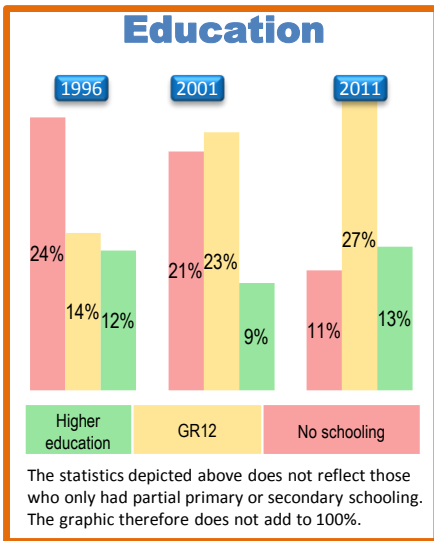
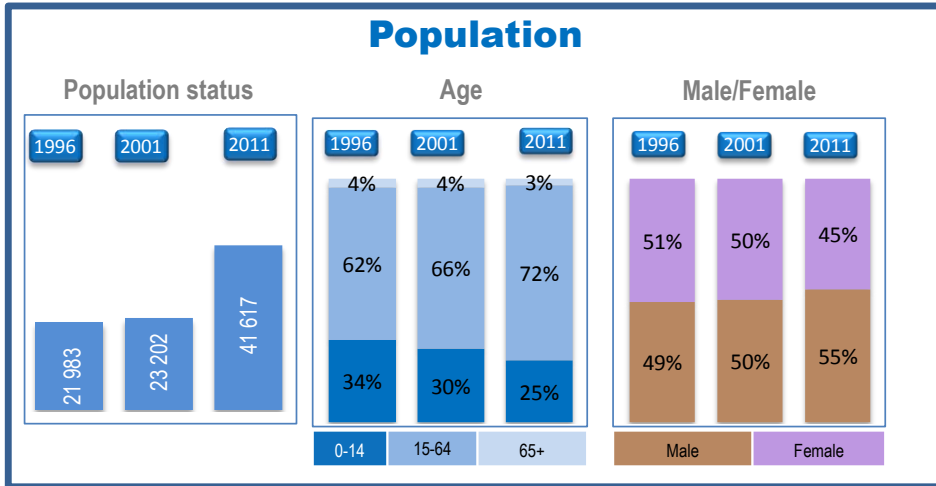
We met with the mayor three times during the financial year, but these interactions had no impact on the audit outcomes. The reason for our assessment is the lack of impact the mayor had on the controls of the municipality.

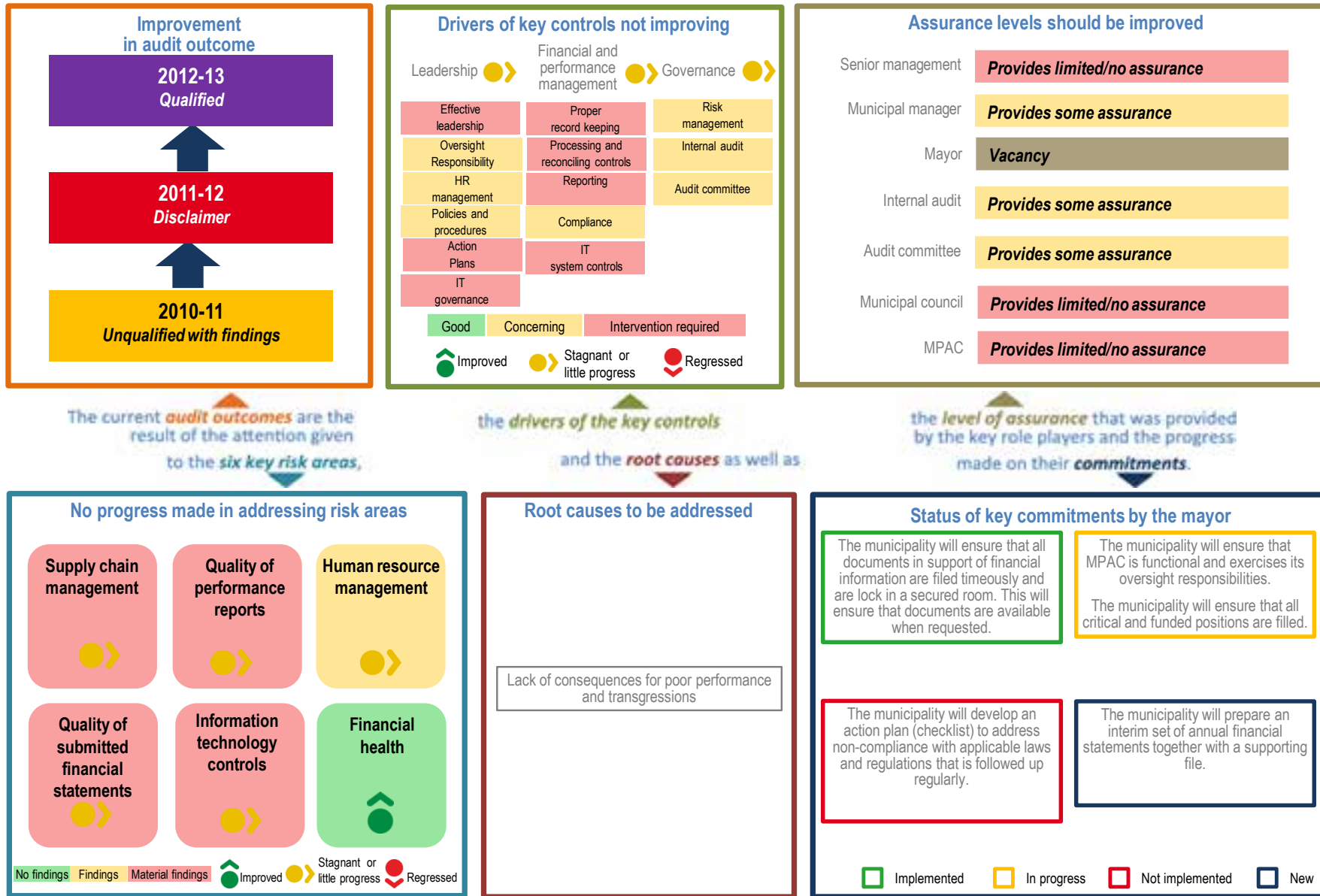
The mayor undertook to ensure that the audit committee and internal audit unit are operating and fully functional. This commitment was partially implemented. He further undertook to address all material non-compliance with laws and regulations paragraphs in the audit report and to develop and monitor the action plan to ensure that prior year qualification paragraphs are addressed. These two commitments were not implemented. This is of concern and an indication that leadership is either not taking our message seriously or improved service delivery and audit outcomes are not a priority for this municipality.

The mayor subsequently undertook to prepare an interim set of financial statements which will be shared with the AGSA during quarterly visits. A district municipality has an oversight responsibility regarding local municipalities, but as evident from discussions at district and local municipalities as well as the audit outcomes of local municipalities, the district municipality is not fulfilling their oversight role. An example of this is the shared internal audit and audit committee situated within the district municipality. These units are only partially effective and did not provide a good service to local municipalities. The district municipality's oversight role should be wider than mere assistance in the form of an audit committee and internal audit, to a point where the district municipality becomes the "centre of excellence" within the district. This will only be achievable once the district has sorted out their internal issues and improved their audit outcomes to a point where they can lead by example.

1.6 Gamagara Local Municipality

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Significant movement in audit outcome

The improvement in the audit outcomes can be attributed to the municipality partially addressing the findings on assets and other significant findings relating to the prior year. The municipality was unable to address findings on performance information, while most findings on compliance with legislation also recurred.

Six key risk areas

Overall, the six key risk areas showed a lack of improvement as similar findings reported in the previous year were again raised in the current year.

The municipality was unable to address material findings relating to supply chain management, quality of performance report and the quality of the submitted financial statements.

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

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances failed to comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive a bidding process.

The municipality made material amendments to the financial statements, but despite this, the final set of financial statements still contained material misstatements as reported in the audit report.

Consultants were again engaged to assist with financial reporting (preparation of the financial statements, unbundling of assets and update of asset register) at a cost of R2 320 457 (2012: R243 775). Our concerns relating to the continued assistance sought from consultants include their ineffective management, consultants being appointed for requirements which can be addressed by internal resources and lack of transfer of skills resulting in continued dependence on consultants.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

The improvement in the municipality's audit outcome enabled the auditors to perform a financial health assessment in the current year (prior year limitations made an assessment impossible). This resulted in an improvement in our assessment of this area.

Key controls and root causes

The lack of improvement in key controls was due to the leadership's failure to address weaknesses in the three key control areas, although management was reminded of these weaknesses on a quarterly basis.

The municipal manager must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight of financial and performance management through frequent and timely review of work performed by junior officials.
- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored.

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

- There should be consequences for staff members who perform poorly and fail to comply with laws and regulations.
- Compliance with laws and regulations should be reviewed and monitored.

Impact of key role players on audit outcomes

Assurance levels should be improved by implementing the recommendations of internal audit and directing the work of the audit committee towards evaluating performance information. The shared internal audit unit did not perform sufficient work at the municipality, which is the reason for our assessment that the internal audit unit was not effective.

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

The mayor undertook to ensure that all documents in support of financial information relating to expenditure and assets are filed timeously and are locked in a secured room. This commitment was fully implemented. The municipality also undertook to develop a checklist to assist in addressing non-compliance with applicable laws and regulations, but this commitment was not implemented.

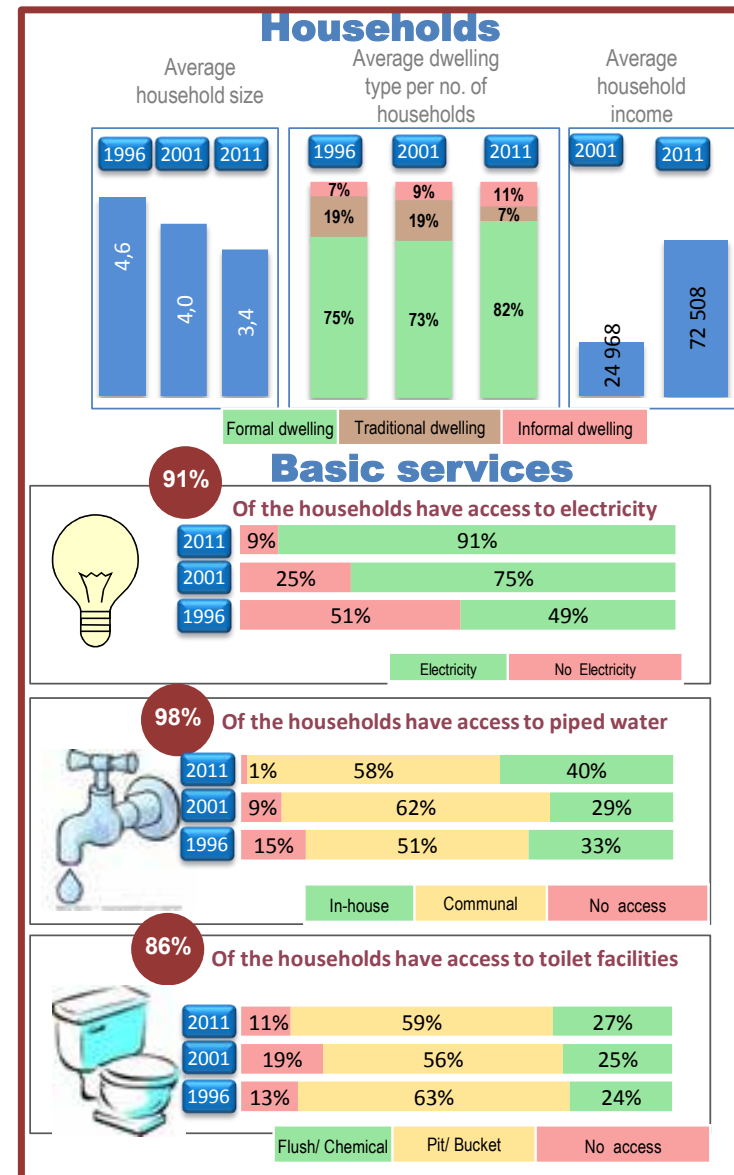
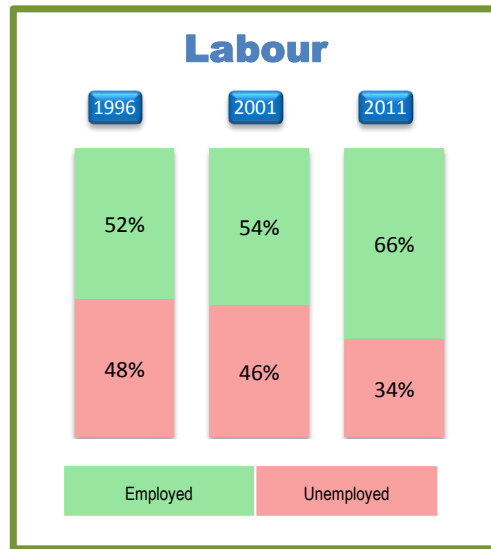
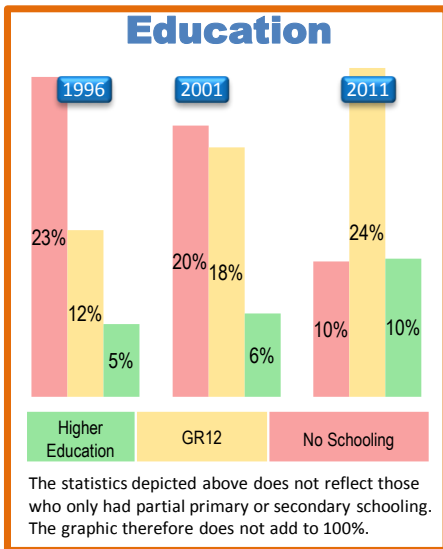
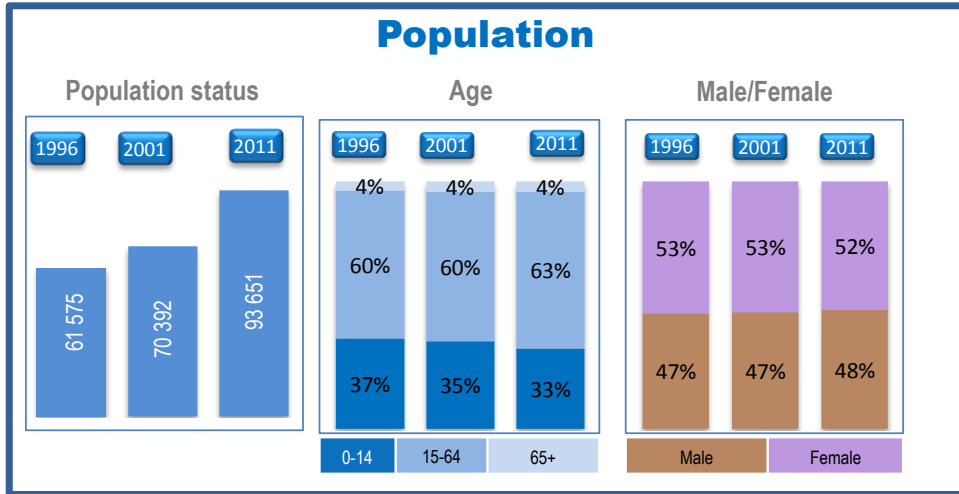
The mayor undertook to ensure that all critical and funded positions are filled. In addition, the municipality undertook to ensure that the MPAC is functional and

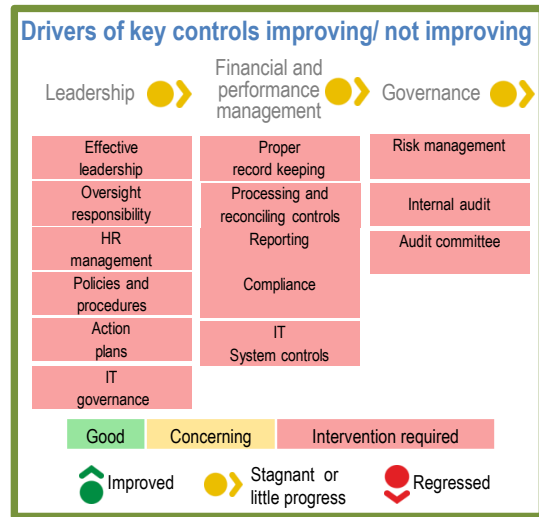
exercises its oversight responsibilities. These commitments are still in the process of being implemented. The mayor subsequently undertook to prepare an interim set of financial statements which will be shared with the AGSA during quarterly visits.

The above indicates that the municipality is making some progress, but the mayor needs to track progress made by the administration in implementing these commitments and take corrective action if progress is lacking. The municipal manager needs to play a central role in the implementation of the action plan and delegate, but also monitor, key responsibilities to the senior managers within the municipality.

1.7 Ga-Segonyana Local Municipality

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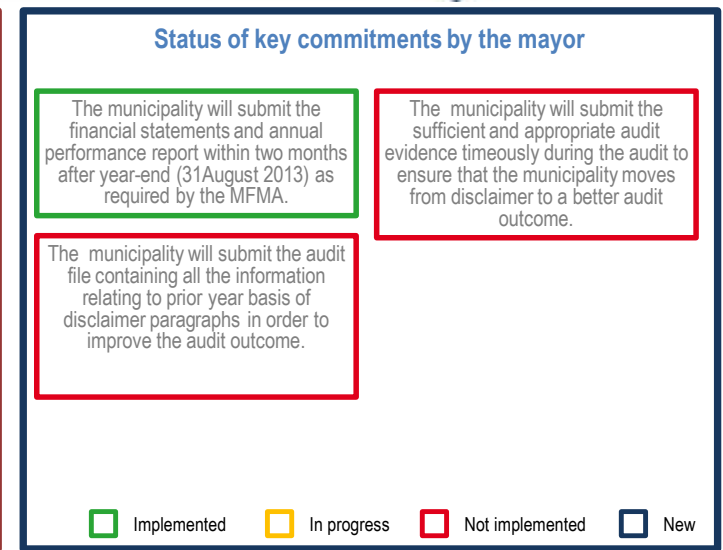
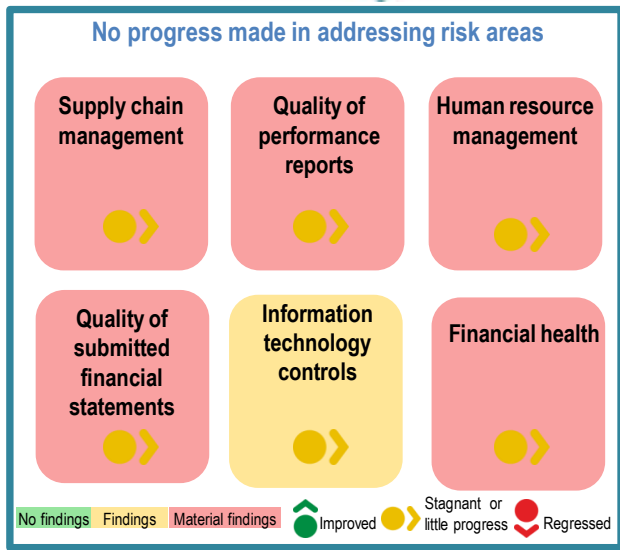




The current *audit outcomes* are the result of the attention given to the six key risk areas,

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*.



No change in audit outcome

The lack of improvement in the audit outcomes was due to a failure to address prior year financial, performance and material non-compliance findings.

Six key risk areas

Overall, the six key risk areas have stagnated due to lack of progress made by the municipality to address prior year material findings on these key risk areas.

There was no improvement on the annual performance report. The municipality should focus on the measurability of performance information to address the significant audit findings on the usefulness of its performance report.

The municipality did not disclose the existence of a material uncertainty with regard to its ability to operate in the foreseeable future (i.e. as a going concern) and was qualified because such a disclosure was not included.

The limitations placed on the work of the auditors due to the unavailability of supporting documentation on key components impacted the financial health focus area to the extent that a proper evaluation of the municipality's financial health was not possible.

The municipality made material amendments to the financial statements, but despite this, the final set of financial statements still contained material misstatements as reported in the audit report.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances did not comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive a bidding process.

Consultants were again engaged to assist with financial reporting (preparation of financial statements and update of the asset register) at a cost of R1 395 462 (2012: R567 151). Our concerns relating to the continued assistance sought from consultants include the municipality's ineffective management, consultants being appointed for requirements which can be addressed by internal resources, over-dependency on consultants due to unfilled vacancies and lack of transfer of skills resulting in continued dependence on consultants.

Key controls and root causes

The lack of improvement in the key controls was due to the leadership's failure to address weaknesses in the three key control areas, although management was reminded of these weaknesses on a quarterly basis.

The municipal manager must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight of financial and performance management by the municipality by way of timely review of the work performed by junior officials.
- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored.
- Ensure that adequate record keeping is implemented in a timely manner so that complete, relevant and accurate information is accessible and available.

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

- Vacancies in key positions (SM: Technical, manager: procurement management and manager: Performance Management) should be filled and an adequate training plan should be developed, implemented and monitored.
- There should be consequences for staff members who perform poorly and fail to comply with laws and regulations.
- The development, monitoring and implementation of action plans to address internal control deficiencies identified in the current and the prior years.

Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring that adequate training is provided to the municipal manager and senior management and that the municipality obtains maximum assistance from the shared internal audit unit and audit committee of the district municipality. Once the quality of accounting records improves, the internal audit unit and audit committee would be able to provide better assurance.

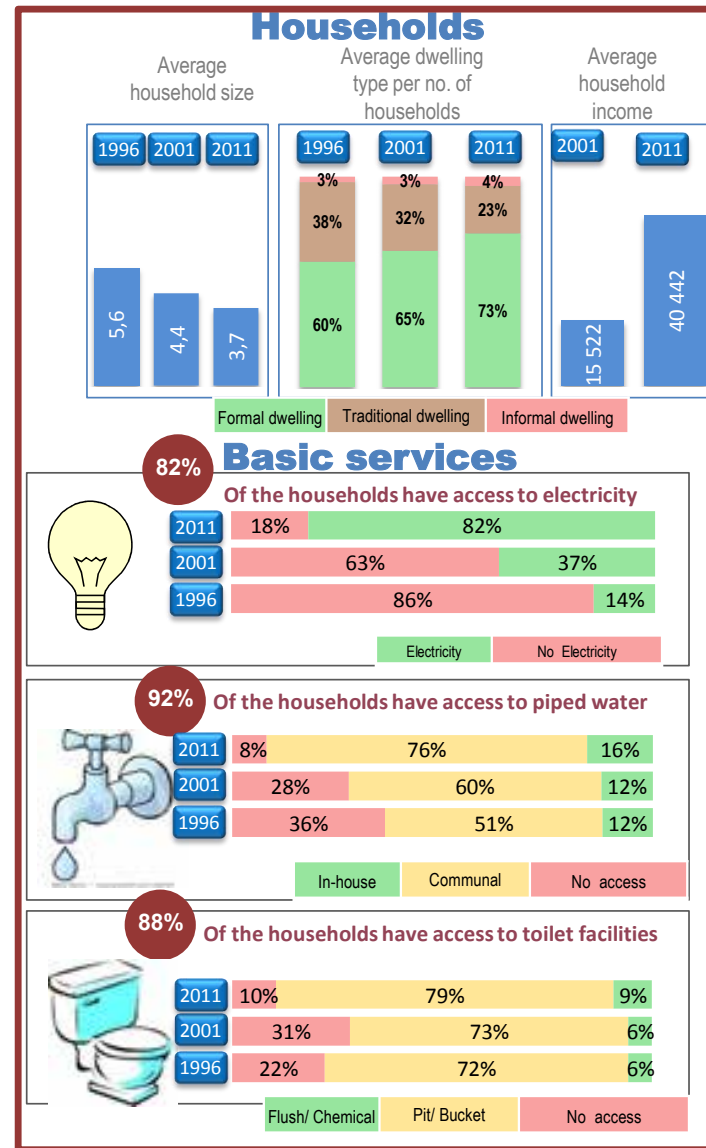
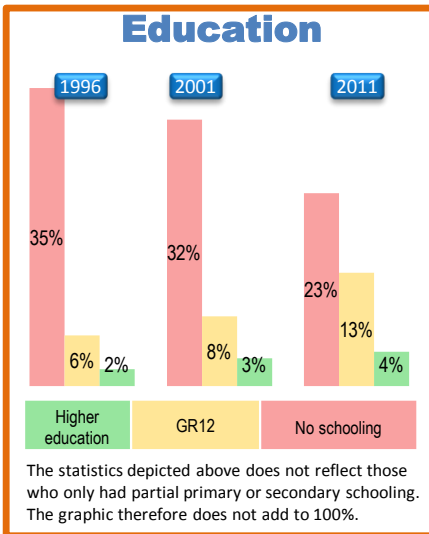
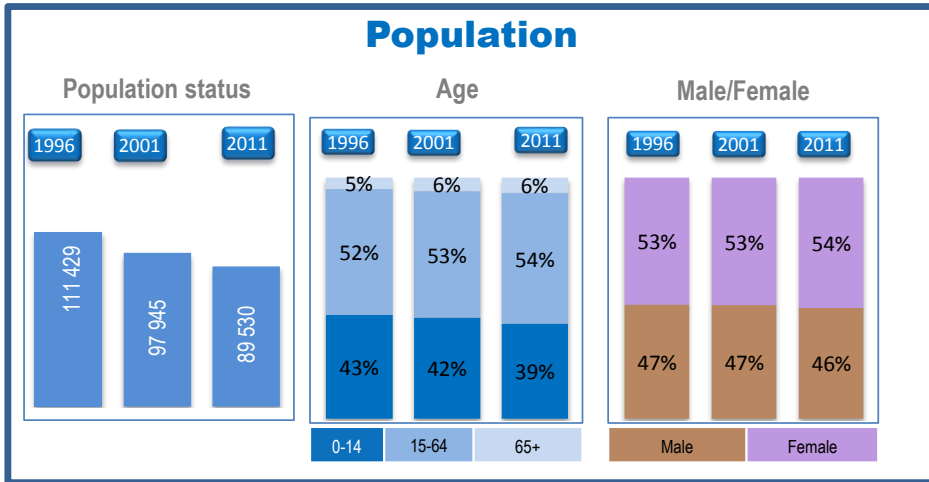
We met with the mayor twice during the financial year, but these interactions had no impact on the audit outcomes. The reason for our assessment is the lack of impact that the mayor had on the controls of the municipality as well as the status thereof.

The mayor undertook to ensure that the annual financial statements are prepared and submitted on time. This commitment was fully implemented. He further undertook to ensure that all documents in support of financial information are filed timeously and that non-compliance with laws and regulations and internal control deficiencies identified during the prior year audit are addressed, but this commitment was not implemented.

The mayor did not make any new commitments, but considering the dire situation in which the municipality finds itself, the mayor needs to start focusing on addressing the three root causes discussed in the previous section. The municipal staff need to undergo a substantial change in attitude and become focused on service delivery and effectiveness in order for this municipality to improve. The municipal manager and other senior managers need to show strong leadership and drive if they are to achieve a turnaround.

1.8 Joe Morolong Local Municipality

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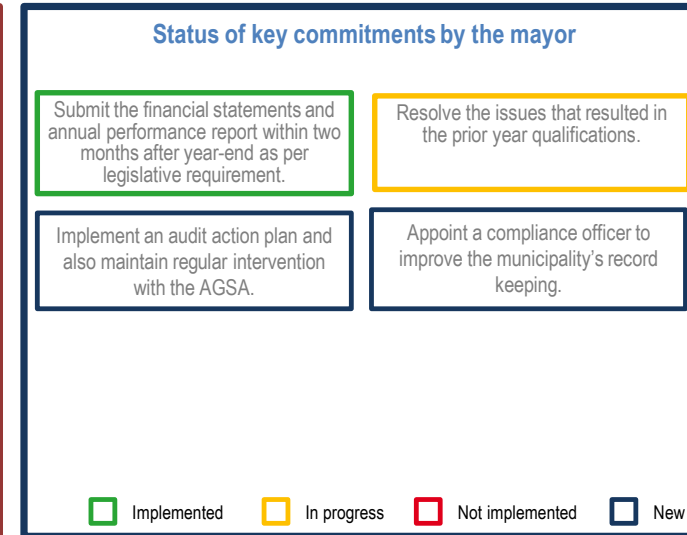
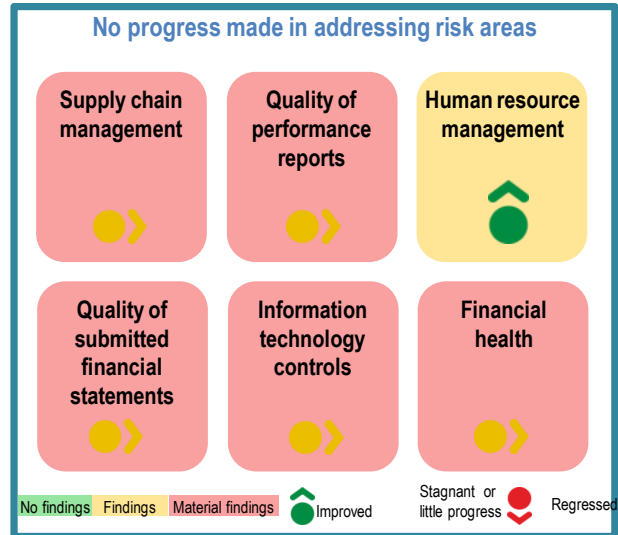
The current *audit outcomes* are the result of the attention given to the six key risk areas,



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



No change in audit outcome

The lack of improvement in the audit outcomes was due to management's failure to address the prior year audit findings. This can be partly attributed to the fact that the prior year audit was finalised very late. The municipality submitted an annual performance report for the first time during the year under review, but we could not obtain sufficient appropriate audit evidence of the reliability of the performance information submitted. The municipality does not have a unit that monitors compliance with laws and regulations, resulting in numerous compliance findings.

Six key risk areas

Overall, the six key risk areas showed a lack of improvement due to little or no progress being made in addressing key findings. The municipality generally lacks capacity and therefore finds it difficult to make any progress.

Although an annual performance report was submitted on time, the quality thereof was a major concern. Information provided was not supported, resulting in the auditors being unable to verify most performance information included in the performance report.

The municipality was able to address the material prior year HR compliance findings relating to the advertising of vacant positions, job descriptions and competency assessments for the municipal manager and financial and supply chain management officials. Findings on HR management were still reported in the municipality's management report, which, if not addressed in a timely manner, may result in a regression in this area in future.

The municipality made material amendments to the financial statements, but despite this, the final set of financial statements still contained material misstatements as reported in the audit report.

The limitations placed on our work due to the unavailability of supporting documentation on key components impacted the financial health focus area to the extent that a proper evaluation of the municipality's financial health was not possible.

The status of supply chain management remains unsatisfactory, primarily because of many instances of non-compliance with the legislative requirement to obtain three quotations and/or to procure goods and services through a competitive bidding process.

Consultants were again engaged to assist with financial reporting (preparation of financial statements, update of asset register and responding to audit findings) at a cost of R2 065 529 (2012: R2 409 564). Our concerns relating to the continued

assistance sought from consultants include their ineffective management and lack of transfer of skills resulting in continued dependence on consultants.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Key controls and root causes

The lack of progress in the key controls was due to leadership's failure to address weaknesses in the three key control areas, although management was reminded of these weaknesses on a quarterly basis.

The municipal manager must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight of financial and performance management through proper review of work performed by junior officials and consequence management where work was not of the expected quality.
- Ensure that proper record keeping is implemented in a timely manner so that complete, relevant and accurate information is accessible and available.
- Develop and monitor the implementation of action plans to address internal control deficiencies identified in the current and prior years.

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

- An audit action plan should be developed, implemented and monitored to ensure that prior year audit findings are addressed. The municipal manager needs to take responsibility for this process.
- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored.
- The municipality should have a proper system to track non-performance and deviation from laws and regulations on the part of officials and ensure that proper steps are taken to address identified deficiencies.

Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring stability at the level of municipal manager and senior management. The work of internal audit and the audit

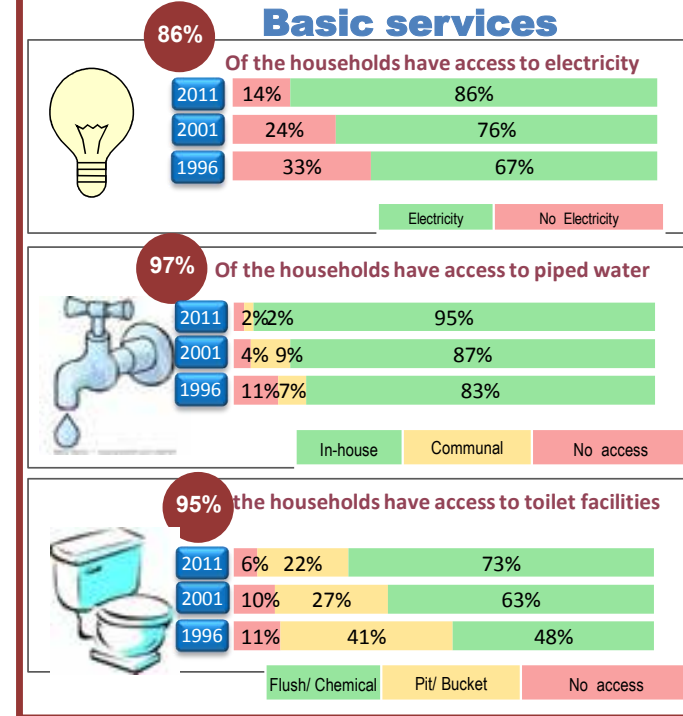
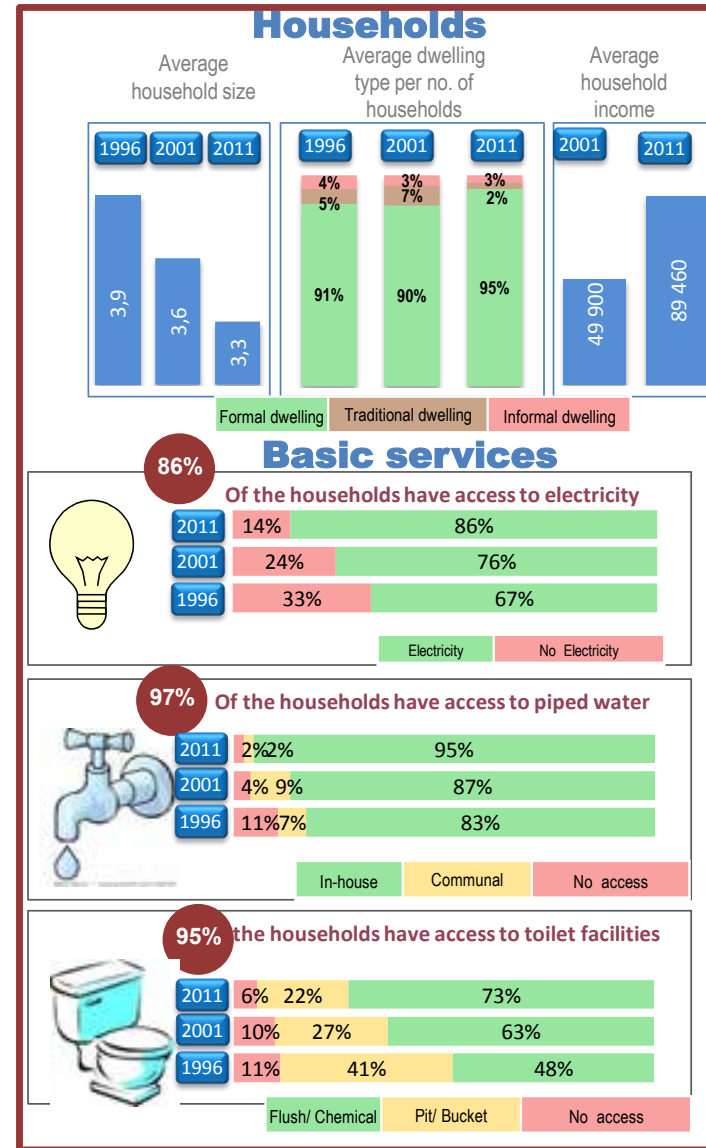
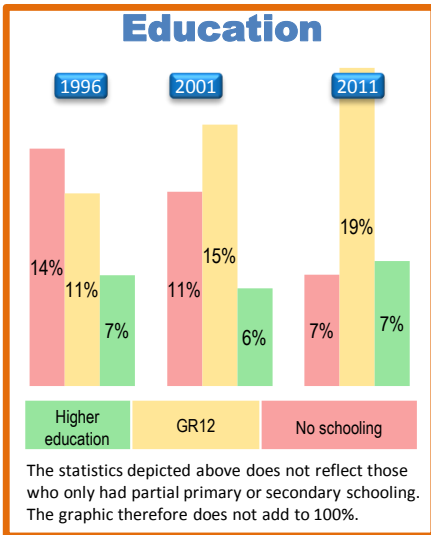
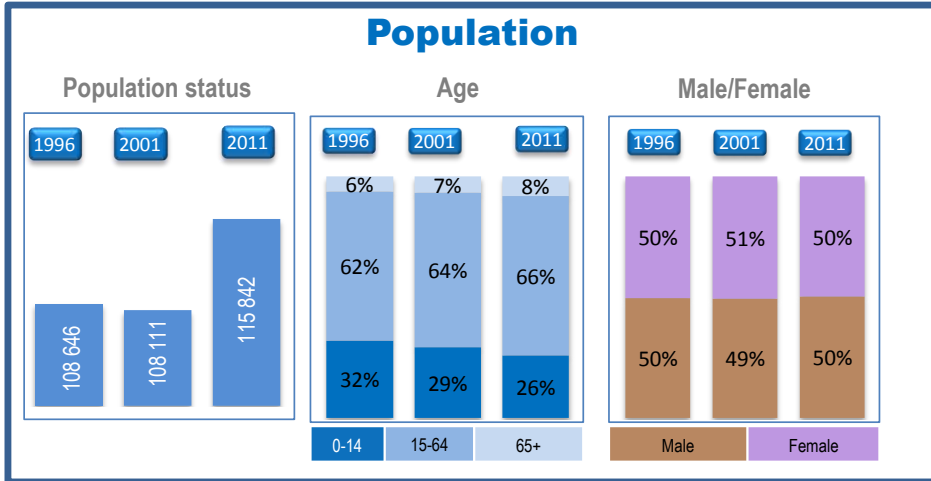
committee will be more useful if the supporting documentation required by internal auditors is provided when requested and, in general, if the work of these units is taken more seriously. The previous mayor had passed away during the year, therefore we met with the acting mayor three times during the financial year. These interactions, however, had no impact on the audit outcomes.

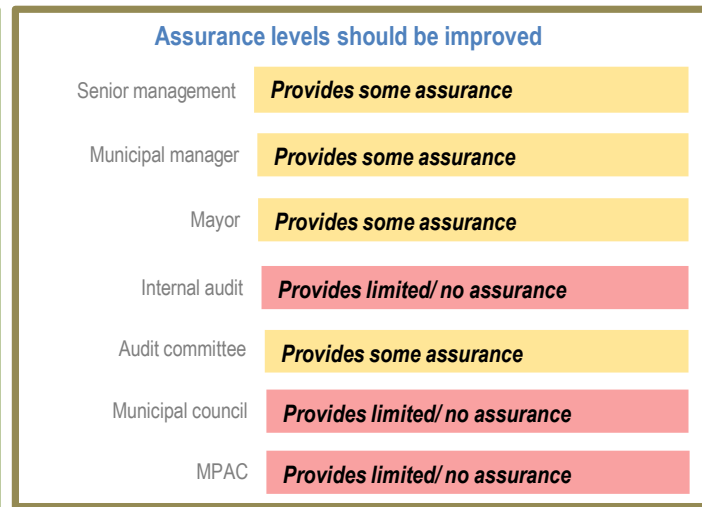
The mayor's commitment of the previous year to resolve issues that resulted in the prior year qualifications is still in the process of being implemented. This is of concern and considering the number of repeat qualifications reported in the audit report, the leadership is clearly not serious about improving the municipality's audit outcome. In order for the municipality to move forward, this needs to be focused on.

Prior year commitments that have been successfully implemented include the timely submission of the financial statements and annual performance report. The mayor has committed to implement an audit action plans and also to maintain regular intervention with AGSA. They also undertook to appoint a compliance officer and to improve the municipality's record keeping.

1.9 Namakwa District Municipality

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

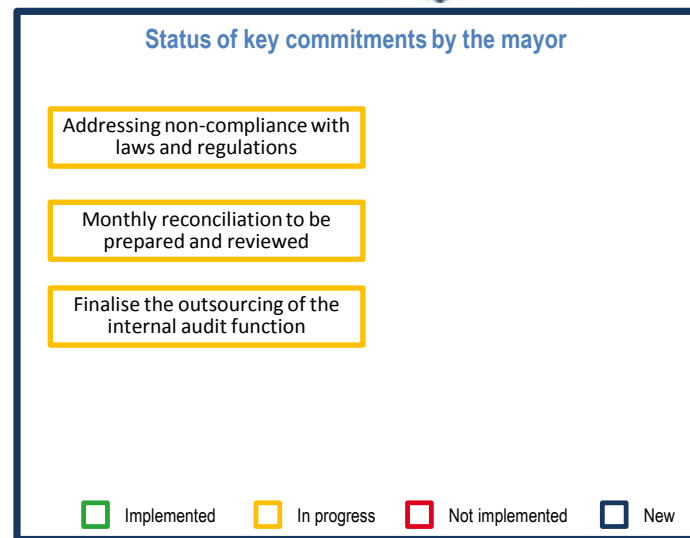
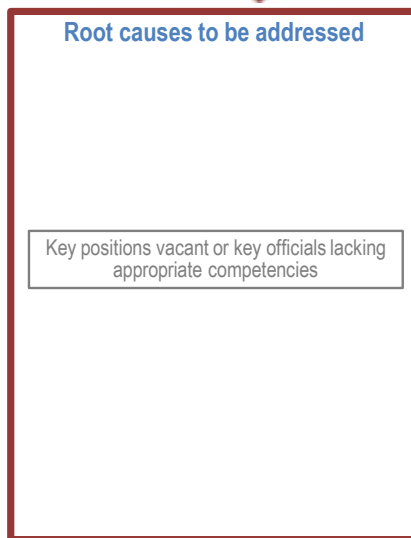
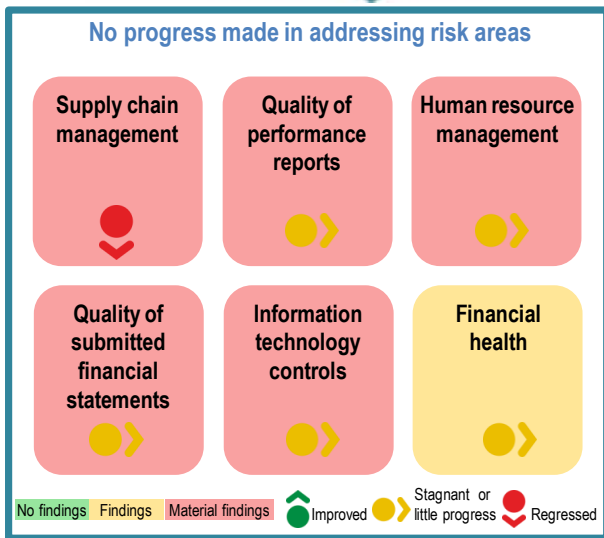




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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**.



Significant movement in audit outcome

The lack of improvement in the audit outcome was due to the cumulative effect of numerous individually uncorrected immaterial misstatements. The status on the areas of compliance with legislation and performance information also remained unchanged as findings were again recorded in these areas.

Six key risk areas

Overall, the six key risk areas stagnated due to lack of progress made in addressing shortcomings relating to the key risk areas.

No progress was made towards improving the quality of performance reports. The municipality has not addressed previously reported findings on the usefulness and reliability of reported performance information.

The status of supply chain management has regressed further, primarily because the municipality in many instances failed to comply with the legislative requirement to obtain three quotations and providers failed to submit declarations of interest. It is of concern to note that leadership did not implement controls around these very basic requirements.

No progress has been made on HR management as findings were again reported. Findings were raised in relation to senior managers acting for a period longer than three months, new appointees not having the relevant qualifications and experience for the position and employees receiving more leave than they are entitled to.

The municipality made material amendments to the financial statements, but despite this, the final set of financial statements still contained material misstatements as reported in the audit report.

The municipality:

- has a debt collection period of 3 102 days. This suggests that the municipality is experiencing difficulty in collecting its revenue.
- has made a provision for bad debts of 67% of revenue. This clearly shows that a significant amount of revenue was not collected, with the result that debt is provided as irrecoverable.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls were therefore not tested.

Key controls and root causes

The municipal manager must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored. A designated compliance officer must be appointed to ensure compliance with laws and regulations or existing staff should be used to attend to issues on compliance.
- Ensure that a properly functioning internal audit unit staffed with people with relevant skills is in place.

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

- Key officials to be continuously trained to ensure appropriateness of their skills, starting with the minimum competency skills required for their positions.
- Internal control deficiencies identified must be addressed in an action plan to be implemented, monitored and reviewed regularly for progress.

Impact of key role players on audit outcomes

The assurance levels provided by key role players should be improved by ensuring stability at the level of municipal manager and senior management. The internal audit unit should be functioning more effectively and this unit's recommendations should be implemented. This unit needs to be strengthened by filling the vacant positions.

We met with the mayor once during the financial year and this interaction had some impact on the audit outcome.

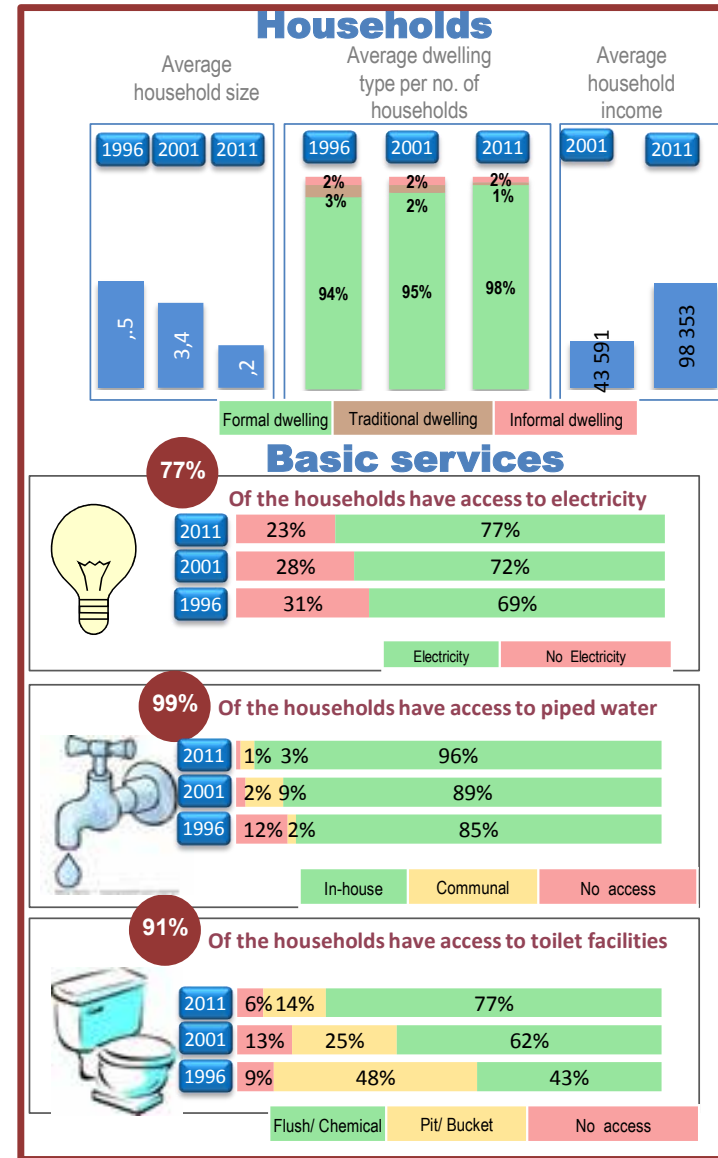
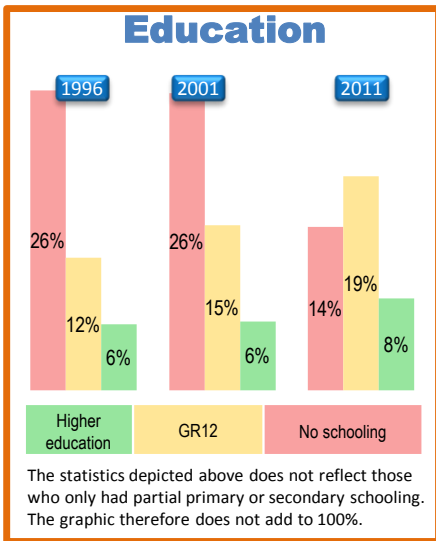
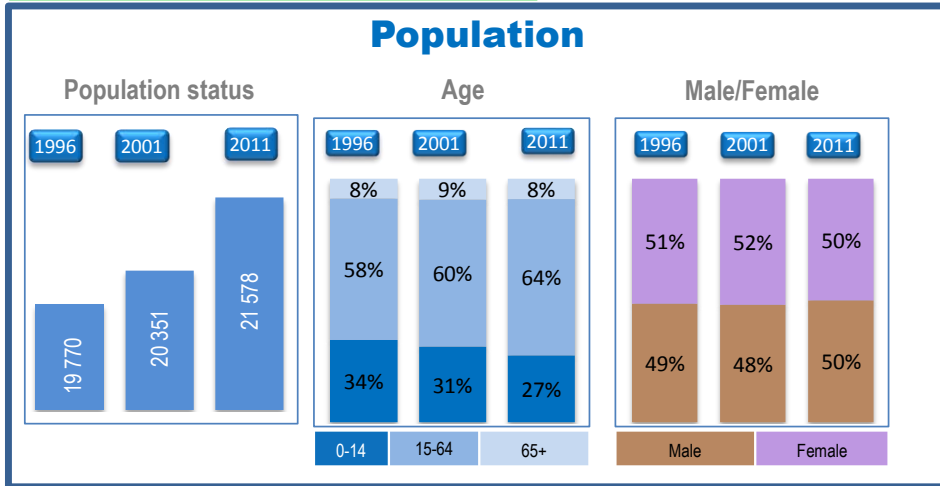
The mayor undertook to address the numerous non-compliance findings, to implement monthly reconciliations to address internal control weaknesses and to finalise the outsourcing of the internal audit function. These commitments were not yet fully implemented and no new commitments were obtained from the municipality.

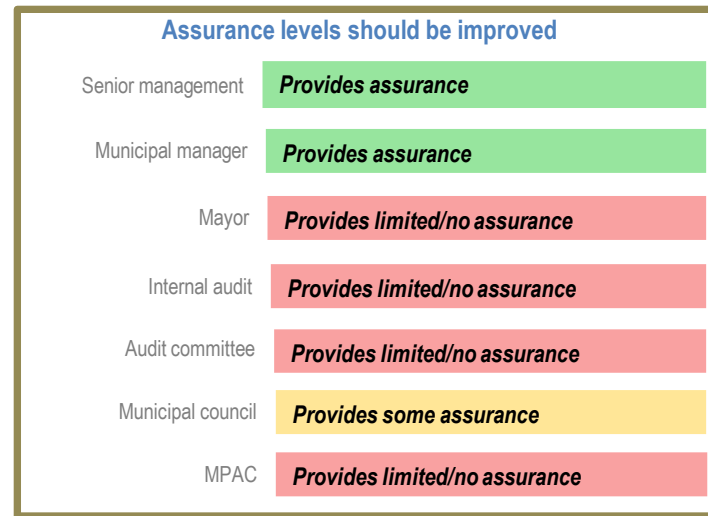
A district municipality has an oversight responsibility regarding local municipalities, but as evident from discussions at the district and local municipalities as well as the audit outcomes of the local municipalities, it is not fulfilling its oversight role.

An example of this is the shared internal audit and audit committee situated within the district municipality. These units are only partially effective and are not providing a good service to the local municipalities. The district municipality's oversight role needs to be wider than mere assistance in the form of an audit committee and internal audit, to a point where the district municipality becomes the "centre of excellence" within the district. This will only be achievable once the district has sorted out their internal issues and improved their audit status to a point where they can lead by example.

1.10 Hantam Local Municipality

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

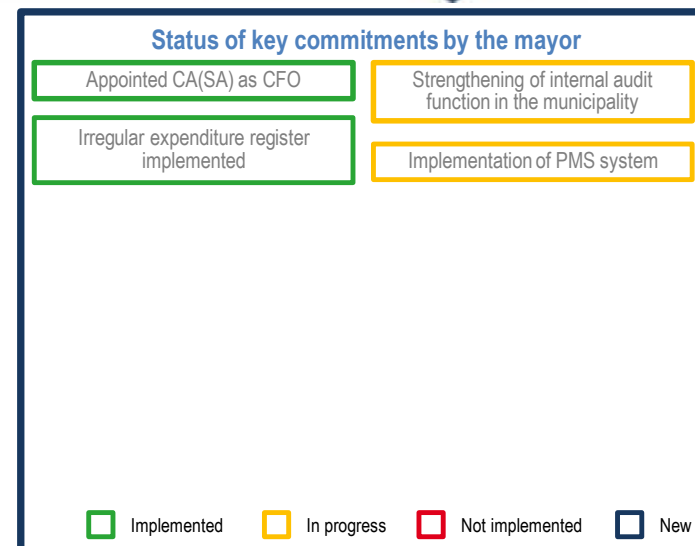
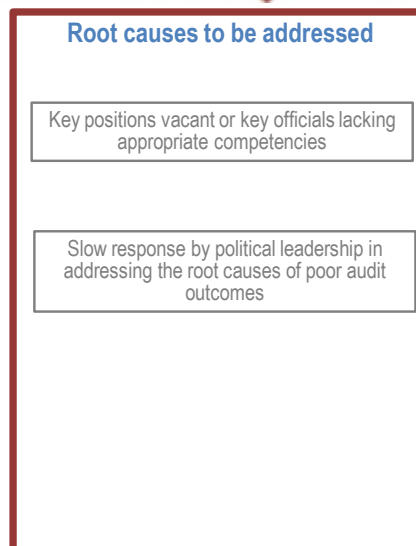
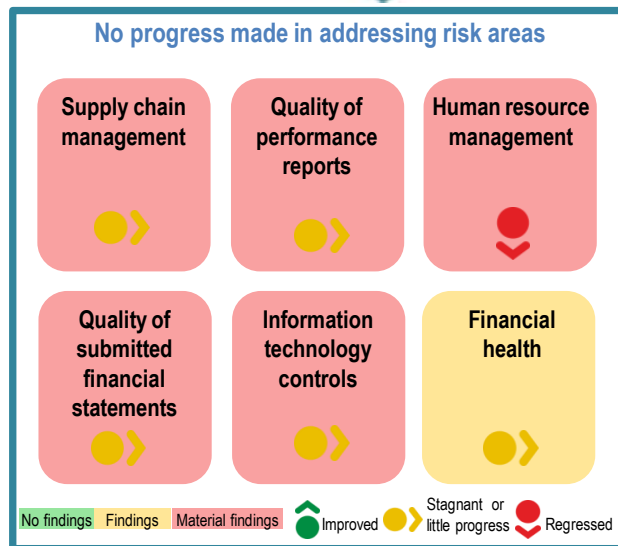




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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**.



No change in audit outcome

The lack of improvement in the audit outcomes was due to the municipality's failure to address qualifications on investment property and property, plant and equipment. The status on the areas of compliance with legislation and performance information also remained stagnant as findings were again recorded in these areas.

Six key risk areas

Overall, the six key risk areas showed a lack of improvement due to little or no progress being made in addressing key findings. The municipality generally lacks capacity and therefore finds it difficult to make any progress.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances failed to comply with the legislative requirements to obtain three quotations, to procure only from suppliers with valid tax clearance certificates and to use providers who had submitted declarations of interest.

The quality of performance information at the municipality stagnated and the municipality still had material findings due to lack of frequent review of the validity of reported achievements against source documentation.

In relation to HR management, however, the municipality deteriorated mainly due to the fact that the CFO position remained vacant for 12 months, while the finance department overall had a 25% vacancy rate.

The municipality made material amendments to the financial statements. This led to the quality of submitted financial statements being considered unsatisfactory.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

The focus area of financial health remains stagnant, with findings on debt collection, underspending of conditional grants and high impairment of debtors during the year.

Key controls and root causes

The overall lack of improvement in key controls was due to leadership's slow response in addressing issues raised during the prior year audit. Internal audit and the audit committee were not effective and leadership interventions are required to strengthen these governance structures.

The municipal manager and senior management must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, specifically in the key positions of municipal manager and head of Supply Chain Management. It is important that the performance of these officials be properly monitored.
- Ensure that an adequately resourced and functioning internal audit unit is in place that identifies internal control deficiencies and recommends corrective action effectively. The internal audit unit should be tasked to perform work on the investment property and property, plant and equipment components to ensure that the specific issues that resulted in qualifications are properly addressed.
- Ensure that the audit committee promotes accountability and service delivery by evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment.

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

- An action plan addressing inaccurate recording of assets and non-compliance with laws and regulations should be developed and implemented. The mayor should request feedback on a monthly basis and respond decisively if the action plan is not adhered to.
- Monitoring of HR management to ensure that adequately skilled resources are employed.
- Financial and performance reports must be prepared and reviewed on a regular basis.

Impact of key role players on audit outcomes

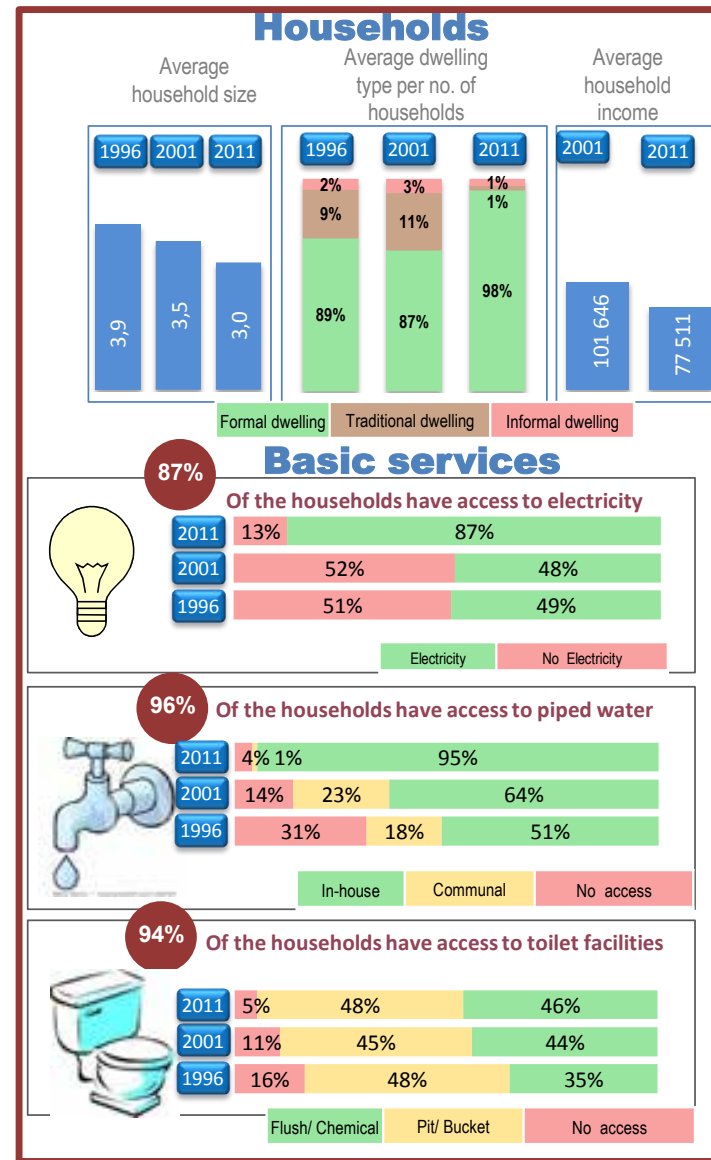
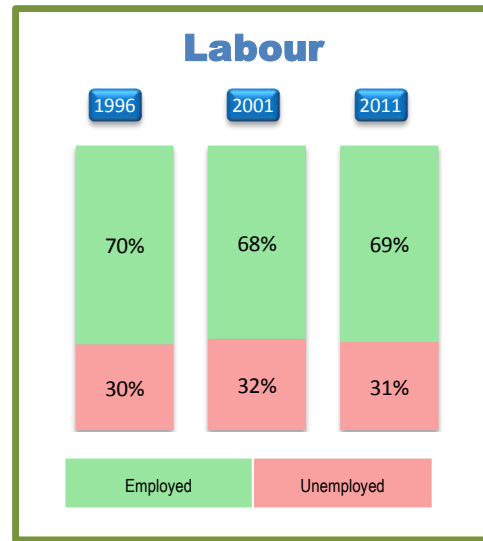
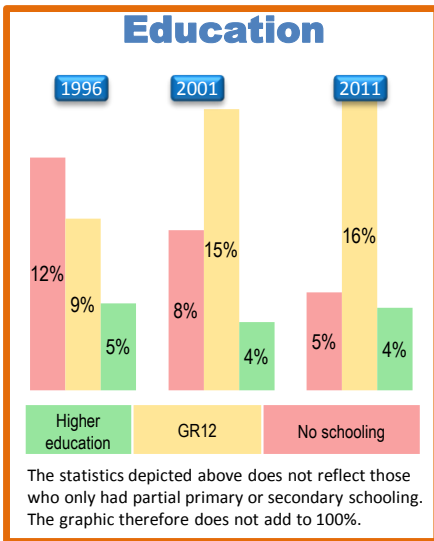
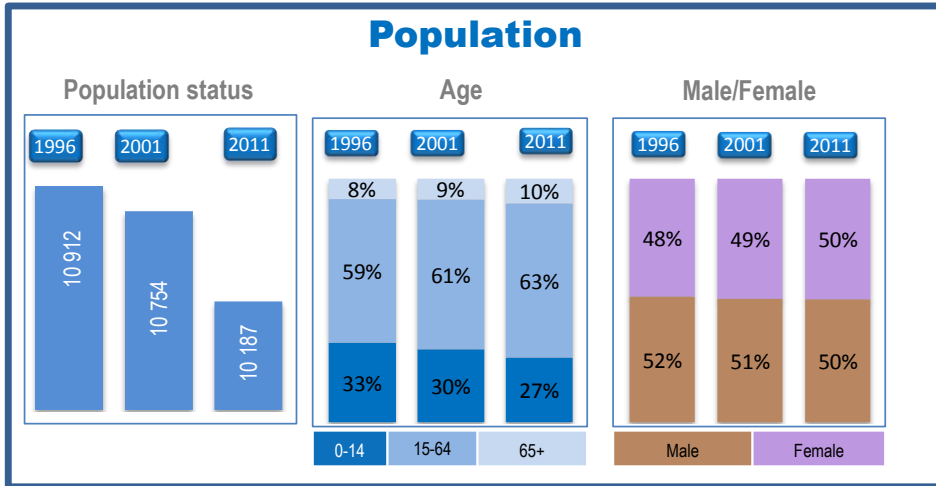
Assurance levels should be improved by ensuring that the stability that was evident in the municipal manager and senior management positions is sustained. Strengthening of the internal audit function, implementation of the recommendations of internal audit and directing the work of the audit committee towards evaluating performance information and compliance with laws and regulations will all contribute to the efficiency of the municipality.

We met with the mayor twice during the financial year but these interactions had a minimal impact on the audit outcomes. The reason for our assessment is the lack of impact that the mayor had on the controls of the municipality as well as the status and impact of the commitments previously given.

The municipal manager and mayor's commitments of the previous year to strengthen the internal audit function and to implement a performance management system are still in the process of being implemented and need to be executed to improve internal controls and performance reporting. Prior year commitments which have been successfully implemented include the appointment of the CFO and the implementation of improved controls surrounding the identification and recording of irregular expenditure. No new commitments were obtained from the municipality, but addressing the issues that resulted in the qualified audit opinion needs to be prioritised. This should be done in the form of an audit action plan that must be implemented and monitored by the municipal manager and overseen by the mayor.

1.11 Kamiesberg Local Municipality

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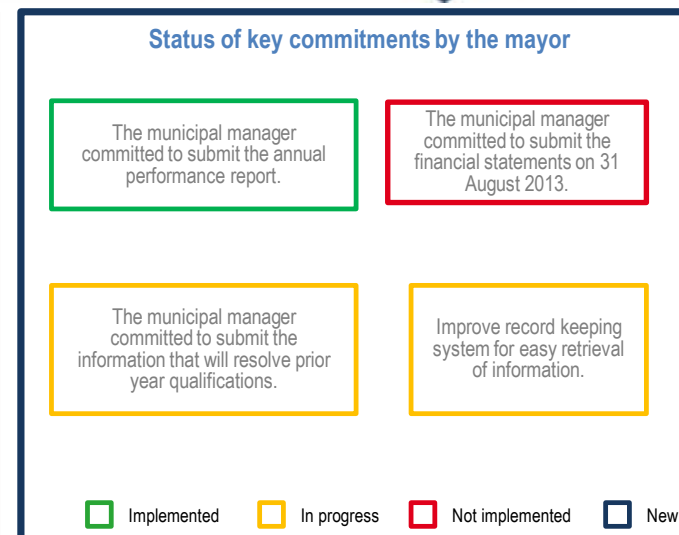
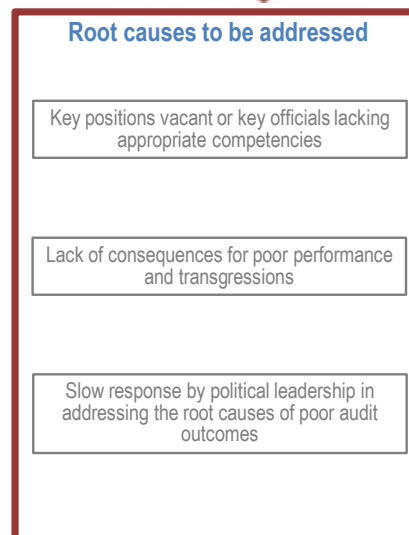
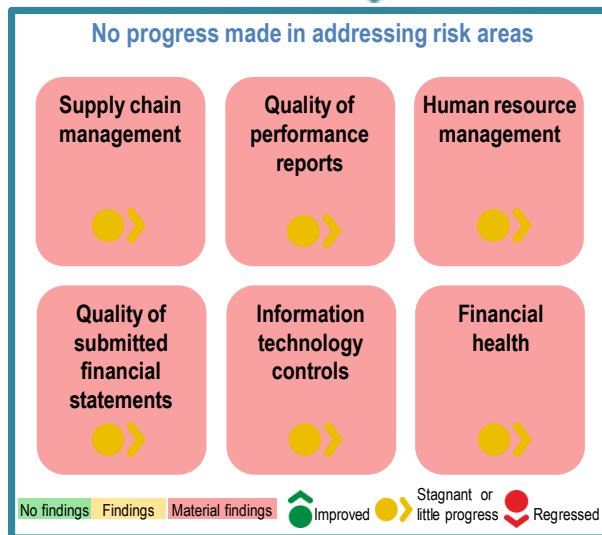
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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



No change in audit outcome

The lack of improvement in audit outcomes was due to the municipality's inability to provide sufficient supporting documentation for the financial statements and performance information. Furthermore, the municipality could not prevent non-compliance with laws and regulations.

Six key risk areas

Overall, the six key risk areas stagnated due to lack of progress in addressing the key risk areas.

The municipality did report on its actual performance for the year under review, but information was not provided to support the information included in the annual performance report.

The municipality made material amendments to the financial statements, but despite this, the final set of financial statements still contained material misstatements as reported in the audit report.

The municipality must ensure that the skills and experience of the officials appointed by municipality are aligned to their roles and responsibilities, and all vacant posts should be filled by suitable candidates who are in possession of the necessary skills and experience.

The limitations placed on the work of the auditors due to the unavailability of supporting documentation on key components impacted the financial health focus area to the extent that a proper evaluation of the municipality's financial health was not possible.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances failed to comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process. Such non-compliance results in the expenditure being irregular, with the municipality finding it difficult to resolve this issue.

Consultants were engaged to assist with financial reporting (preparation of financial statements) and preparation of performance information, amounting to R475 324 (2012: R0). Our concerns relating to the assistance sought from consultants include their ineffective management, consultants being appointed for requirements which can be addressed by internal resources, over-dependency on consultants due to unfilled vacancies and lack of transfer of skills resulting in continued dependence on consultants.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Key controls and root causes

The lack of improvement in key controls was due to leadership's failure to address weaknesses in the three key control areas, although management was reminded of these weaknesses on a quarterly basis.

The municipal manager must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implementation of proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- A designated official must be appointed who will review and monitor compliance with applicable laws and regulations.

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

- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored.
- The municipality should have a proper system to track non-performance and deviation from laws and regulations by officials and ensure that proper steps are taken to address identified deficiencies.
- The development, monitoring and implementation of action plans to address internal control deficiencies identified in the current and prior years.

Impact of key role players on audit outcomes

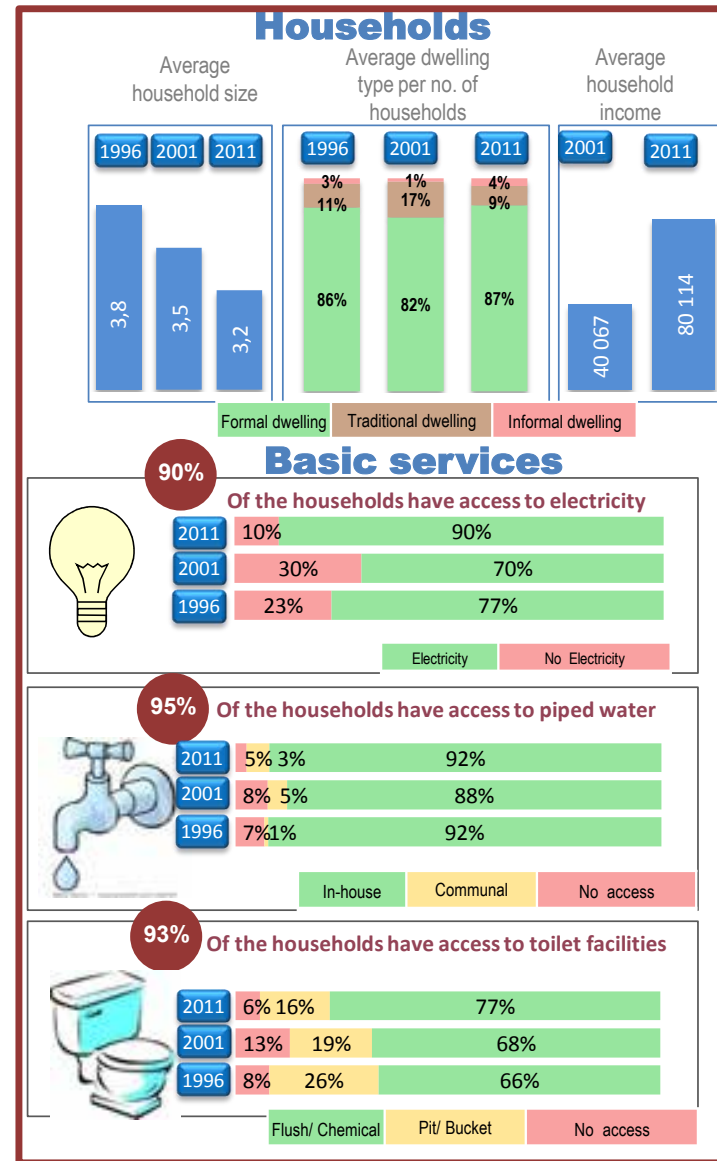
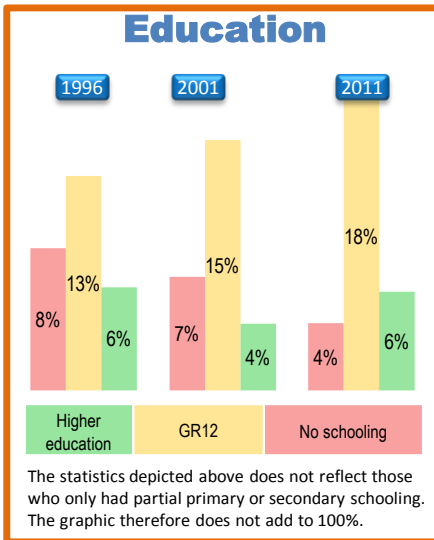
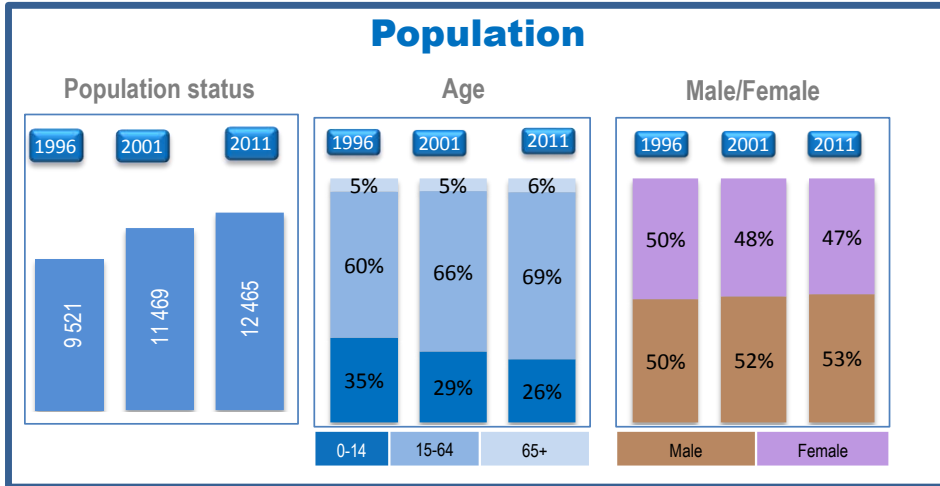
Assurance levels should be improved by ensuring stability at the level of municipal manager and senior management and by strengthening the internal audit unit. The assurance provided by the internal audit and audit committee at this municipality will improve significantly if the municipality is able to implement proper record keeping and takes the role of the internal audit unit and audit committee more seriously.

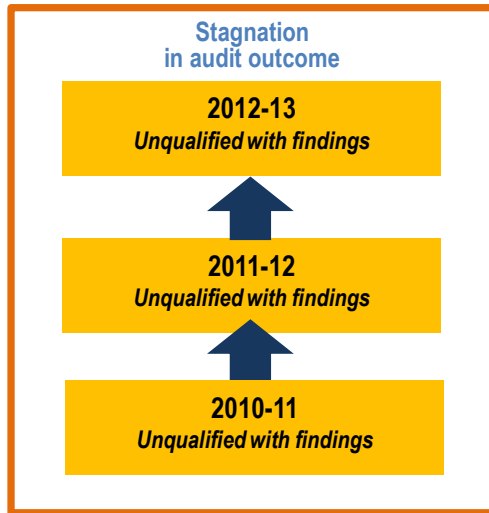
We met with the mayor once during the financial year but this interaction had no impact on the audit outcome. The reason for our assessment is the lack of impact the mayor had on the controls of the municipality. The mayor should be more visible at audit steering committee meetings as this will help the mayor to understand the reasons for the audit outcome, which in turn will help with an effective action plan.

The mayor's commitments of the previous year to improve record keeping, submit the financial statements on time and resolve prior year qualifications are still in the process of being implemented, which indicates a lack of commitment to improve the audit outcomes of the municipality. Prior year commitments which have been successfully implemented include the submission of the annual performance report. No new commitments were obtained from the municipality and management needs to start taking action to ensure that the commitments made result in actions.

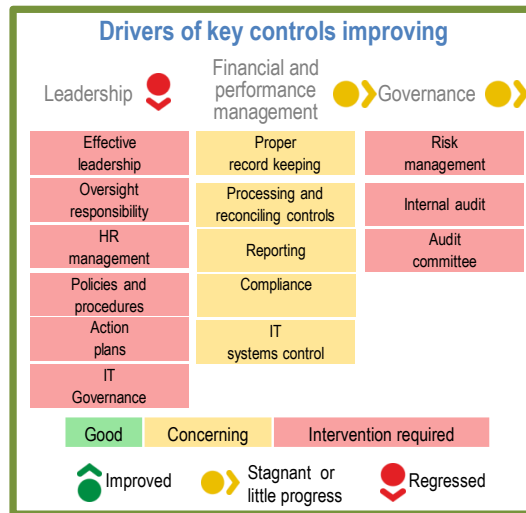
1.12 Khai-Ma Local Municipality

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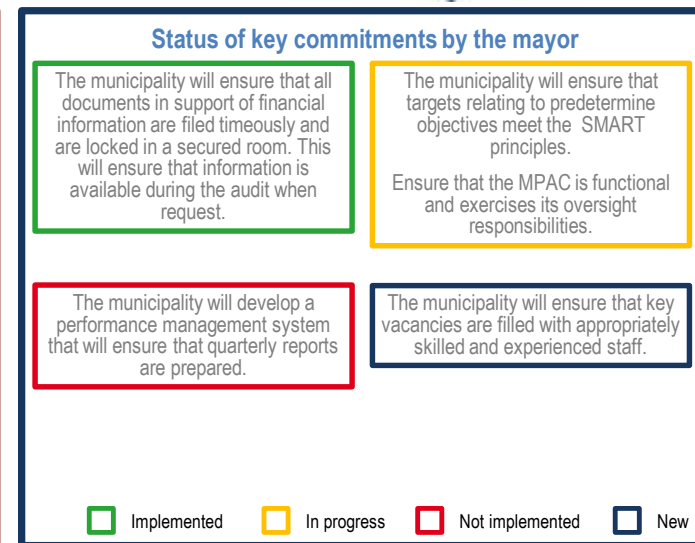
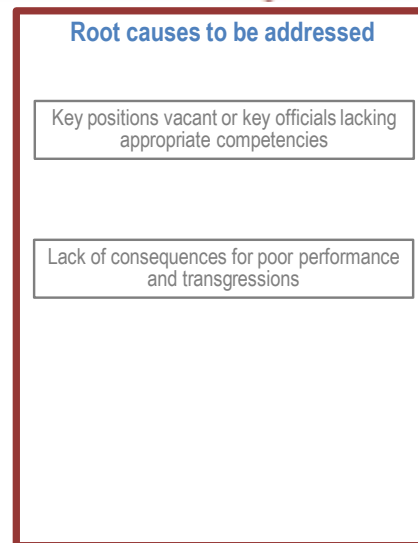
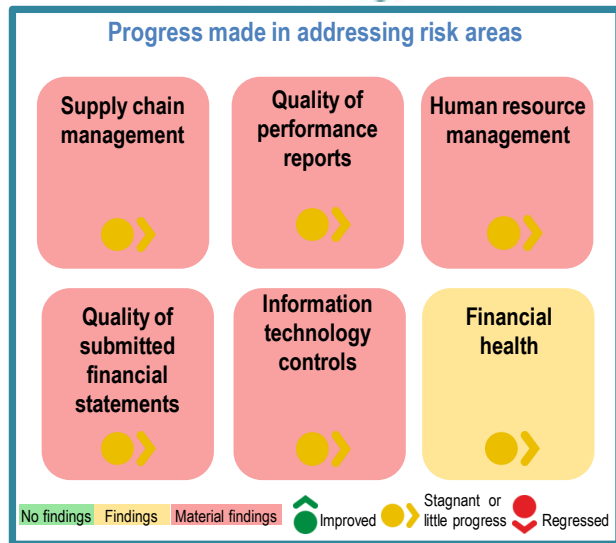
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the *level of assurance* that was provided by the key role players and the progress made on their *commitments*.



No change in audit outcome

The stagnation in the audit outcomes was due to failure to address material findings on the annual performance report and non-compliance with laws and regulations.

Six key risk areas

Overall, the six key risk areas stagnated due to lack of progress made by the municipality to address prior year findings.

The municipality did not submit an annual performance report and therefore a conclusion could not be reached on the reliability of information.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances failed to comply with the legislative requirement to obtain three quotations.

The quality of the financial statement was generally good. However, a material misstatement of a disclosure item was identified by the auditors in the submitted financial statements. The misstatement was corrected and the supporting records were provided subsequently.

Positions in the municipality were vacant for more than 12 months (including units that have a significant impact on service delivery).

Consultants were again engaged to assist with financial reporting (preparation of financial statements and updating of the asset register) at a cost of R429 804 (2012: R252 419). Our concerns relating to the continued assistance sought from consultants include their ineffective management, consultants being appointed for requirements which can be addressed by internal resources, over-dependency on consultants due to unfilled vacancies and lack of transfer of skills resulting in continued dependence on consultants.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

The focus area of financial health remained stagnant, with findings on debt collection, underspending of the capital budget, underspending of conditional grants, overspending of the operating budget and high impairment of debtors during the year.

Key controls and root causes

The lack of improvement in the key controls was due to leadership's failure to address weaknesses in the three key control areas, although management was reminded of these weaknesses on a quarterly basis.

The municipal manager must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight of financial and performance management by ensuring proper review of work performed by junior officials and enforcing consequences where work performed was not of quality.
- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored. Appoint a designated official who will review and monitor compliance with applicable laws and regulations.

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

- Vacancies in key positions (municipal manager, SM: HR and Technical) should be filled and an adequate training plan should be developed, implemented and monitored.
- There should be consequences for staff members who perform poorly and fail to comply with laws and regulations.

Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring stability at the level of municipal manager, by strengthening internal audit to ensure their effectiveness and by establishing an audit committee. We met with the mayor twice during the financial year but these interactions had no impact on the audit outcomes. The reason for our assessment is the lack of impact the mayor had on the controls of the municipality.

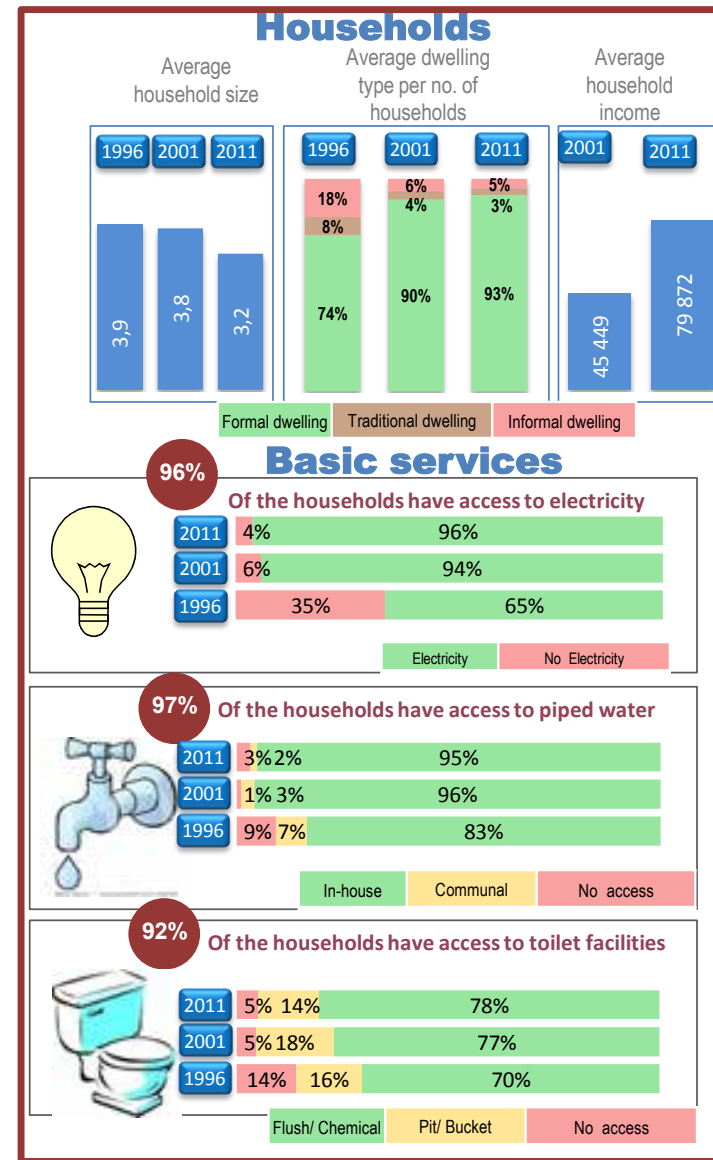
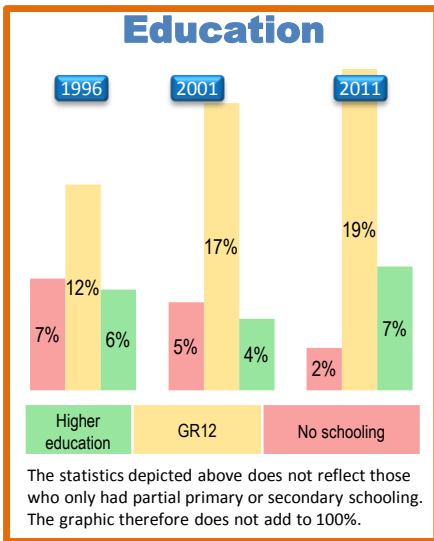
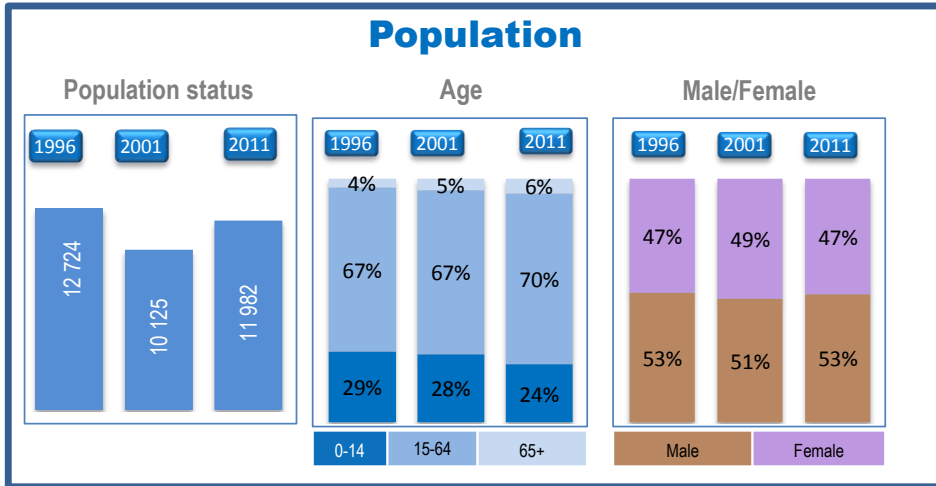
The mayor undertook to ensure that all documents in support of financial information are filed timeously and are locked in a secure room. This commitment was fully implemented. The mayor further undertook to develop a performance management system that will ensure that quarterly reports are prepared. This commitment was not implemented.

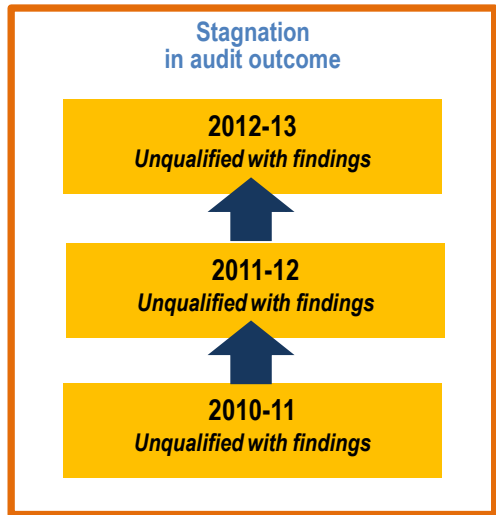
The commitments to ensure that targets relating to predetermined objectives meet the SMART principles and that the MPAC is functional and exercises its oversight responsibilities are still in progress and have not yet been fully implemented.

The mayor subsequently undertook to ensure that key vacancies are filled with appropriately skilled and experienced staff. Leadership needs to focus on ensuring that the compliance and predetermined objective (PDO) findings raised in the management report and audit report are addressed. An audit action plan should be developed and implemented for this purpose and the municipal manager should monitor progress made in terms of this plan.

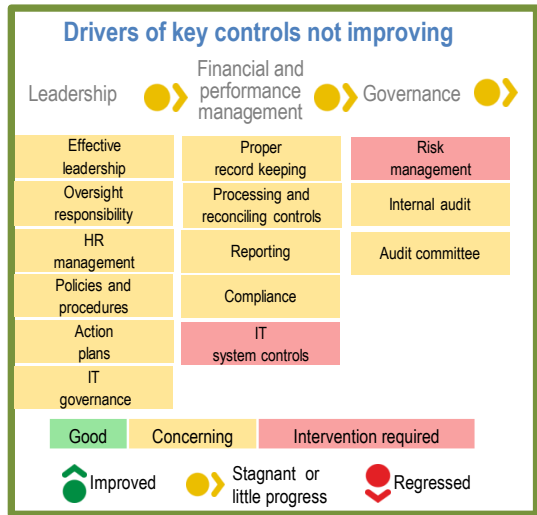
1.13 Richtersveld Local Municipality

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

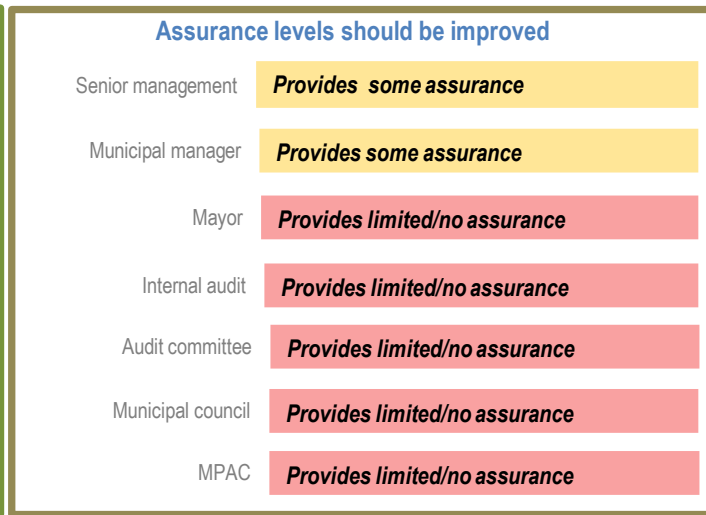




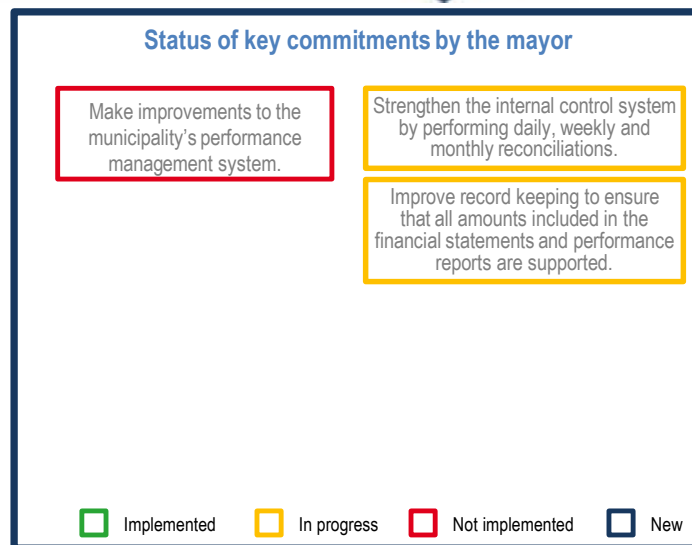
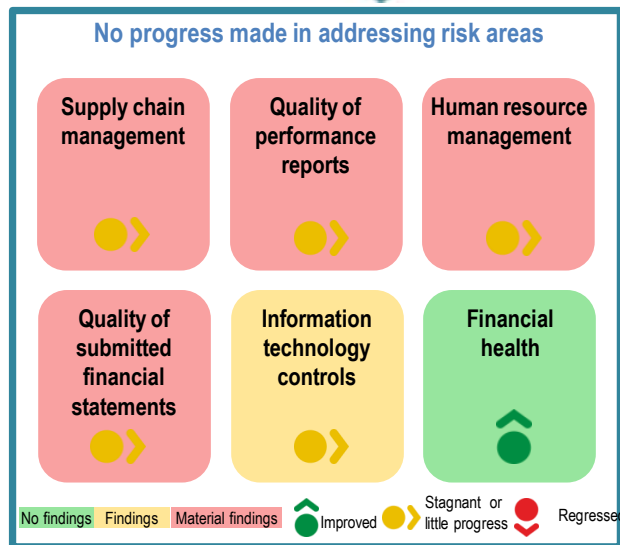
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the *level of assurance* that was provided by the key role players and the progress made on their *commitments*.



No change in audit outcome

The lack of improvement in audit outcomes was due to management's failure to address the prior year audit findings relating to performance information and compliance with legislation.

Six key risk areas

Overall, the six key risk areas were stagnant due to a lack of progress in addressing findings reported in the prior year's audit and management reports.

The municipality made material amendments to the financial statements and this enabled the municipality to maintain their unqualified audit opinion.

The municipality must ensure that the skills and experience of the officials appointed by municipality are aligned to their roles and responsibilities and all vacant posts should be filled by suitable candidates who are in possession of the necessary skills and experience.

The municipality did not report on their actual performance as they did not have a proper performance management system in place.

The status of supply chain management remains unsatisfactory, primarily because the municipality failed to comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process.

Consultants were again engaged to assist with financial reporting (preparation of financial statements) at a cost of R397 454 (2012: R319 000). Our concerns relating to the continued assistance sought from consultants include their ineffective management and lack of transfer of skills resulting in continued dependence on consultants.

Key controls and root causes

The lack of progress with regard to key controls was due to leadership's failure to address weaknesses in the three key control areas, although management was reminded of these weaknesses on a quarterly basis.

The municipal manager must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight of financial and performance management

- Ensure that reconciliations are performed in a timely manner so that complete, relevant and accurate information is presented in the financial statements.
- Develop and monitor the implementation of action plans to address internal control deficiencies identified in the current and prior years
- Appoint a designated official who will review and monitor compliance with applicable laws and regulations.

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

- An audit action plan should be developed, implemented and monitored to ensure that prior year audit findings are addressed. The municipal manager needs to take responsibility for this process.
- The competencies of the current financial, performance and supply chain management officials should be assessed in order to identify and address gaps in competency levels.
- The municipality should have a proper system to track non-performance and deviation from laws and regulations by officials and ensure that proper steps are taken to address identified deficiencies.

Impact of key role players on audit outcomes

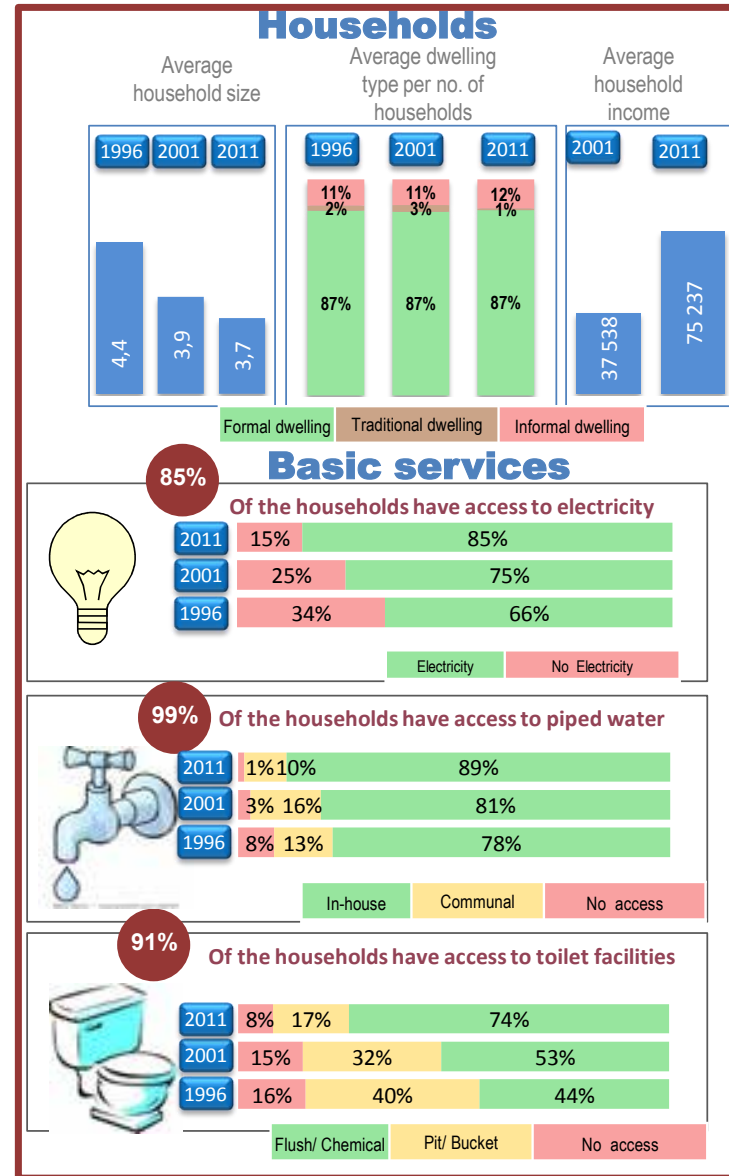
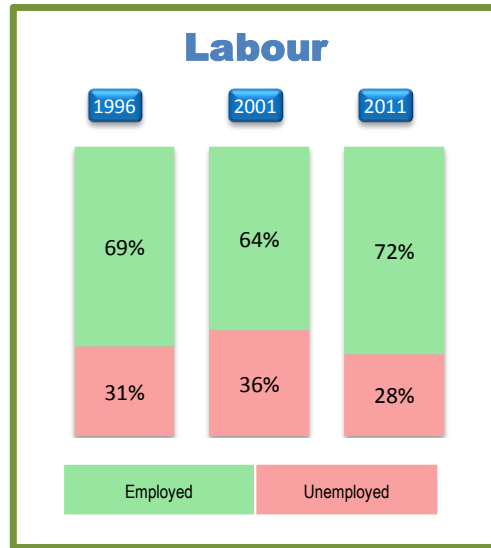
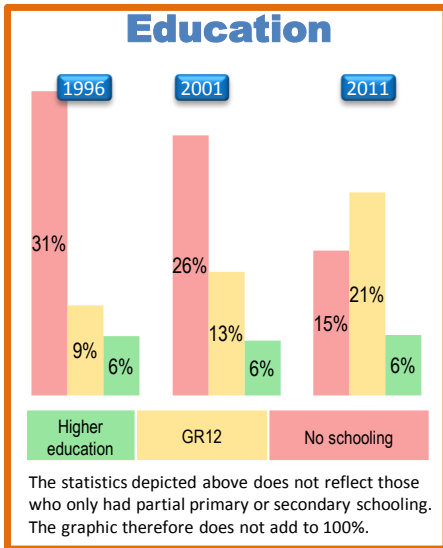
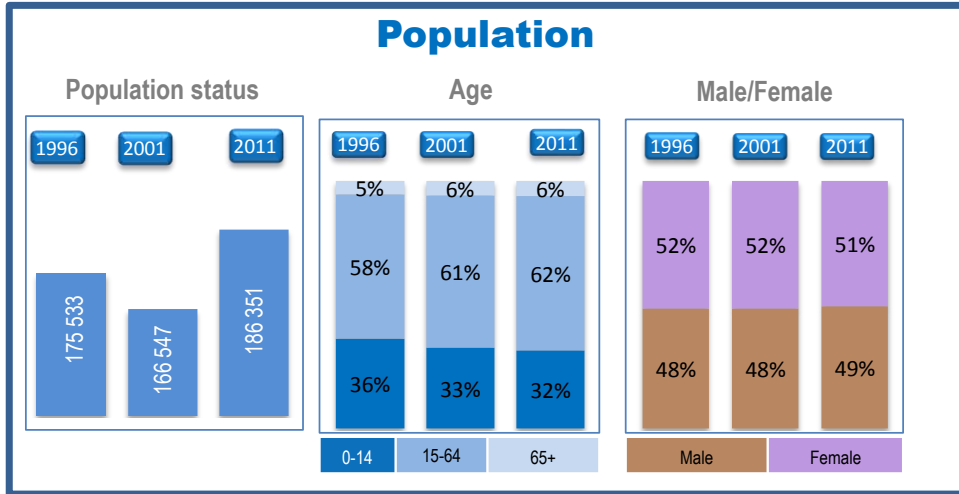
Assurance levels should be improved by ensuring stability at the level of municipal manager and senior management and effective functioning of the recently established audit committee and internal audit function in accordance to the relevant regulations.

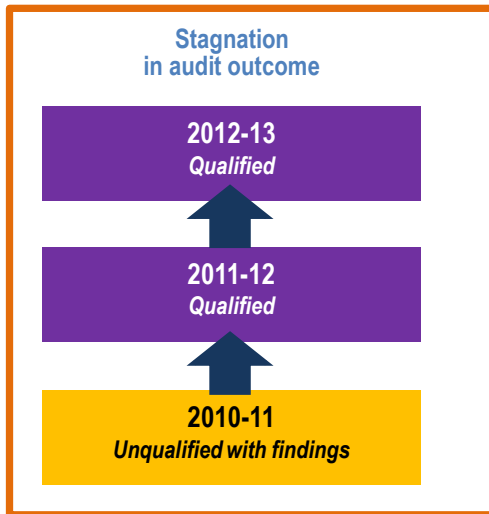
We met with the mayor twice during the financial year but these interactions had no impact on the audit outcome. The reason for our assessment is the lack of impact that the mayor had on the controls of the municipality as well as the status and impact of the commitments previously given.

The mayor's commitments of the previous year to perform daily, weekly and monthly reconciliations and to improve record keeping were partially implemented. The commitment to improve the municipality's performance management system was not honoured and no new commitments were obtained. This municipality seems to be stagnating at the current level and leadership needs to prioritise addressing the findings that prevent the municipality from achieving a clean audit, namely compliance and predetermined objectives.

1.14 Pixley Ka Seme District Municipality

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





Drivers of key controls not improving

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

▲ Good ● Concerning ▼ Intervention required
▲ Improved ● Stagnant or little progress ▼ Regressed

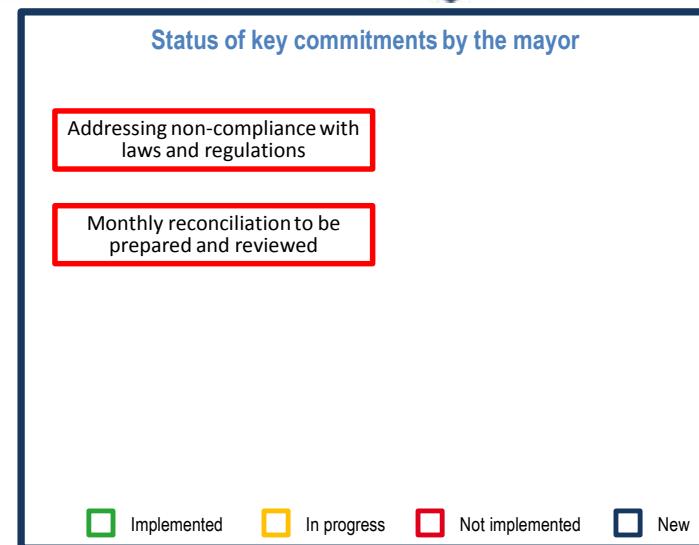
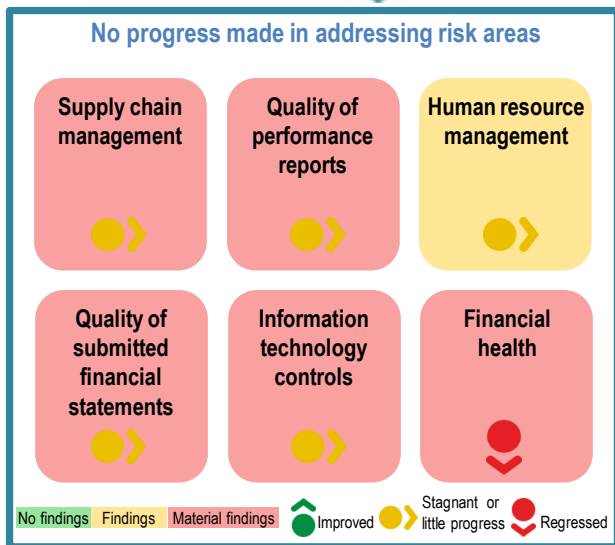
Assurance levels should be improved

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

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

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

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



No change in audit outcome

The lack of improvement in audit outcomes was due to the municipal leadership's inability to provide sufficient supporting documentation for the financial statements and performance information. Furthermore, the leadership could not prevent non-compliance with laws and regulations.

Six key risk areas

Overall, the six key risk areas stagnated due to lack of progress made in addressing shortcomings relating to the key risk areas.

A PDO audit could not be performed as a performance report has not been submitted for audit for the past three years.

The status of supply chain management has slightly regressed, primarily because the municipality in many instances did not comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process.

The stagnation in the quality of submitted financial statements was due to material misstatements which were again identified by the auditors. Some of the misstatements were corrected, while the uncorrected misstatements led to a qualified audit opinion.

Financial health regressed as current liabilities exceeded current assets, placing the municipality in a position of not being able to pay creditors as they become payable. The municipality disclosed that a material uncertainty exists with regard to its ability to operate in the foreseeable future without government intervention, but no specific actions were taken to address this problem. This problem needs to be elevated to provincial treasury in an attempt to find a solution.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Key controls and root causes

The overall lack of improvement in key controls was due to the leadership's unwillingness to take ownership of improving audit outcomes.

The municipal manager and senior management should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implementation of proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Appoint a designated official who will review and monitor compliance with applicable laws and regulations.

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

- Address poor performance and transgressions. The consequences must be communicated in advance to all staff and strictly adhered to.
- All key positions must be filled with permanent staff who are suitably skilled in order to stabilise the municipality's operations and reporting. At year-end vacancies existed in the post of municipal manager and an official responsible for the management of performance information.
- Internal control deficiencies identified must be converted into an action plan to be monitored and reviewed regularly for progress.

Impact of key role players on audit outcomes

The assurance levels provided by key role players should be improved by implementing the recommendations of internal audit and the audit committee and by directing the work of the audit committee towards evaluating performance information. The shared internal audit unit needs to provide proper support to all local municipalities in the district as this was a concern expressed by some local municipalities.

The municipal manager (acting) needs to hold staff accountable for shortcomings identified during the audit processes to ensure that the findings do not recur. Action plans are not developed and implemented by senior management and this had a negative impact on the audit outcome.

We met with the mayor once during the financial year. Some assurance was provided through this interaction, but it had minimal impact on the overall audit outcome as the mayor had no decisive influence on the controls of the municipality and on the status and impact of the commitments previously given.

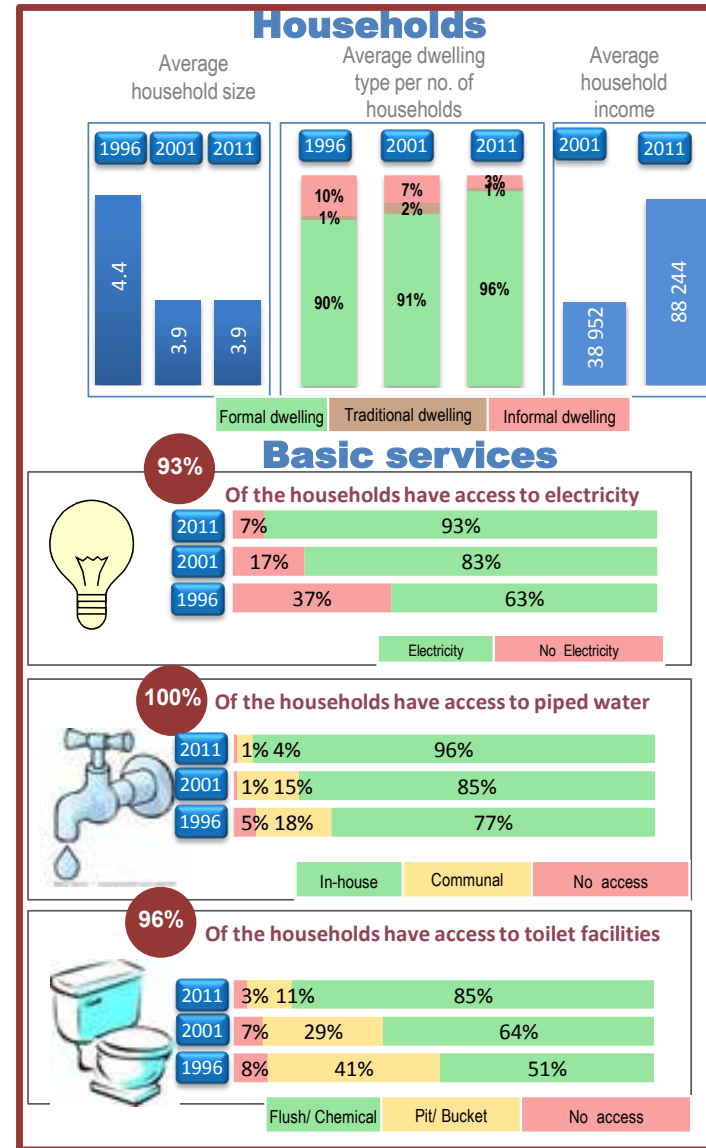
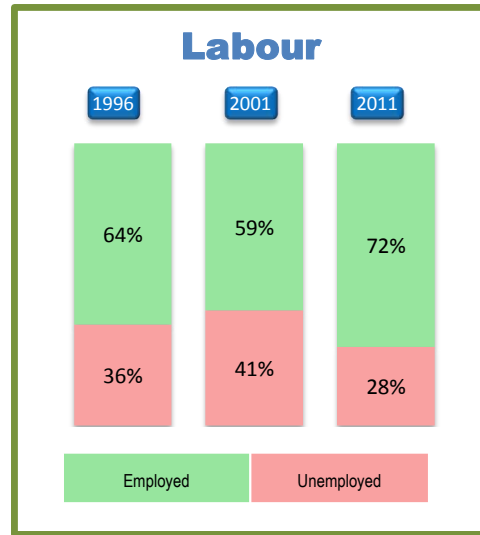
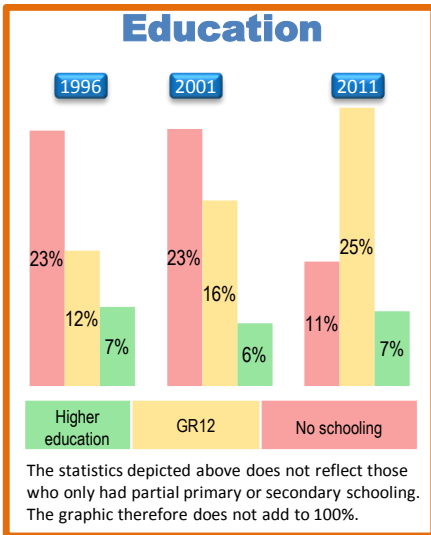
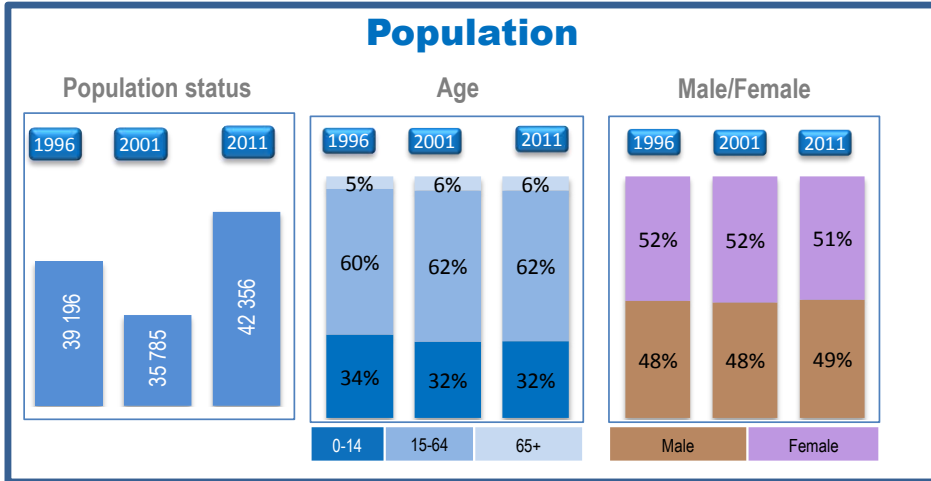
The mayor previously committed to put controls in place to ensure compliance with legislation and to prepare the necessary reconciliations. This was not done, resulting in a repeat of prior year findings. No new commitments were received from the mayor.

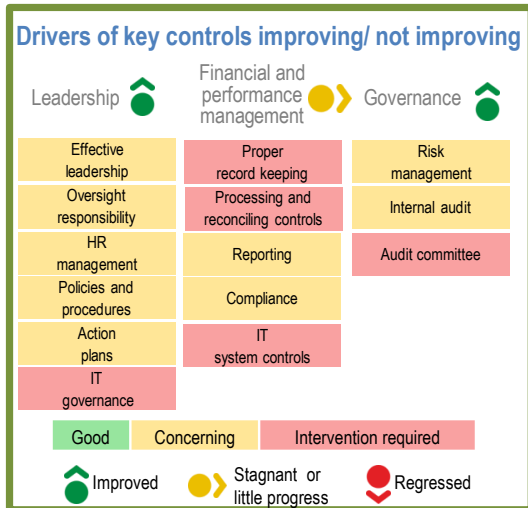
A district municipality has an oversight responsibility regarding local municipalities, but as evident from discussions at the district and local municipalities as well as

the audit outcomes of the local municipalities, the district municipality is not fulfilling its oversight role. An example of this is the shared internal audit and audit committee situated within the district municipality. These units are only partially effective and are not providing a good service to local municipalities. The district municipality's oversight role needs to be wider than mere assistance in the form of an audit committee and internal audit, to a point where the district municipality becomes the "centre of excellence" within the district. This will only be achievable once the district has sorted out their internal issues and improved their audit status to a point where they can lead by example.

1.15 Emthanjeni Local Municipality

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

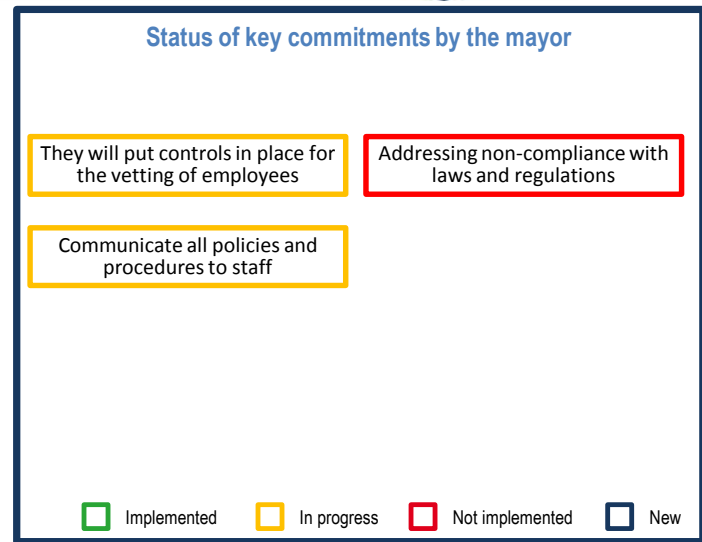
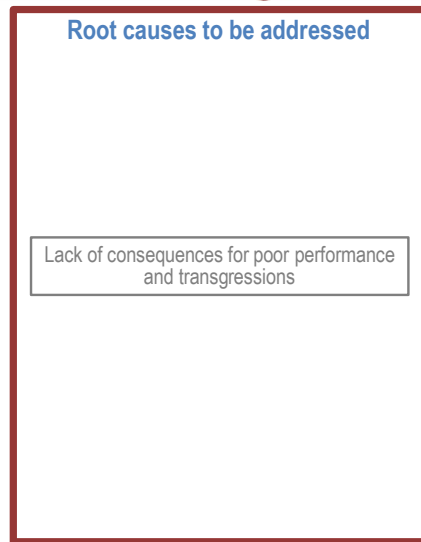
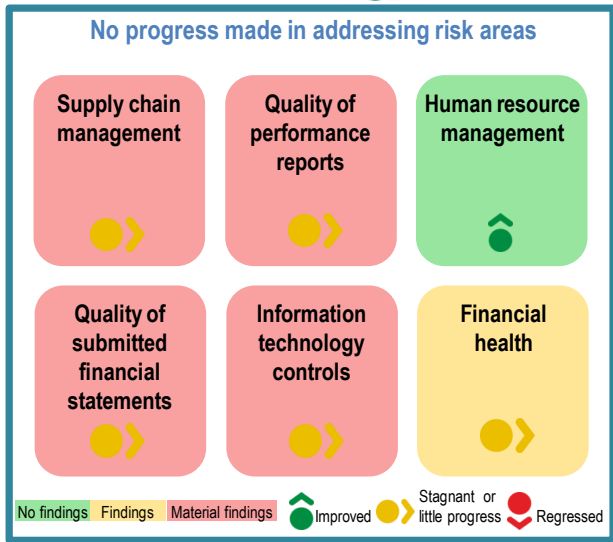




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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**.



Significant movement in audit outcome

The improvement in the audit outcome was due to the significant involvement and commitment of the municipal manager and CFO in ensuring that their staff are on par with the municipality's vision to improve service delivery and therefore also improve their audit outcome. The municipality ensured that prior year material misstatements were fully addressed. However, there has not been any significant improvement in areas such as compliance with laws and regulations and performance reporting.

Six key risk areas

Overall, the six key risk areas stagnated due to lack of progress in addressing the key risk areas.

No progress was made towards improving the quality of performance reports. The municipality has not addressed previously reported findings on the usefulness and reliability of reported performance information.

The municipality made material amendments to the financial statements, which enabled it to improve its audit opinion.

The status of supply chain management has slightly regressed, primarily because the municipality in many instances did not comply with the legislative requirements to obtain three quotations, to procure only from suppliers with valid tax clearance certificates and to use providers who had submitted declarations of interest.

The municipality:

- spent conditional grants for purposes for which they were not intended.
- realised a significant deficit for the year.

Consultants were again engaged to assist with financial reporting (preparation of financial statements and assistance with other accounting issues) and preparation of performance information at a cost of R1 692 186 (2012: R1 693 290). 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 staff, and a lack of transfer of skills, resulting in continued dependence on consultants.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Key controls and root causes

The overall improvement was due to leadership's entrenched commitment in realising the prospects of clean administration and highly driven and committed junior staff, especially in the finance department.

The municipal manager must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Daily, weekly and monthly reconciliations should be performed and senior officials must be assigned to monitor this. The municipality must also improve their record keeping to ensure that information is readily available.
- Improvements in IT-related controls and governance need to be effected, especially since instances of alleged fraud had surfaced during the past financial year.
- Appoint a designated official who will review and monitor compliance with applicable laws and regulations.

The municipal manager should address the root causes of inadequate controls as follows:

- Regular performance feedback must be provided by his direct reports and consequences implemented for poor performance. These performance measures should be included in the performance agreements of senior managers.

Impact of key role players on audit outcomes

Improvement in the audit outcomes can be attributed to the strong presence of the mayor and municipal manager in the operations of the municipality.

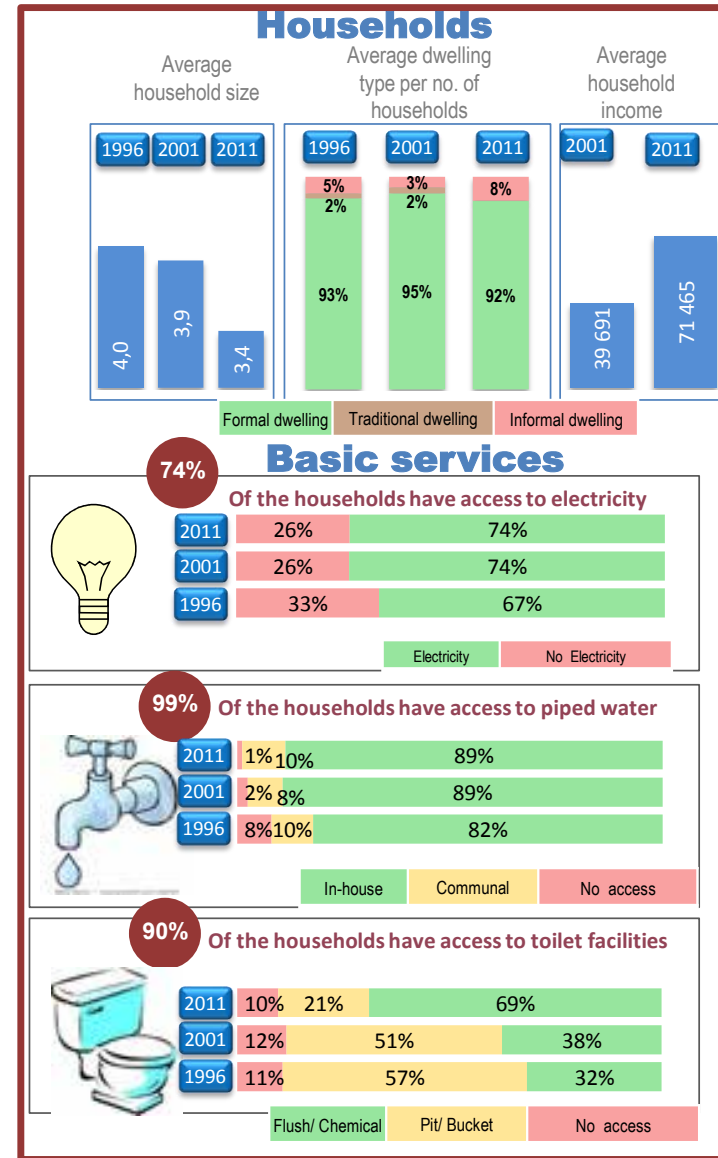
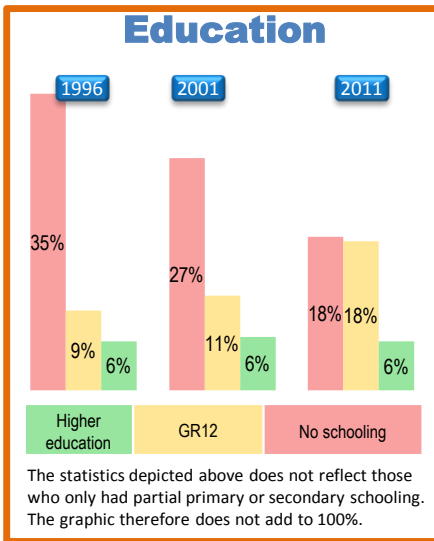
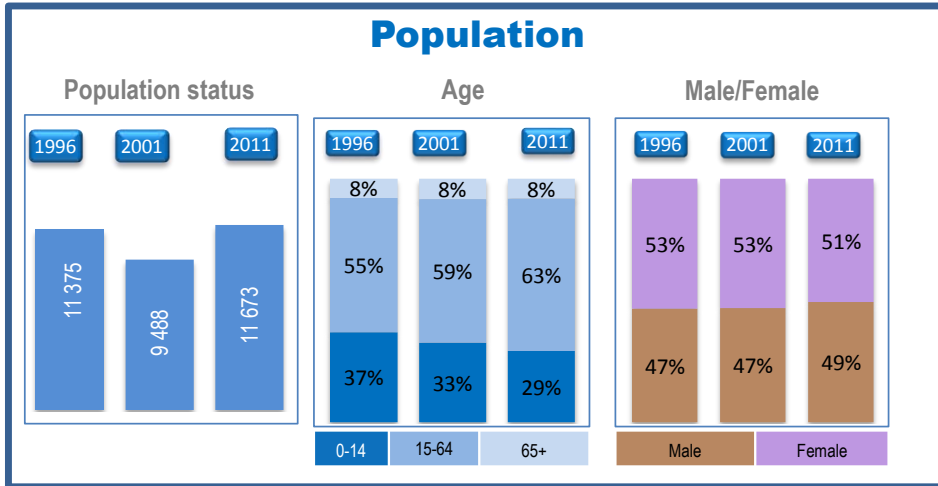
Except for material non-compliance issues identified, senior management and the municipal manager are making strides in improving the financial performance of the municipality insofar as clean administration is concerned. An audit committee needs to be established and the internal audit unit should be capacitated to ensure that it functions effectively.

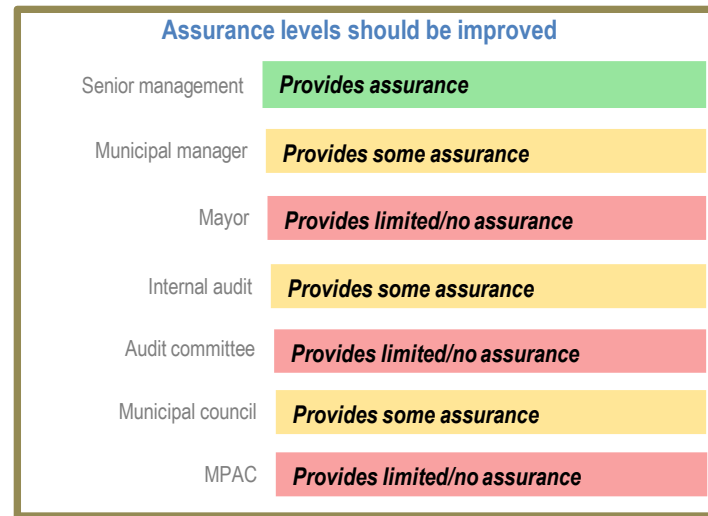
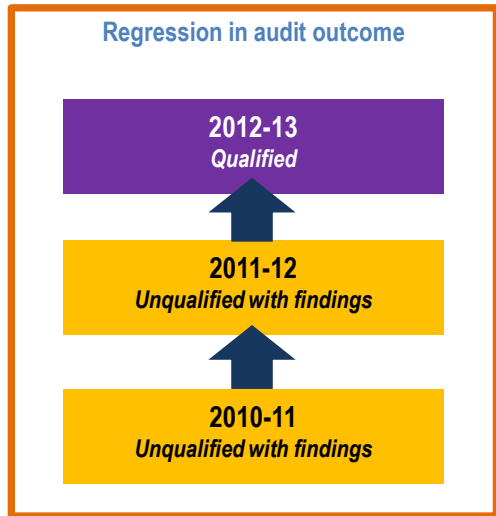
We met with the mayor twice during the financial year and these interactions had a significant impact on the audit outcome. The reason for our assessment is the impact that the mayor had on the controls of the municipality as well as the status and impact of the commitments previously given.

The mayor undertook to put procedures in place to ensure monitoring of compliance. This commitment was not implemented, resulting in a repeat of the high number of compliance findings reported in the prior year. The mayor also undertook to communicate all policies of the municipality to staff and to put controls in place to ensure that candidates are vetted before appointments are made. These are still in progress and no new commitments were obtained. Leadership needs to prioritise addressing the compliance and PDO findings that are preventing the municipality from achieving a clean audit. An audit action plan should be developed and implemented for this purpose.

1.16 Kareeberg Local Municipality

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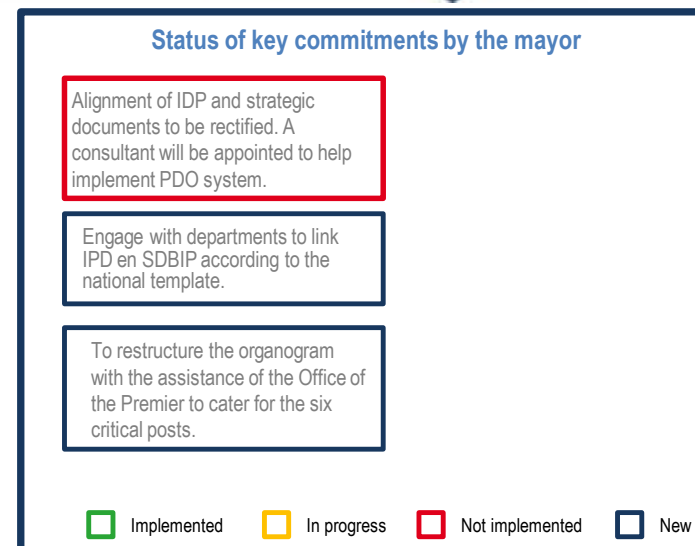
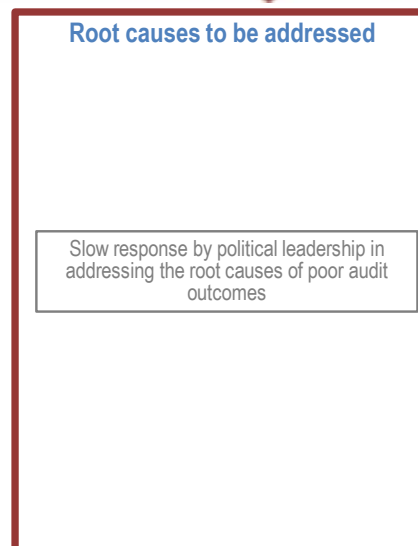
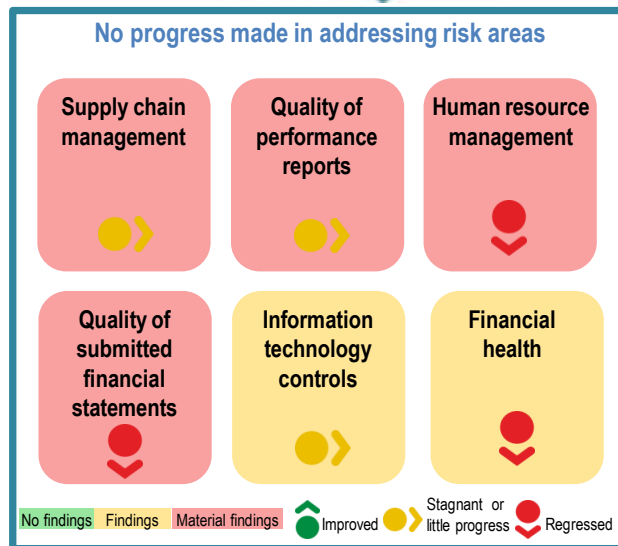




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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**.



Significant movement in audit outcome

The regression in the audit outcomes was due to a lack of controls in the finance and supply chain management departments, leading to findings relating to irregular and unauthorised expenditure.

Six key risk areas

Overall, the six key risk areas regressed due to lack of progress in addressing the key risk areas.

With regard to supply chain management there has been a lack of improvement, primarily because the municipality in many instances failed to comply with the legislative requirements to obtain three quotations and to use only providers who had submitted declarations of interest.

The financial statements contain material misstatements that management chose not to correct. These misstatements relate to unauthorised and irregular expenditure. Management did not correct these as they were in disagreement with the auditors. These misstatements resulted in qualifications in the audit report.

In terms of HR management, the deterioration was due to the appointment of a municipal manager who did not meet the minimum competency levels. This was the only HR management compliance finding and, in order to address this finding, the municipal manager needs to obtain the minimum competencies as required by the *Municipal regulations on minimum competency levels*.

The municipality did not report on its performance for the year under review as it did not have a proper performance management system in place.

In the area of financial health, the municipality regressed in that it had findings, especially relating to long delays in paying creditors and collecting receivables, as well as a 16% overspending of the final approved operating budget. This deterioration can be attributed to leadership's failure to follow the municipality's debt collection policy as vigorously as in the past. This problem needs to be addressed in order to avoid cash flow problems going forward.

Key controls and root causes

The overall lack of improvement in the key controls was due to leadership's failure to exercise adequate oversight of financial and performance reporting, compliance with laws and regulations as well as internal controls.

The municipal manager and senior management must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available 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 mayor and municipal manager should address the root causes of poor audit outcomes and inadequate controls as follows:

- An action plan addressing the lack of controls relating to supply chain management and non-compliance with laws and regulations should be developed and implemented.
- Financial and performance reports must be prepared and reviewed on a regular basis.
- The record keeping system, especially insofar as it relates to supply chain management documentation, must be revisited in order to facilitate compliance with supply chain management prescriptions.

These issues were also highlighted in the prior year, but leadership did not respond to the recommendations.

Impact of key role players on audit outcomes

The municipal manager should enhance assurance levels by improving management's response to the root causes of regressed audit outcomes and the lack of reporting on predetermined objectives.

The audit committee was established late in the year and was therefore not able to discharge its duties and responsibilities. The shared internal audit unit of the district is being used, but this unit was not providing sufficient support to this municipality.

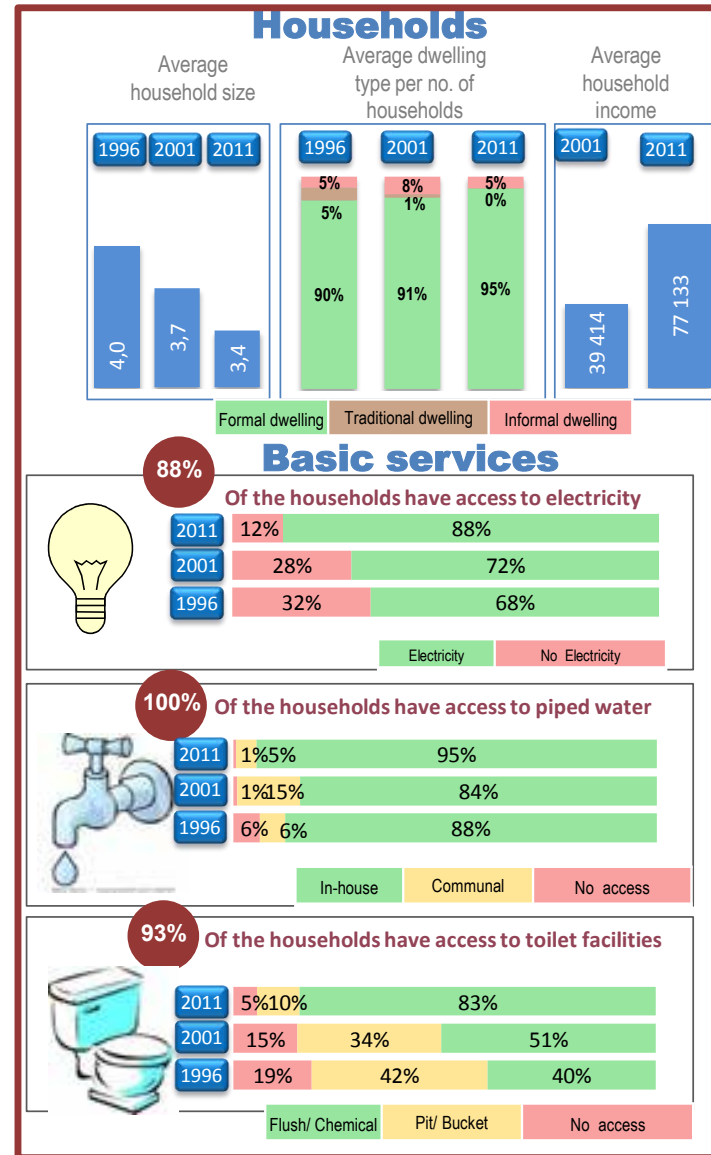
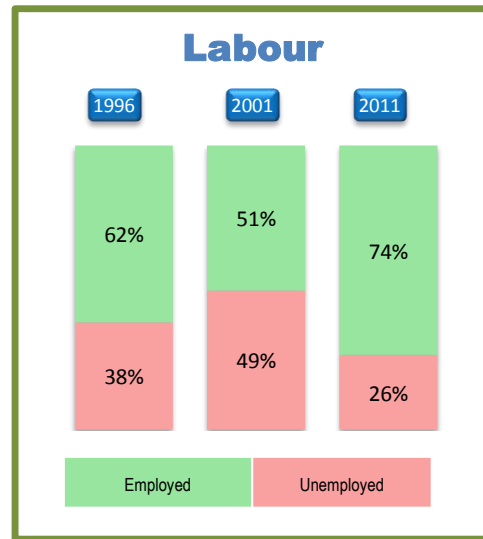
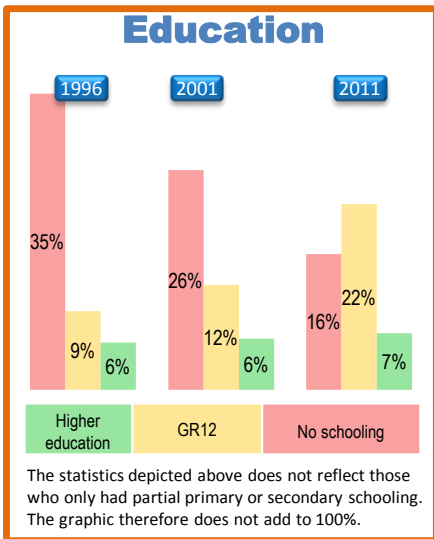
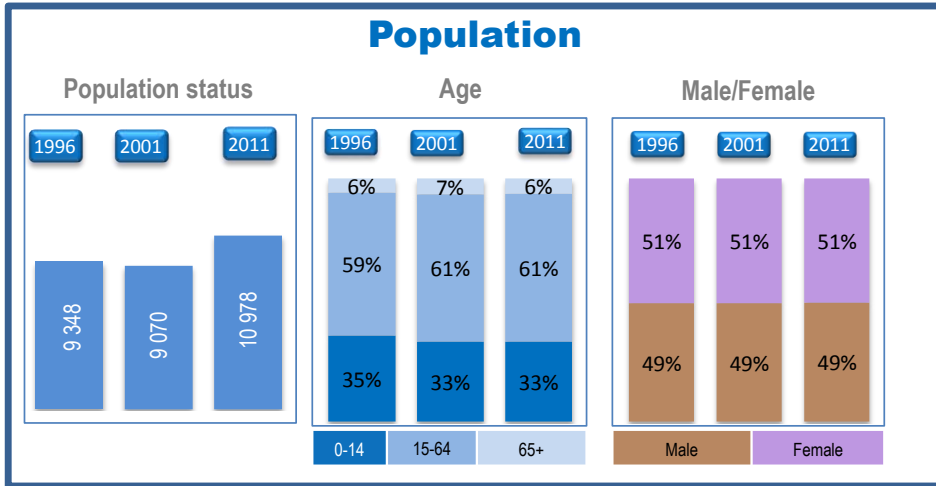
We met with the mayor twice during the financial year but these interactions had no impact on the audit outcomes. The reason for our assessment is the lack of impact that the mayor had on the controls of the municipality as well as the status and impact of the commitments previously given.

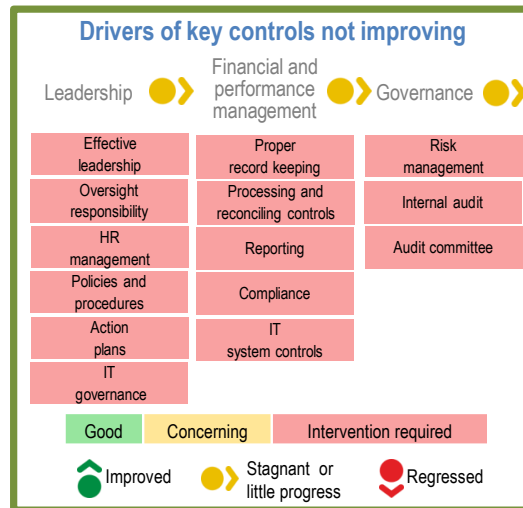
The municipal manager and mayor undertook to fully implement the previous year's commitment, which was to address the misalignment of the integrated development plan (IDP) and other strategic documents. A consultant was to be appointed to help implement a performance reporting system. These commitments have not yet been honoured.

The mayor subsequently committed to engage with departments to link the IDP and SDBIP according to the national template and to restructure the organogram with the assistance of the office of the premier to cater for the six critical posts.

1.17 Renosterberg Local Municipality

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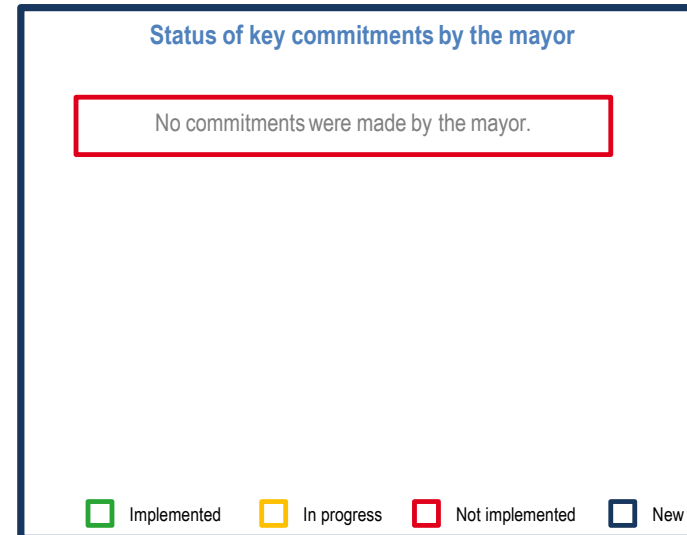
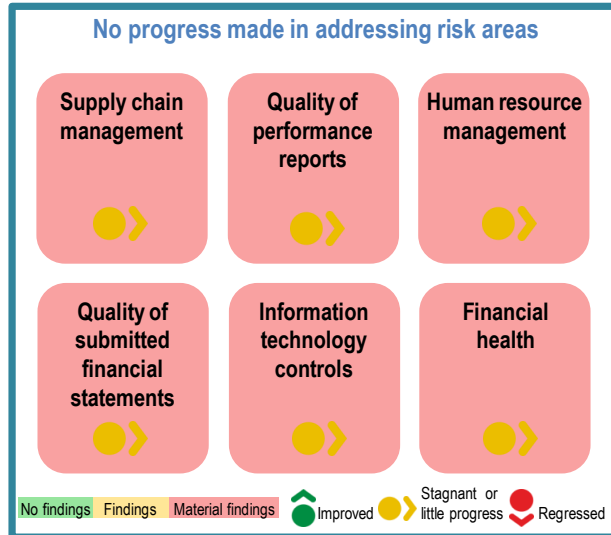




The current *audit outcomes* are the result of the attention given to the six key risk areas,

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*.



No change in audit outcome

The lack of improvement in the audit outcome was due to the municipal leadership's inability to provide sufficient supporting documentation for the financial statements and performance information. Furthermore, the leadership could not prevent non-compliance with laws and regulations.

Six key risk areas

Overall, the six key risk areas stagnated due to lack of progress in addressing shortcomings relating to the key risk areas.

PDOs could not be audited as the performance report was not submitted for audit due to vacancies in key positions.

The municipality made material amendments to the financial statements, but despite this, the final set of financial statements still contained material misstatements as reported in the audit report. HR management has not been addressed, which has significantly affected the municipality in many respects.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances failed to keep proper documentation to demonstrate compliance with the legislative requirements.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Consultants were again engaged to assist with financial reporting (preparation of financial statements and asset register, including most other accounting functions) at a cost of R1 328 493 (2012: R68 400). Our concerns relating to the continued assistance sought from consultants include their ineffective management and lack of transfer of skills, resulting in continued dependence on consultants.

The limitations placed on the work of the auditors due to the unavailability of supporting documentation on key components impacted the financial health focus area to the extent that a proper evaluation of the municipality's financial health was not possible.

Key controls and root causes

The overall lack of improvement in the key controls was due to the unwillingness of leadership to take ownership of improving audit outcomes.

The mayor and municipal manager should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implementation of proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Appoint a designated official who will review and monitor compliance with applicable laws and regulations.

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

- Address poor performance and transgressions. The consequences must be communicated in advance to all staff and strictly adhered to.
- All key positions must be filled with permanent staff who are suitably skilled in order to stabilise the operations and reporting of the municipality. Key vacancies that should be filled are the positions of municipal manager, CFO and all other senior managers.
- Internal control deficiencies identified must be converted into an action plan to be monitored and reviewed regularly for progress.

Impact of key role players on audit outcomes

The assurance levels provided by key role players should be improved by implementing the recommendations of internal audit and the audit committee. The level of assurance provided by these units will improve only if the municipality is able to maintain their record keeping and takes the role of these units more seriously.

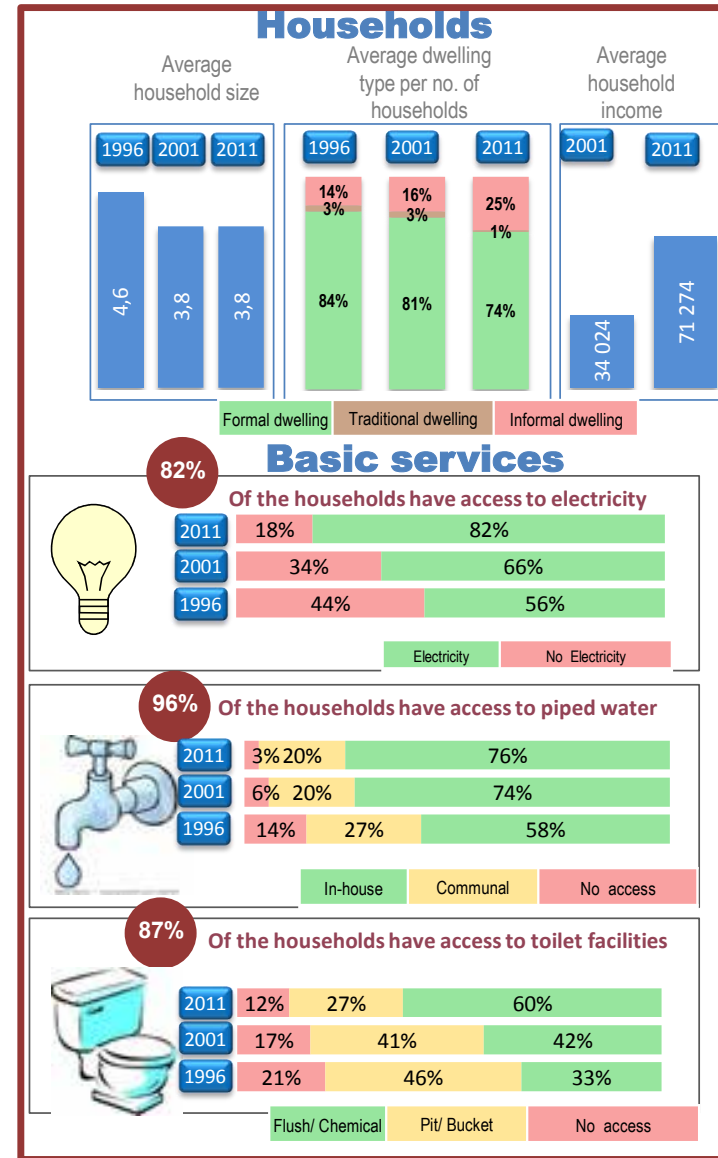
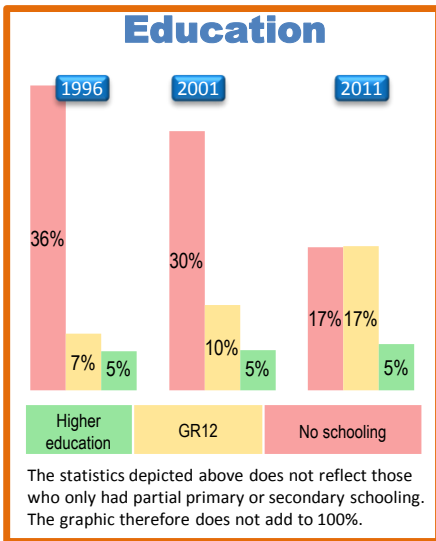
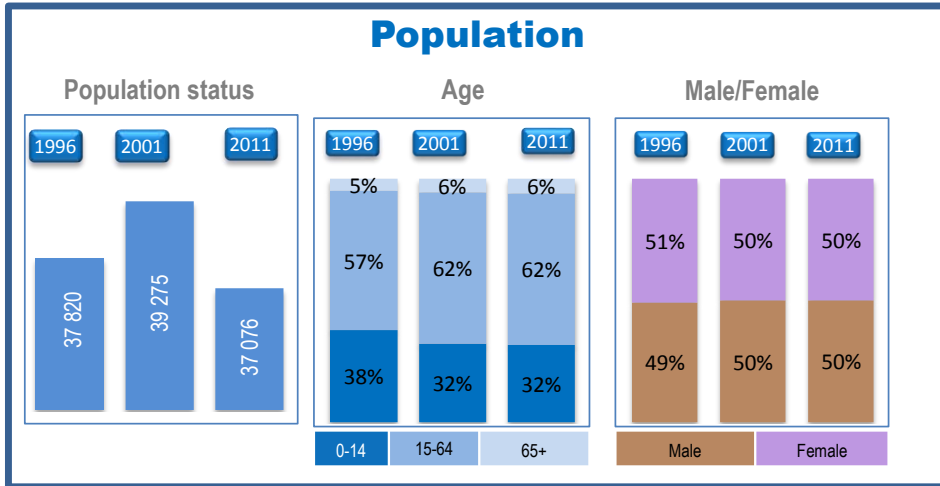
The vacancies in the position of municipal manager and in senior management have resulted in the municipality failing to design, implement and monitor the internal controls, especially around record keeping and compliance with laws and regulations.

We met with the mayor twice during the financial year. No assurance was provided through these interactions. As evidenced by the overall audit outcome, the mayor had no decisive influence on the controls of the municipality and on the status and impact of the commitments previously given.

No commitments were received from the mayor, but the filling of the municipal manager and CFO positions needs to be prioritised. At the same time the municipality needs to implement proper credit control procedures to improve its cash flow position.

1.18 Siyancuma Local Municipality

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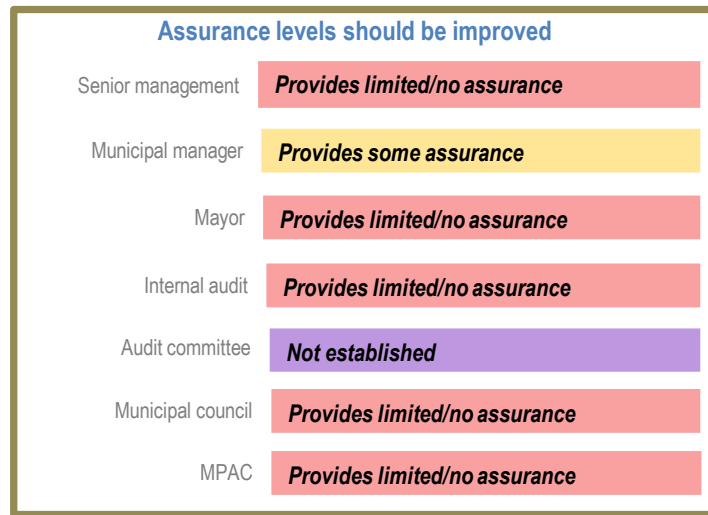




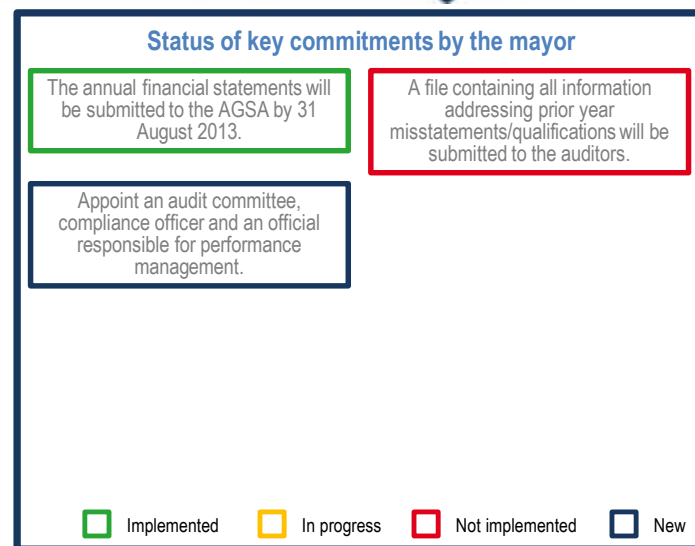
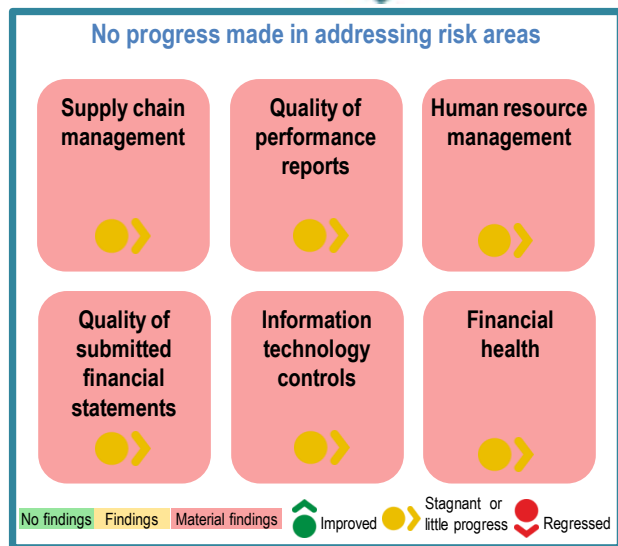
The current **audit outcomes** are the result of the attention given to the **six key risk areas**,



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**.



No change in audit outcome

The lack of progress in improving the audit outcome was due to the municipality's inability to provide sufficient supporting documentation for the financial statements and performance information. Furthermore, the municipality could not prevent non-compliance with laws and regulations.

Six key risk areas

Overall, the six key risk areas showed a lack of progress due to little or no progress made in addressing key findings.

The municipality did not report on its actual performance for the year under review; therefore we were unable to assess the reliability of the performance report.

The municipality made material amendments to the financial statements, but despite this, the final set of financial statements still contained material misstatements as reported in the audit report.

The municipality must ensure that the skills and experience of the officials appointed by the municipality are aligned to their roles and responsibilities, and all vacant posts should be filled by suitable candidates who are in possession of the necessary skills and experience

The limitations placed on the work of the auditors due to the unavailability of supporting documentation on key components impacted the financial health focus area to the extent that a proper evaluation of the municipality's financial health was not possible.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances failed to comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process. This non-compliance resulted in the expenditure being irregular and therefore the municipality finds it difficult to resolve the issue relating to irregular expenditure.

Consultants were again engaged to assist with financial reporting (preparation of financial statements and update of the asset register) and preparation of performance information amounting to R9 001 460 (2012: R930 052). Our concerns relating to the continued assistance sought from consultants include their ineffective management, consultants being appointed for requirements which can be addressed by internal resources, over-dependency on consultants as a result of unfilled vacancies and lack of transfer of skills resulting in continued dependence on consultants.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Key controls and root causes

The lack of progress in improving the key controls was due to leadership's failure to address weaknesses in the three key control areas, although management was reminded of these weaknesses on a quarterly basis.

The municipal manager must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implementation of proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Appoint a designated official who will review and monitor compliance with applicable laws and regulations.
- Ensure that the organisational structure is reviewed and employees are allocated work in accordance with their experience and skills.

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

- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored.
- The municipality should have a proper system to track non-performance and deviation from to laws and regulations by officials and ensure that proper steps are taken address identified deficiencies.
- Develop and monitor the implementation of action plans to address internal control deficiencies identified in the current and prior years.

Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring stability at the level of municipal manager and senior management and by that an audit committee is established and that the role of internal audit is taken more seriously and their findings are responded by implementing controls. The shared internal audit unit of the district is used, but this unit was not providing sufficient support to the municipality.

We met with the mayor once during the financial year but this interaction had no impact on the audit outcome. The reason for our assessment is the lack of impact the mayor had on the controls of the municipality.

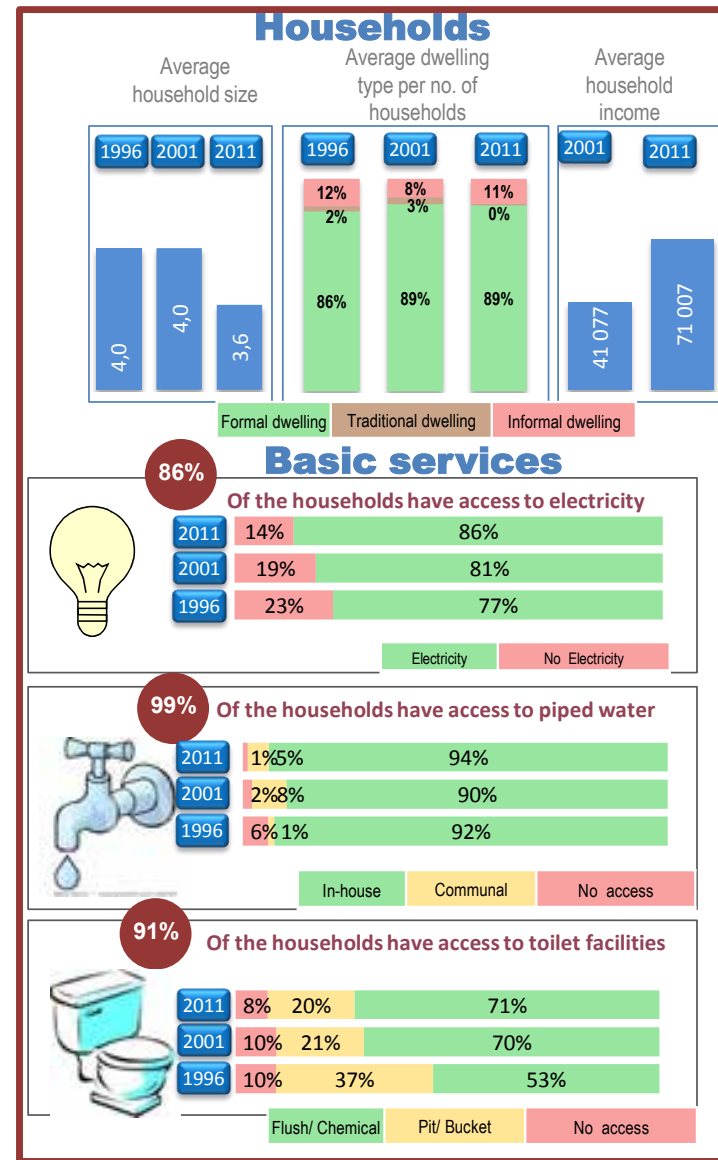
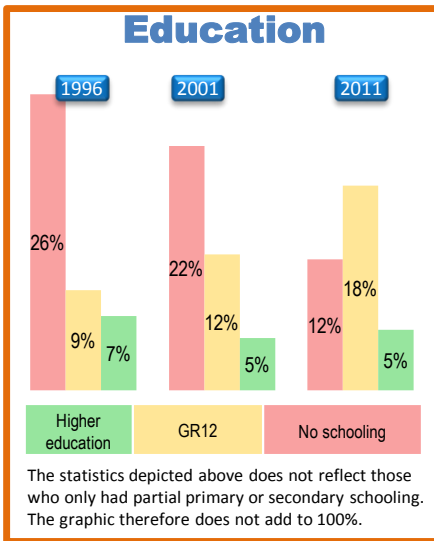
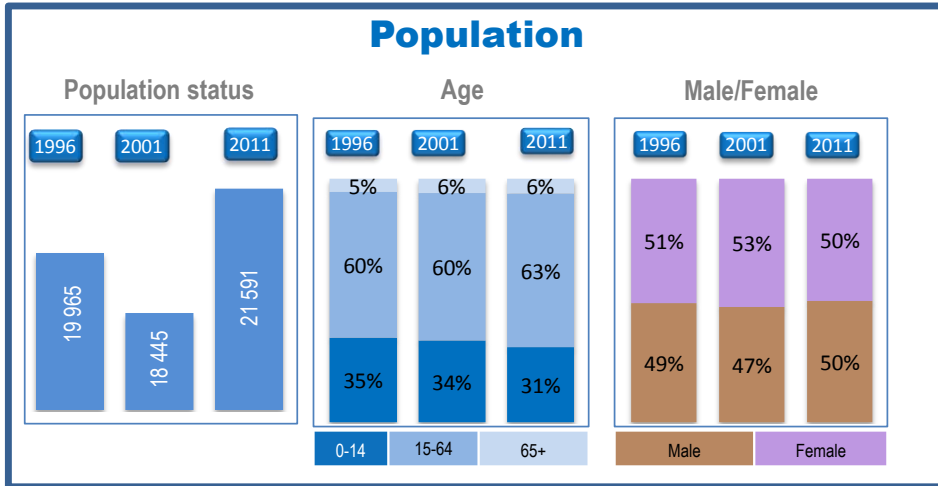
The mayor should be more visible at audit steering committee meetings as this will help the mayor to understand the reasons for the audit outcome, which in turn will help with an effective action plan.

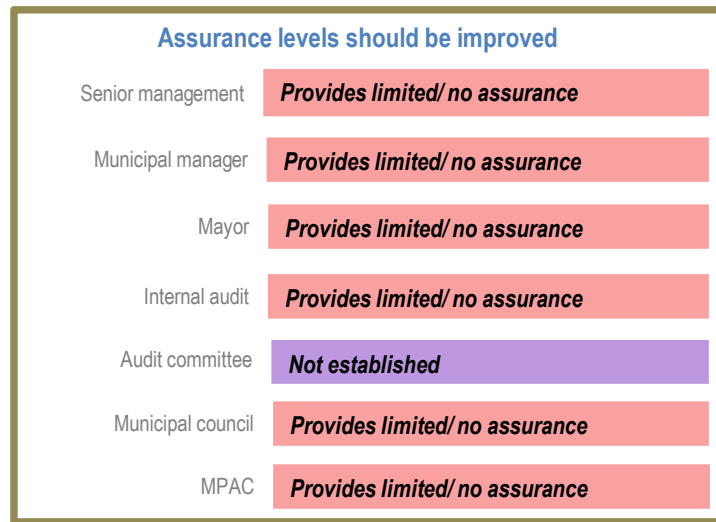
The mayor's commitment of the previous year to provide a file containing all the information that will resolve the prior year qualifications was not implemented. The prior year commitment relating to the submission of financial statements within the legislative deadline was implemented and the mayor further undertook to appoint an audit committee, compliance officer and an official responsible for performance management.

Leadership needs to prioritise the improvement of their records management process to ensure that supporting documentation requested is provided on time. This should be built into an audit action plan and receive urgent attention.

1.19 Siyathemba Local Municipality

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

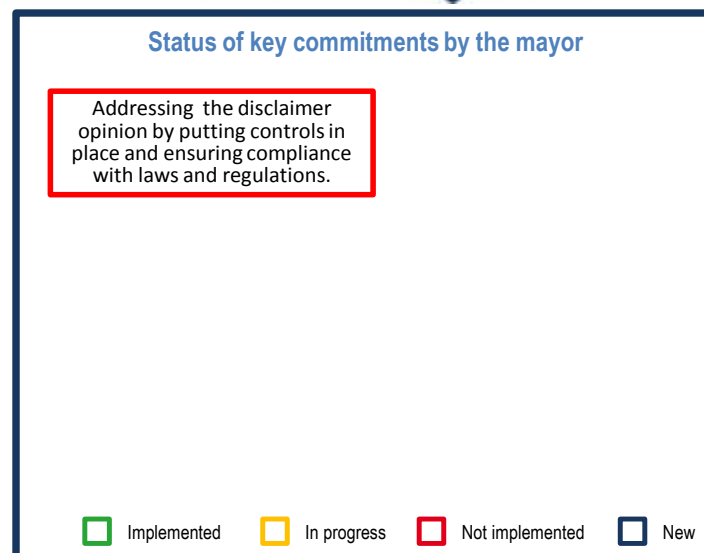
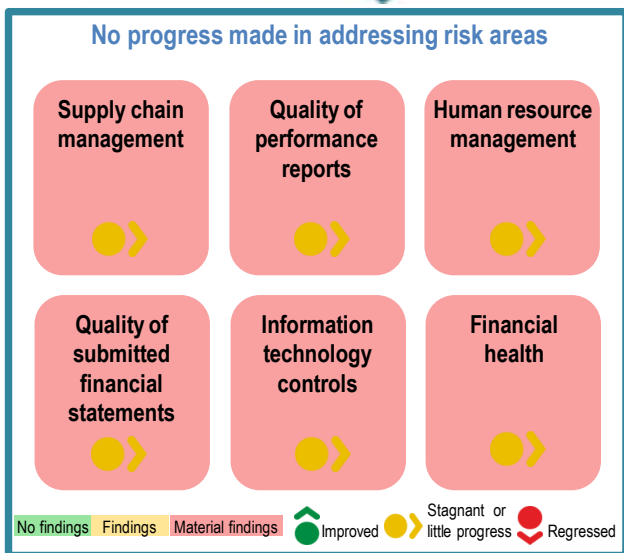




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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**.



No change in audit outcome

The lack of progress in improving the audit outcome was due to the municipality's inability to provide sufficient supporting documentation for the financial statements and performance information. Furthermore, the municipality could not prevent non-compliance with laws and regulations.

Six key risk areas

Overall, the six key risk areas stagnated due to lack of progress being made in addressing shortcomings relating to the key risk areas.

The municipality did not report on their actual performance for the year under review as they do not have a proper performance management system in place.

The municipality made material amendments to the financial statements, but despite this, the final set of financial statements still contained material misstatements as reported in the audit report.

The limitations placed on the work of the auditors due to the unavailability of supporting documentation on key components impacted the financial health focus area to the extent that a proper evaluation of the municipality's financial health was not possible.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances failed to comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process.

The municipality's HR administration remains an area of concern as no employment contracts could be located for a significant number of employees.

Consultants were again engaged to assist with financial reporting (preparation of financial statements and assistance on accounting records) and preparation of performance information at a cost of R3 414 145 (2012: R2 492 244). Our concerns relating to the continued assistance sought from consultants include the ineffective management of consultants as consultants were appointed for requirements which could be addressed by appointing suitably skilled internal staff, as well as a lack of transfer of skills resulting in continued dependence on consultants.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Key controls and root causes

The overall lack of improvement in the key controls was due to the unwillingness of leadership to take ownership of improving audit outcomes.

The municipal manager and senior management should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- The municipality must implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored. There is an urgent need for the appointment of a CFO on a permanent basis.
- Daily, weekly and monthly reconciliations should be performed and senior officials assigned to monitor the performance of these reconciliations.

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

- The municipal manager needs to hold staff accountable for shortcomings identified during the internal and external audit processes.
- An action plan must be developed and monitored to ensure that all the internal control deficiencies identified are addressed. The mayor should request feedback on a monthly basis.

Impact of key role players on audit outcomes

The establishment of an effective audit committee is vital to improve audit outcomes. The role of internal audit should be taken more seriously and their findings should be responded to by implementing controls.

The municipal manager needs to hold staff accountable for shortcomings identified during the audit processes to ensure that the findings do not recur. Action plans are not developed and implemented by senior management and this had a negative impact on the audit outcome.

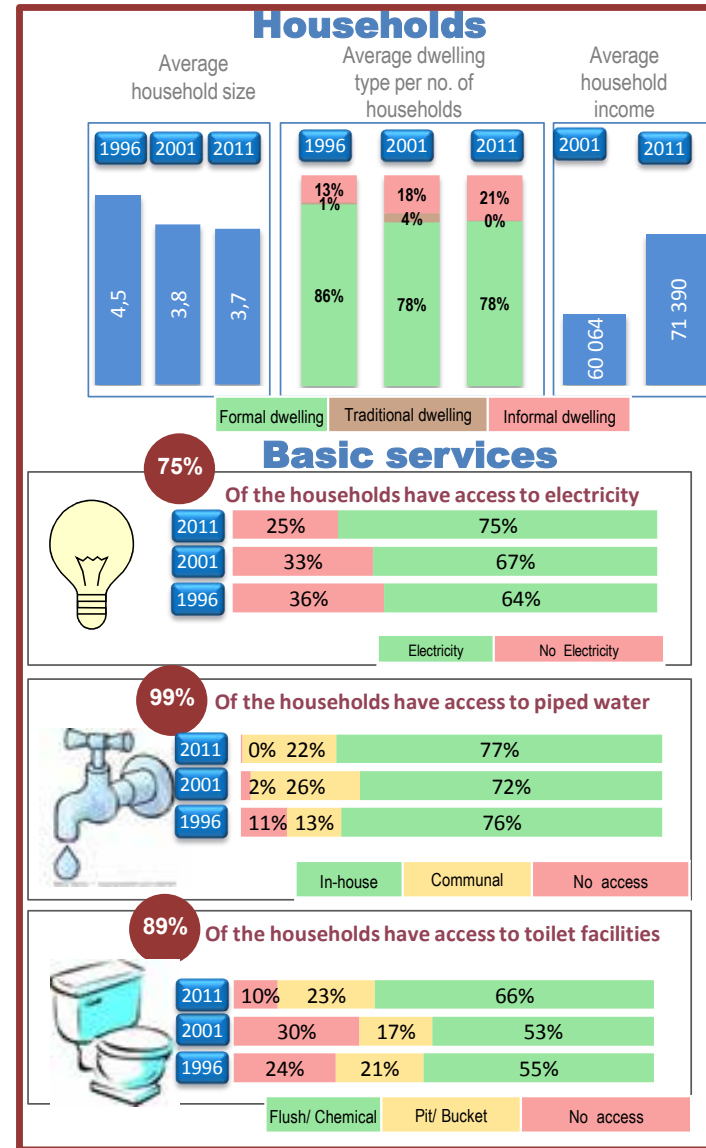
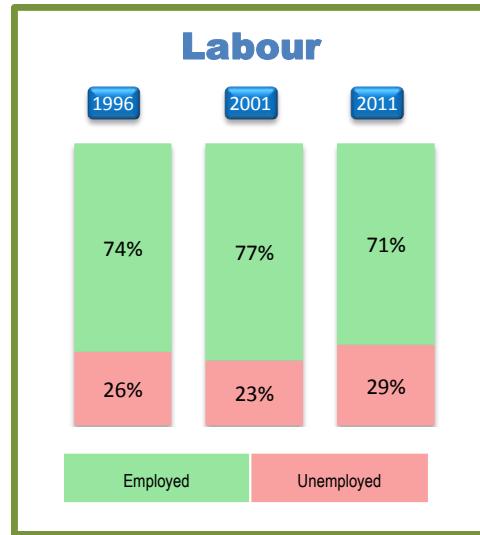
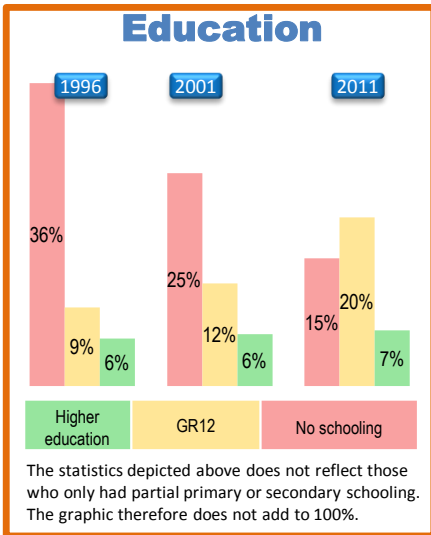
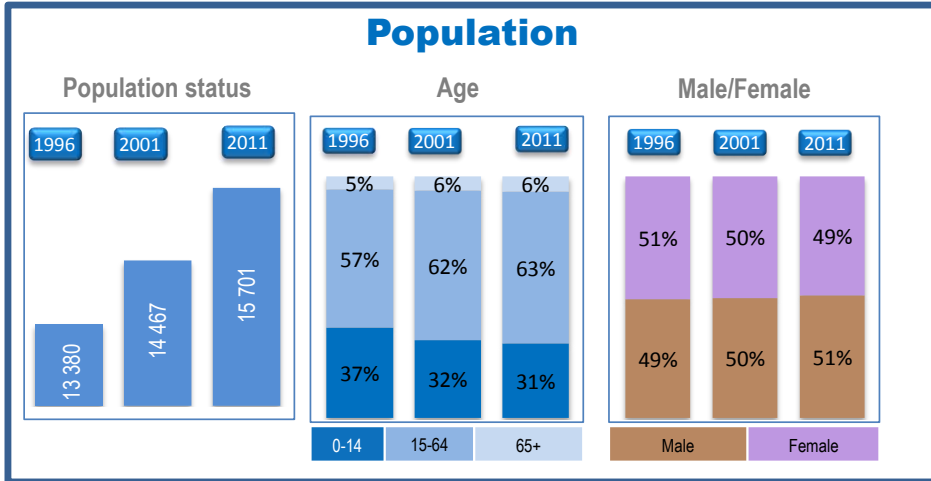
We met with the mayor once during the financial year but the interaction had no impact on the audit outcome as this was at the time the draft audit report was discussed. The reason for our assessment is the impact the mayor had on the controls of the municipality as well as the status and impact of the commitments previously given.

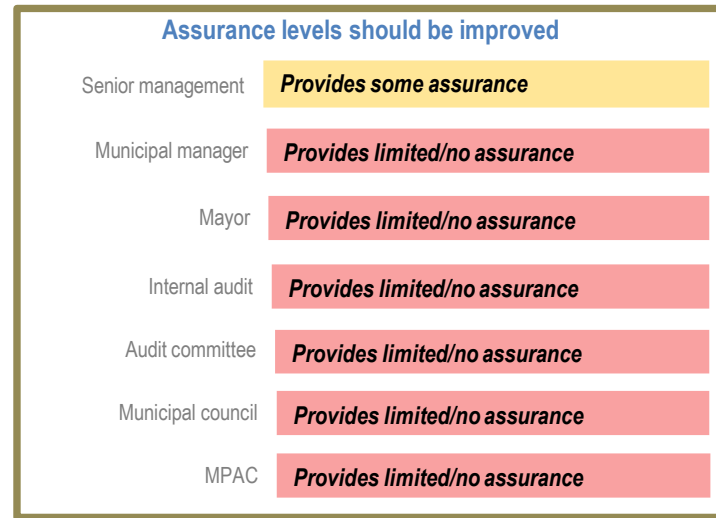
No new commitments were obtained from the mayor, while the commitment to put controls in place to address the issues that resulted in the disclaimer of opinion was not implemented.

Leadership needs to prioritise the improvement of their records management process to ensure that supporting documentation requested is provided on time. This should be built into an audit action plan and receive urgent attention.

1.20 Thembelihle Local Municipality

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

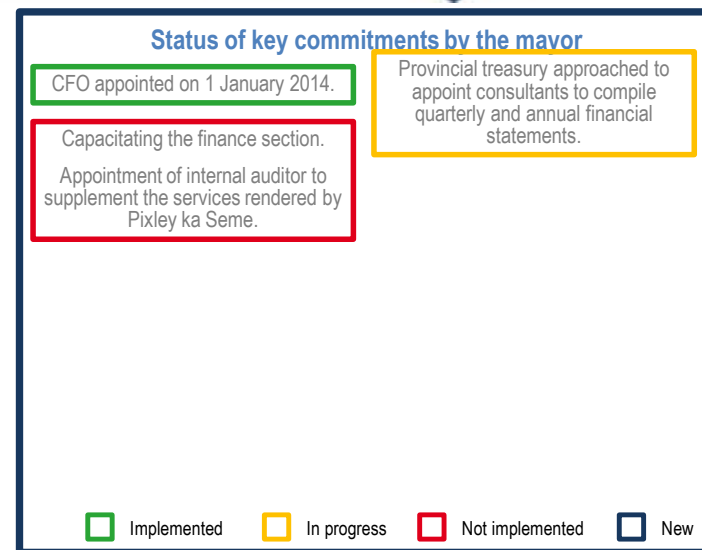
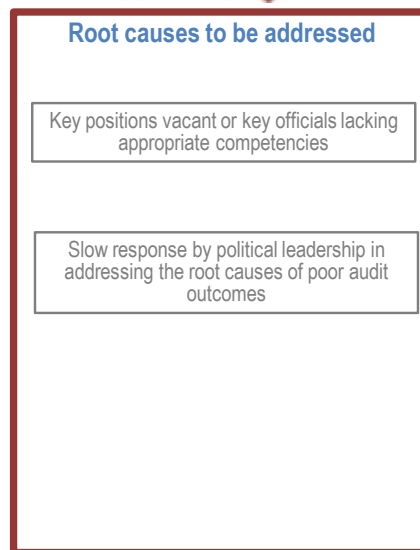
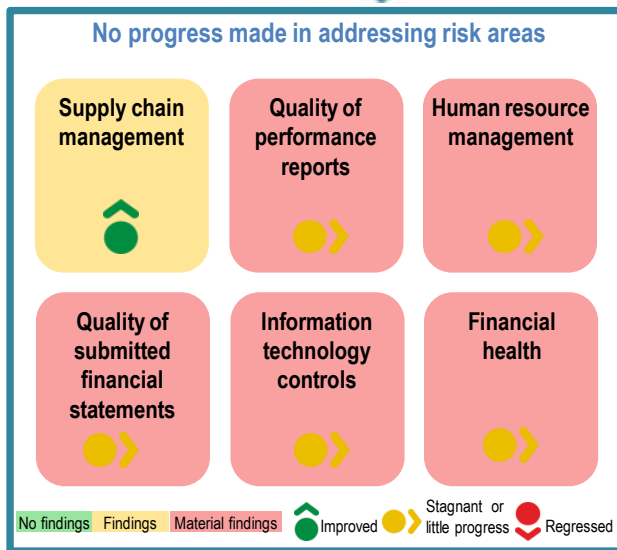




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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**.



No change in audit outcome

The lack of progress in improving the audit outcome was due to the municipality's inability to provide sufficient supporting documentation for the financial statements and performance information. Furthermore, the municipality could not prevent non-compliance with laws and regulations.

Six key risk areas

The municipality showed a lack of progress, again receiving findings in all six key risk areas.

The municipality did not report on their actual performance for the year under review as they do not have a proper performance management system in place.

The status of HR management remains unsatisfactory, primarily because the municipality failed to comply with the key legislative requirements relating to human resources. Findings were raised in relation to senior managers acting for a period longer than three months and competencies of key personnel that are inadequate.

The limitations placed on the work of the auditors due to the unavailability of supporting documentation on key components impacted the financial health focus area to the extent that a proper evaluation of the municipality's financial health was not possible.

Despite the improvement, the status of supply chain management remains unsatisfactory, primarily because the municipality failed to comply with legislative requirements. The audit revealed various transactions leading to the understatement of irregular expenditure by R18,5 million.

The municipality made material amendments to the financial statements, but despite this, the final set of financial statements still contained material misstatements as reported in the audit report.

Consultants were again engaged to assist with financial reporting (preparation of financial statements) at a cost of R327 129 (2012: R400 000). Our concerns relating to assistance sought from consultants include the municipality's over-dependency on consultants as a result of unfilled vacancies.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Key controls and root causes

The overall lack of progress in the key controls was due to vacancies in key management positions and insufficient resources being employed by the municipality.

The municipal manager and senior management must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored. Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

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

- Employ sufficient resources to ensure that functions relating to financial and performance reporting and compliance to laws and regulations are of good quality, with full adherence to the principle of segregation of duties.
- An action plan addressing the audit findings should be developed, implemented and monitored by the leadership of the municipality. This will ensure that leadership is able to respond to the findings that resulted in the poor audit outcome.

Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring stability at the level of senior management, by implementing the recommendations of internal audit and by directing the work of the audit committee towards evaluating the credibility of financial and performance information as well as compliance with laws and regulations. The level of assurance provided by internal audit and the audit committee will improve once the municipality improves its ability to keep proper accounting records.

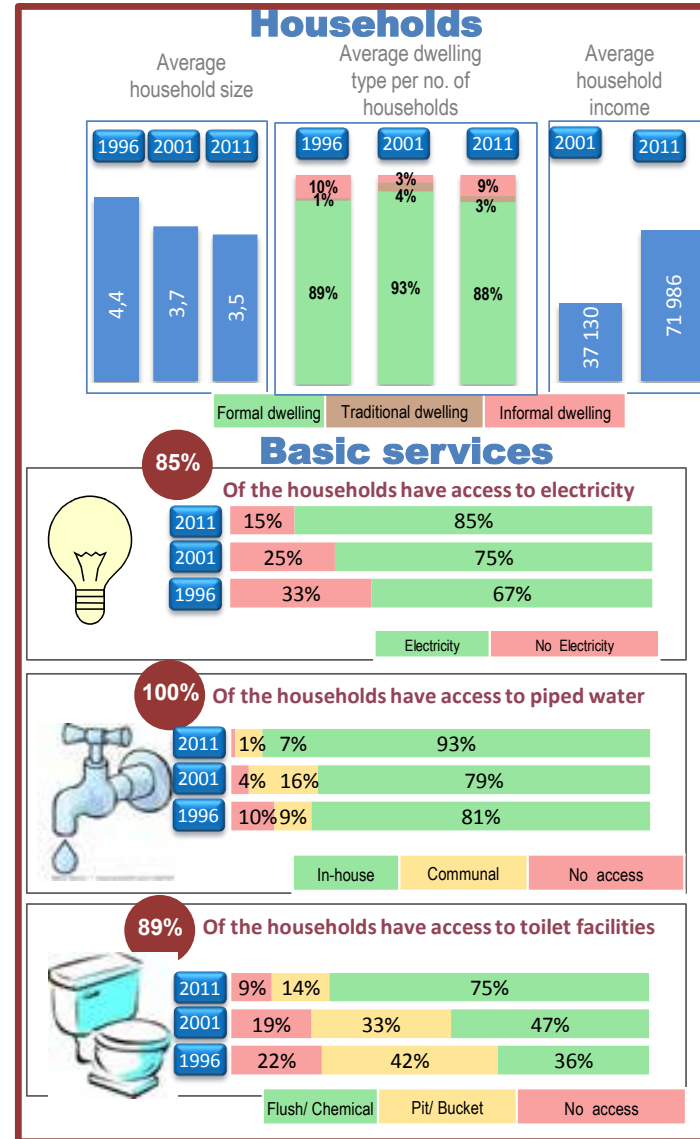
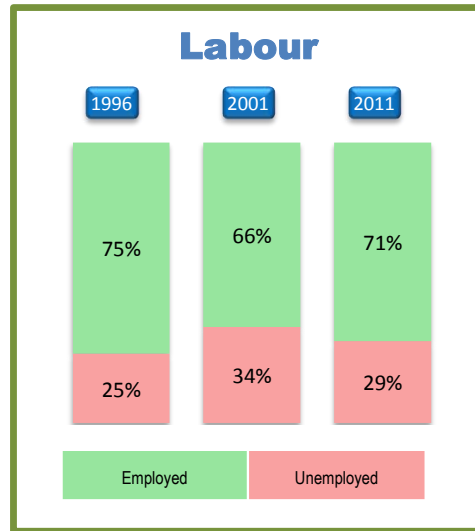
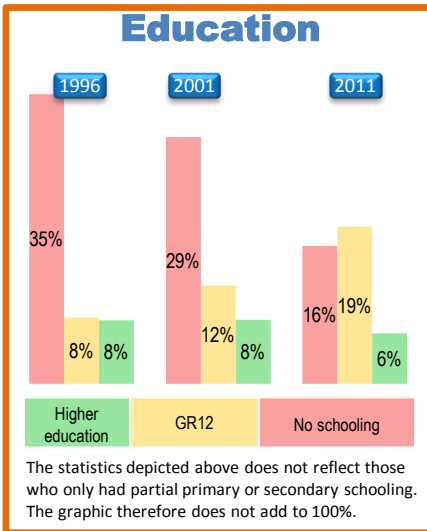
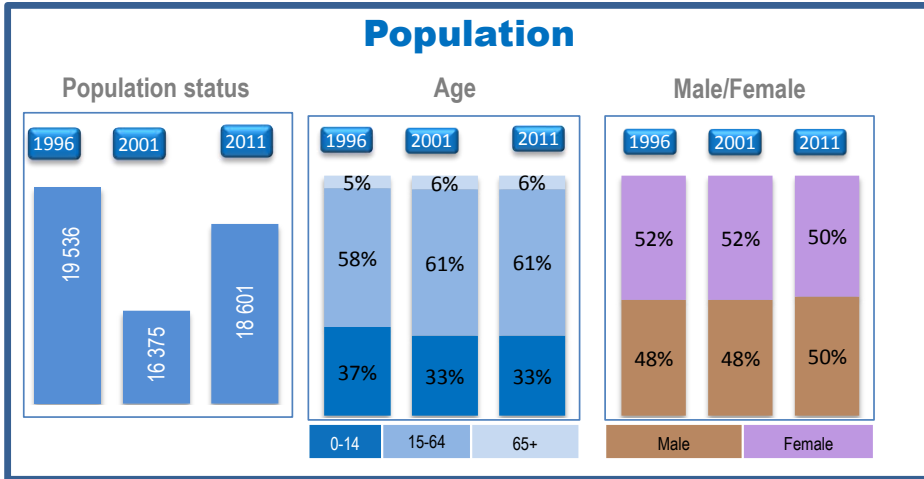
We met with the mayor three times during the financial year but these interactions had minimal impact on the audit outcomes. Previous commitments which have not been implemented include the capacitating of the finance section and strengthening of the internal audit unit. One commitment that was successfully implemented after year-end is the appointment of a CFO. The municipal manager has approached the provincial treasury to appoint consultants to assist with the

compilation of quarterly and annual financial statements. No new commitments have been obtained.

Leadership needs to prioritise the improvement of their records management process to ensure that supporting documentation requested is provided on time. This should be built into an audit action plan and receive urgent attention.

1.21 Ubuntu Local Municipality

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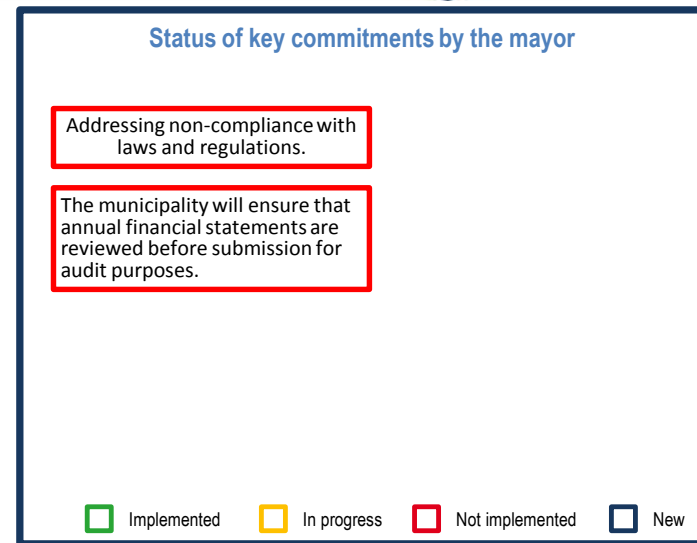
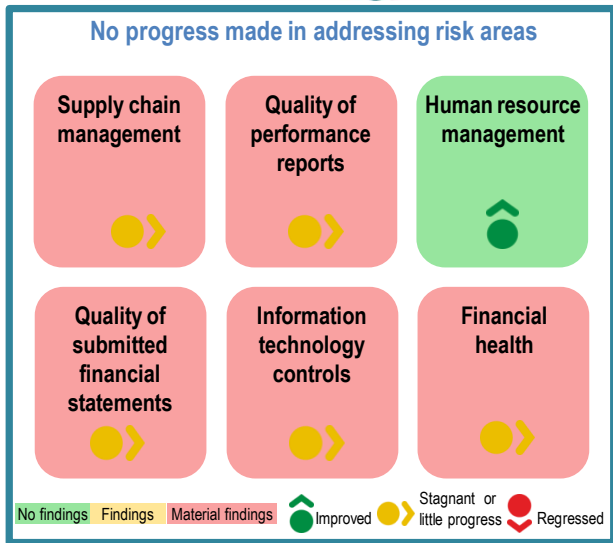




The current *audit outcomes* are the result of the attention given to the *six key risk areas*,

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*.



Significant movement in audit outcome

The consistent improvement in audit outcomes over the past three years was due to the significant involvement of and commitment by the municipal manager in ensuring that his staff are on par with the municipality's vision to improve service delivery and so-doing also improve their audit opinion. However, there has not been any significant improvement in compliance with laws and regulations and reporting on predetermined objectives.

Six key risk areas

Overall, the six key risk areas stagnated due to lack of progress being made in addressing shortcomings relating to the key risk areas.

The municipality did not report on their actual performance as they do not have a proper performance management system in place.

The municipality disclosed that a material uncertainty existed with regard to its ability to operate in the foreseeable future without government intervention. The municipality also spent conditional grants for a purpose for which they were not intended.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances failed to comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process.

The municipality made material amendments to the financial statements. This led to the quality of submitted financial statements being considered unsatisfactory.

The HR focus area improved due to the fact that management addressed the one HR compliance finding that was reported in the audit report in the prior year. This finding, which related to job descriptions not being in place for some positions, was fully addressed during the year under audit.

Consultants were again engaged to assist with financial reporting (preparation of financial statements and assistance with accounting work) at a cost of R726 122 (2012: R726 122). Our concerns relating to the continued assistance sought from consultants include the ineffective management of consultants as they were appointed for requirements which could be addressed by internal staff, as well as a lack of transfer of skills resulting in continued dependence on consultants.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Key controls and root causes

The overall lack of improvement in key controls was due to the unwillingness of leadership to take ownership of improving audit outcomes.

The municipal manager and senior management should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement effective HR management to ensure that adequate and sufficiently skilled officials are in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored. Start implementing internal audit recommendations and work closely with this unit.
- Daily, weekly and monthly reconciliations should be performed and senior officials assigned to monitor the performance of these reconciliations.

The municipal manager should address the root causes of inadequate controls as follows:

- Vacancies in key positions, such as an official responsible for the management of performance information, should be filled and a training plan should be developed, implemented and monitored.
- An effective action plan that specifically addresses identified issues should be discussed internally with staff to get them to understand and work towards achieving these plans.
- The CFO and municipal manager should enforce a culture of performance feedback from their direct reports. The deficiencies around credible financial information and performance reports will be reduced if this is enforced.

Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring that an audit committee is established and that the internal audit unit functions in accordance to the relevant regulations. This will be achieved if the internal audit unit is capacitated to fulfil their mandate.

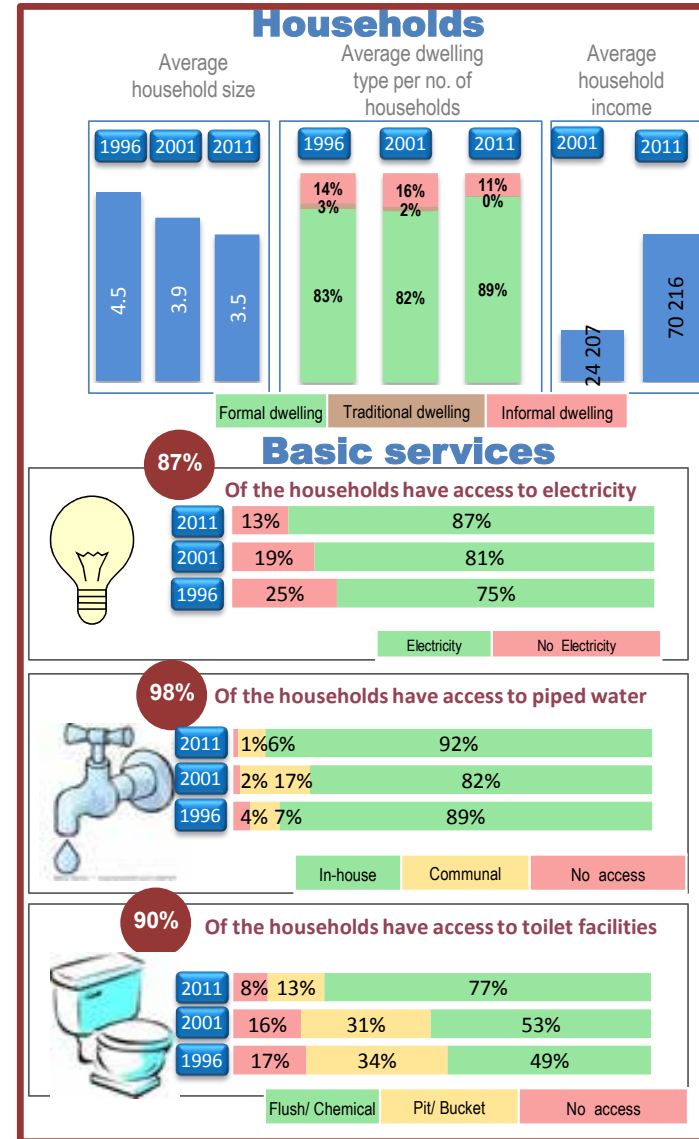
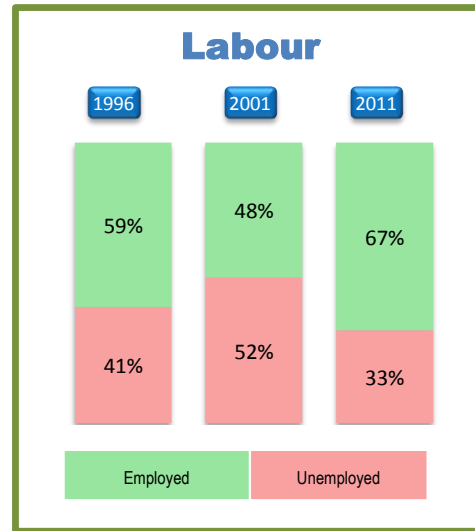
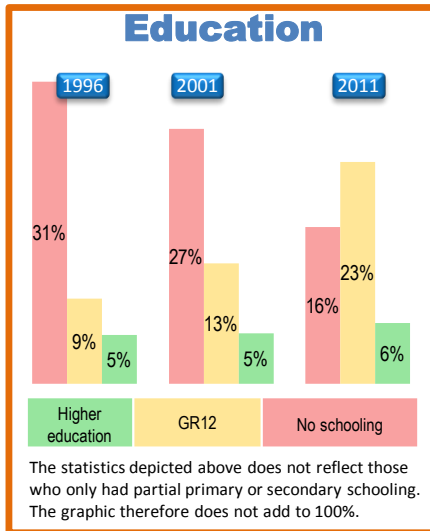
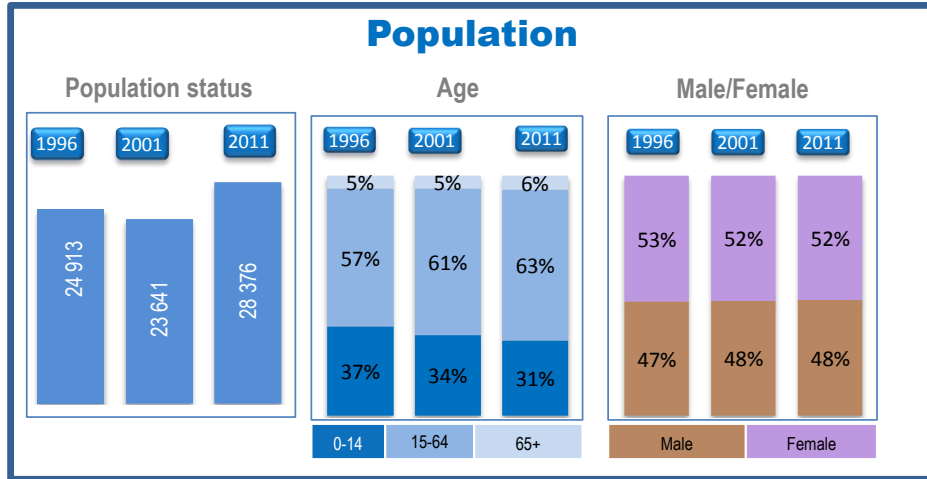
We met with the mayor twice during the financial year but these interactions had limited impact on the audit outcome.

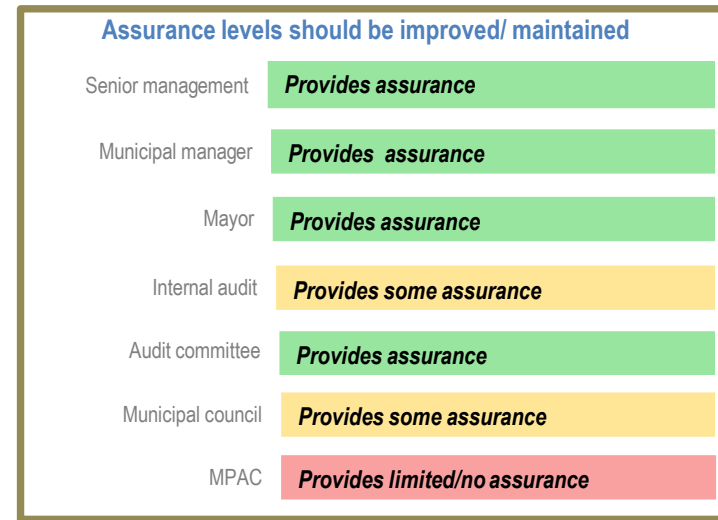
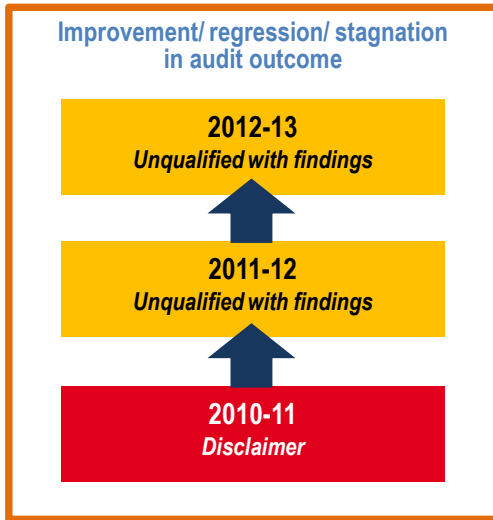
One of the commitments from the mayor was to address the numerous non-compliance findings reported in the municipality's audit report. As is evident from

the current year audit report, this was not done and no new commitments were obtained. Leadership needs to prioritise the issues that prevent the municipality from achieving a clean audit during the next financial year. This should be done by implementing and monitoring an audit action plan.

1.22 Umsobomvu Local Municipality

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

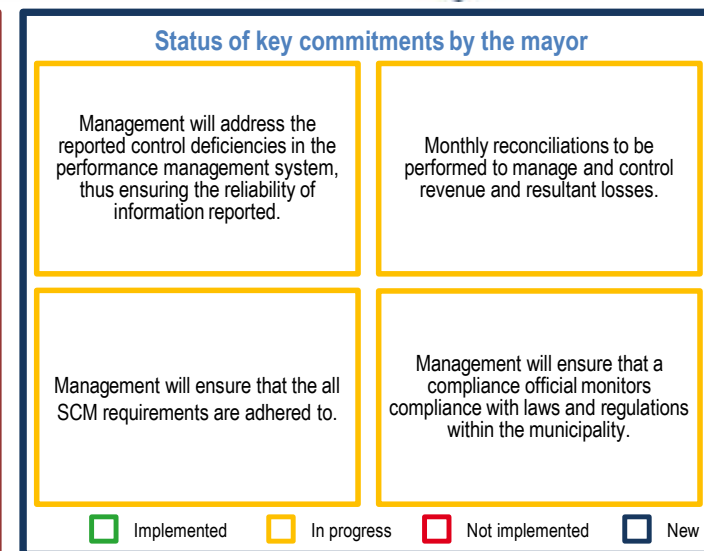
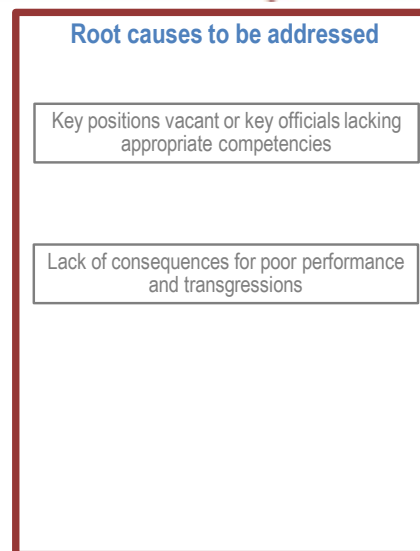
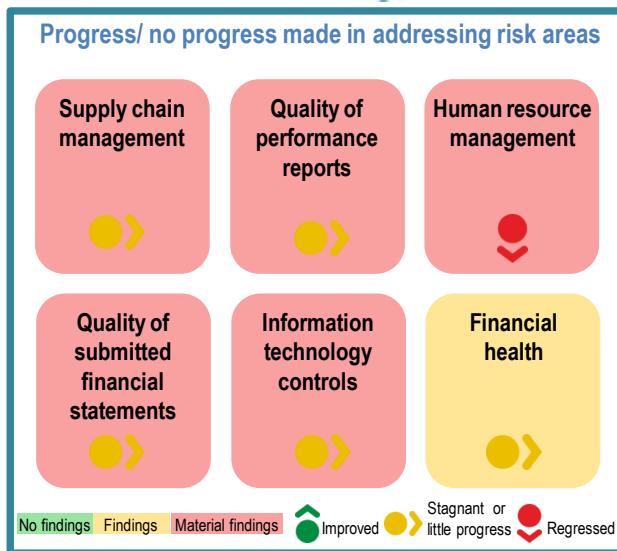




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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**.



No change in audit outcome

The lack of improvement in the audit outcome was due to the fact that the municipality has not addressed the identified compliance findings, specifically in the areas of procurement, expenditure management and HR management. No progress has been made in improving the reliability and usefulness of the annual performance report.

Six key risk areas

Overall there has been a regression in the six key risk areas due to ineffectiveness in appropriately addressing shortcomings relating to these key risk areas.

The quality of the annual performance report has not improved as material findings were again raised on the reliability and usefulness of the municipality's annual performance report.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances failed to comply with the legislative requirement to obtain three quotations and to procure only from suppliers with a valid tax clearance certificate.

Material compliance findings relating to HR management were reported in the current year (new findings), resulting in a regression in this risk area. Findings were raised on the overall vacancy rate and the fact that senior managers did not sign performance agreements. This can be partly attributed to the fact that the monitoring of compliance was not delegated to any official within the municipality, while the municipal manager did not properly monitor compliance with legislation.

The municipality has been making losses and is experiencing cash flow problems which they have not been able to address in the current year.

Consultants were again engaged to assist with financial reporting (preparation of financial statements and update of the asset register) at a cost of R1 188 784 (2012: R1 608 768). Our concerns relating to the continued assistance sought from consultants include over-dependency on consultants as a result of unfilled vacancies and a lack of transfer of skills resulting in continued dependence on consultants. Material amendments to the submitted financial statements were again required, resulting in stagnation in the quality of the submitted financial statements.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Key controls and root causes

The overall stagnation in the key controls was due to the municipality's failure to adequately address control weaknesses previously identified.

The municipal manager must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- A complete set of quarterly financial statements and quarterly performance reports should be prepared, reviewed and validated against supporting documentation to ensure reliability.
- Compliance with relevant laws and regulations should be regularly reviewed and monitored.

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

- Consequences for poor performance should be communicated to all staff and applied strictly.
- A compliance officer should be delegated with specific responsibility to monitor and report on compliance with laws and regulations.
- Vacancies in the finance department should be filled in order to avoid over-dependence on consultants.

Impact of key role players on audit outcomes

The audit committee held quarterly meetings and monitored the municipality's action plan. This action plan was also monitored and driven by the mayor, municipal manager and senior managers.

The internal audit unit was fully functional but lacked real impact as the municipal manager did not always action their reports.

We met with the mayor twice during the financial year and these interactions had an impact on the audit outcomes due to the recommitment obtained from the mayor.

The municipal council undertook to fully implement the previous year's commitments but had limited impact in achieving this.

The municipality committed to do the following:

- To address the reported control deficiencies within the performance management system.

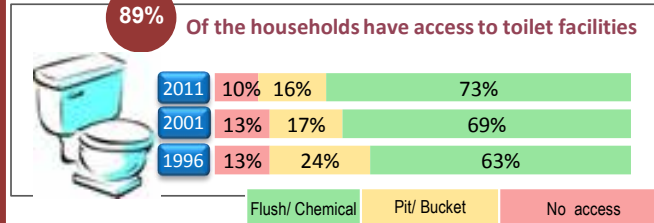
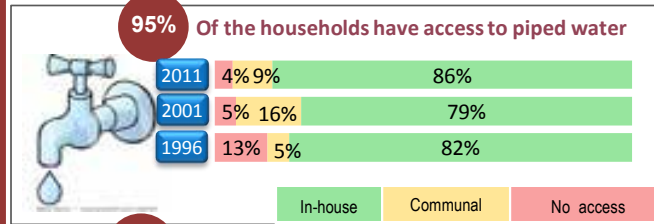
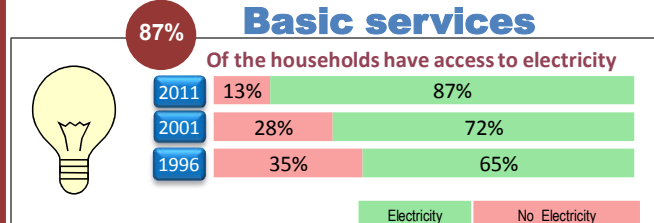
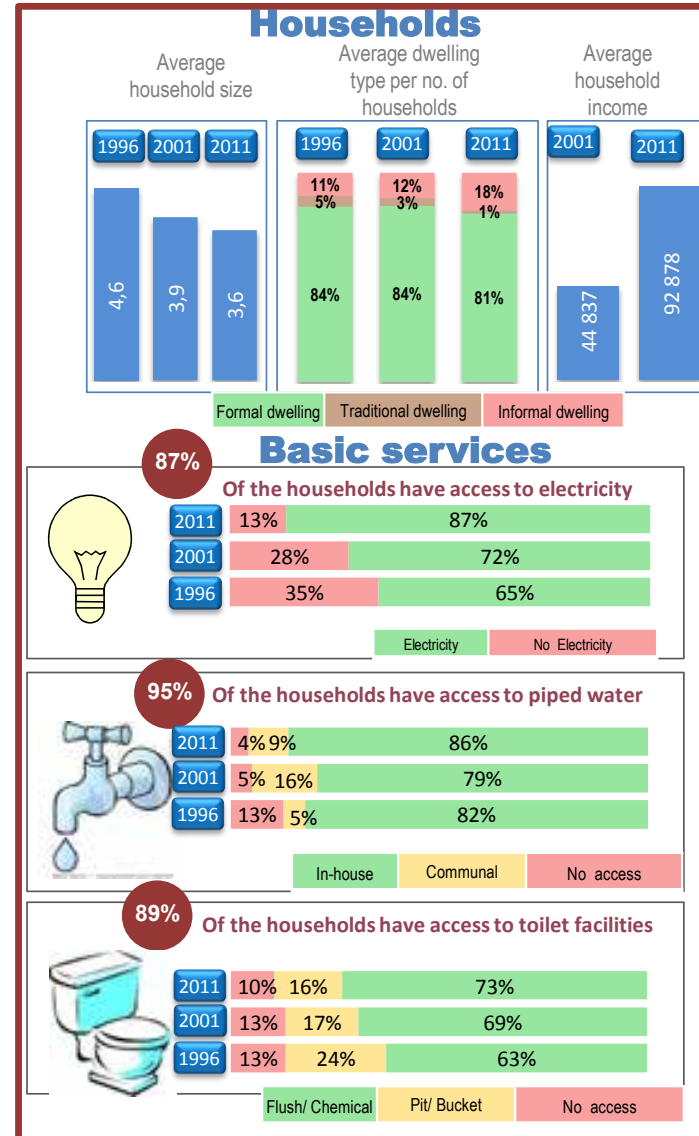
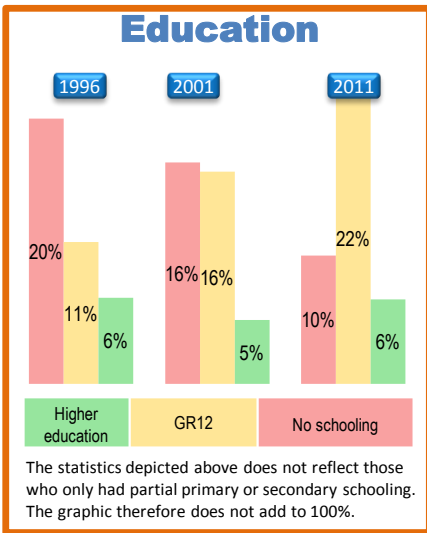
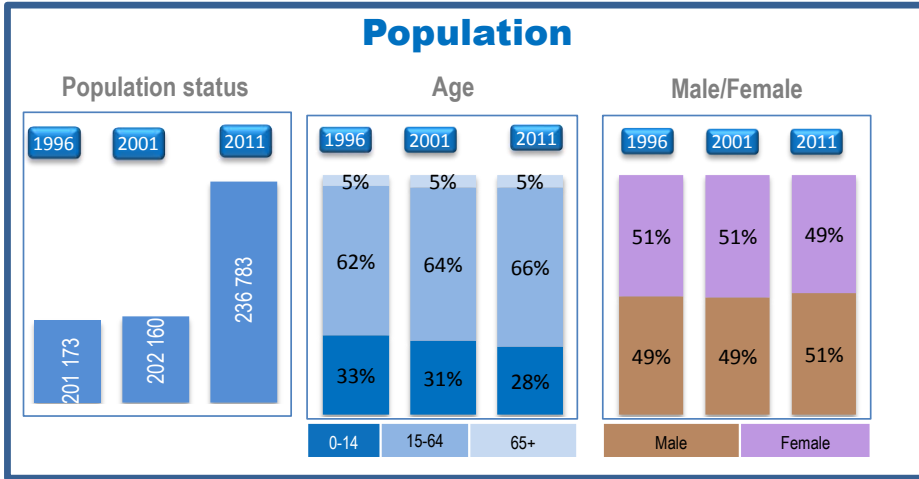
- To ensure that all supply chain management requirements are adhered to.
- To perform monthly reconciliations to manage and control revenue and resultant losses.
- To appoint a compliance official to monitor adherence to legislation.

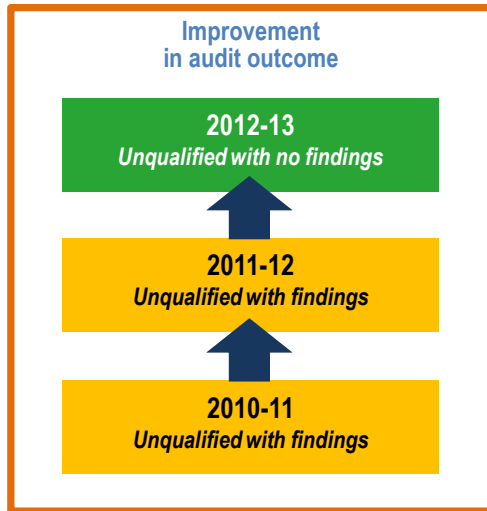
These commitments have not yet been fully implemented and no new commitments were obtained from the mayor.

Leadership needs to prioritise the issues that prevent the municipality from achieving a clean audit during the next financial year. This should be done by implementing and monitoring an audit action plan.

1.23 ZF Mgcawu District Municipality

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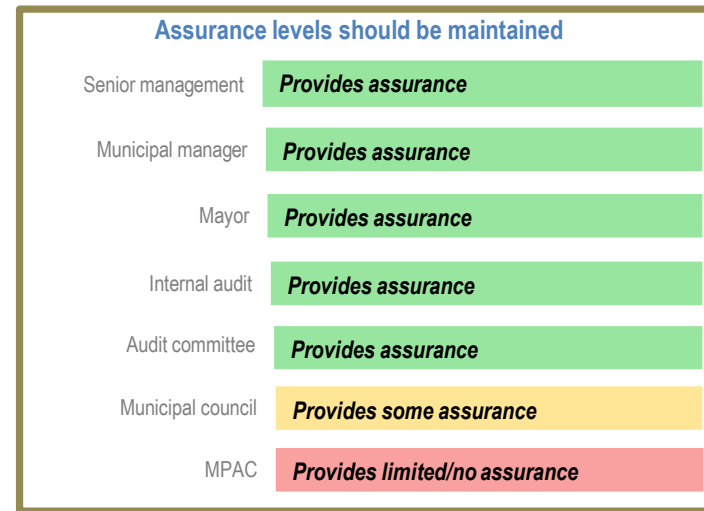




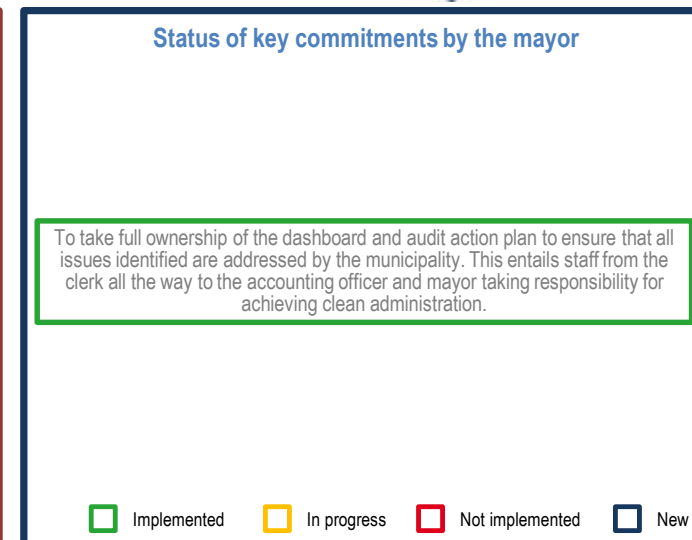
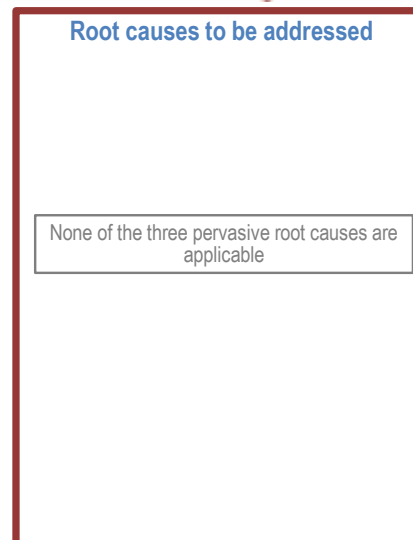
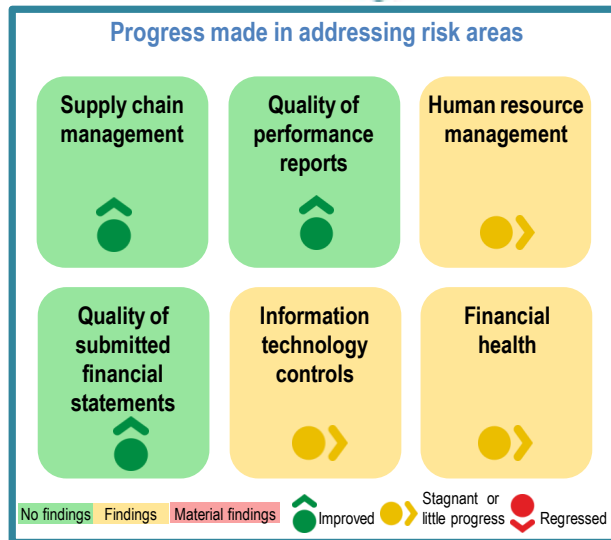
The current *audit outcomes* are the result of the attention given to the *six key risk areas*,



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*.



Significant movement in audit outcome

The improvement in the audit outcomes was due to leadership addressing the predetermined objective findings as well as the few non-compliance findings that were raised in the prior year audit.

Six key risk areas

Overall, the six key risk areas improved due to progress made in addressing the key risk areas, most notably in the following areas:

The quality of the submitted financial statements was good, which was due to the relevant levels within the municipality performing their reviews on the financial statements before they were submitted to the audit committee.

The quality of performance reports improved due to the appointment of staff with the necessary skills and competencies with regards to performance reporting.

Supply chain management improved due to an action plan that was put in place by the municipal manager to address all issues in the audit report as well as the management report.

The other three key risk areas remained stagnant.

The status of human resource management remained unchanged due to the finding relating to municipal officials not meeting the minimum competencies.

Findings raised in the financial health focus area related to the municipality's net current liability position, underspending of the capital budget and underspending of conditional grants.

Key controls and root causes

The overall improvement in the key controls was due to the willingness of the mayor and municipal manager to take ownership of achieving a clean audit outcome.

The following control must be strengthened by the municipal manager and senior management to create a control environment that supports compliance with legislation:

- Perform a review of compliance with laws and regulations, specifically those that impacted the management report.

The mayor and municipal manager should address the above control deficiency by:

- ensuring that the non-compliance reported in the management report is included in the audit action plan and regularly monitored to prevent recurrence. A compliance officer should be appointed to monitor and prevent any non-compliance with laws and regulations

Impact of key role players on audit outcomes

In order to continually achieve this audit outcome, assurance levels should be maintained and the following best practices should continue to be applied within the municipality:

- Everybody within the municipality understands and knows their roles and responsibilities and how they contribute to clean administration.
- The municipal manager must continue to hold staff accountable for non-performance.
- Whenever a vacancy arises, it is promptly filled with the necessary skills and competencies.
- The municipal manager must continue to meet weekly with all staff members to obtain feedback on whether they are doing what they are supposed to be doing and on progress made with issues identified by audit committee, internal audit or external auditors.

We met with the mayor four times during the financial year and these interactions had a significant impact on the audit outcomes. The reason for our assessment is the impact the mayor and municipal manager had on the controls of the municipality as well as the status and impact of the commitments previously given. The municipal manager was requested to provide monthly feedback to the mayor and feedback was given twice to four times a month. The mayor gave monthly feedback to the municipal council on the status of the municipality in addressing issues raised. Furthermore, the mayor together with the municipal manager, took ownership of the key control dashboard by presenting the progress made to us.

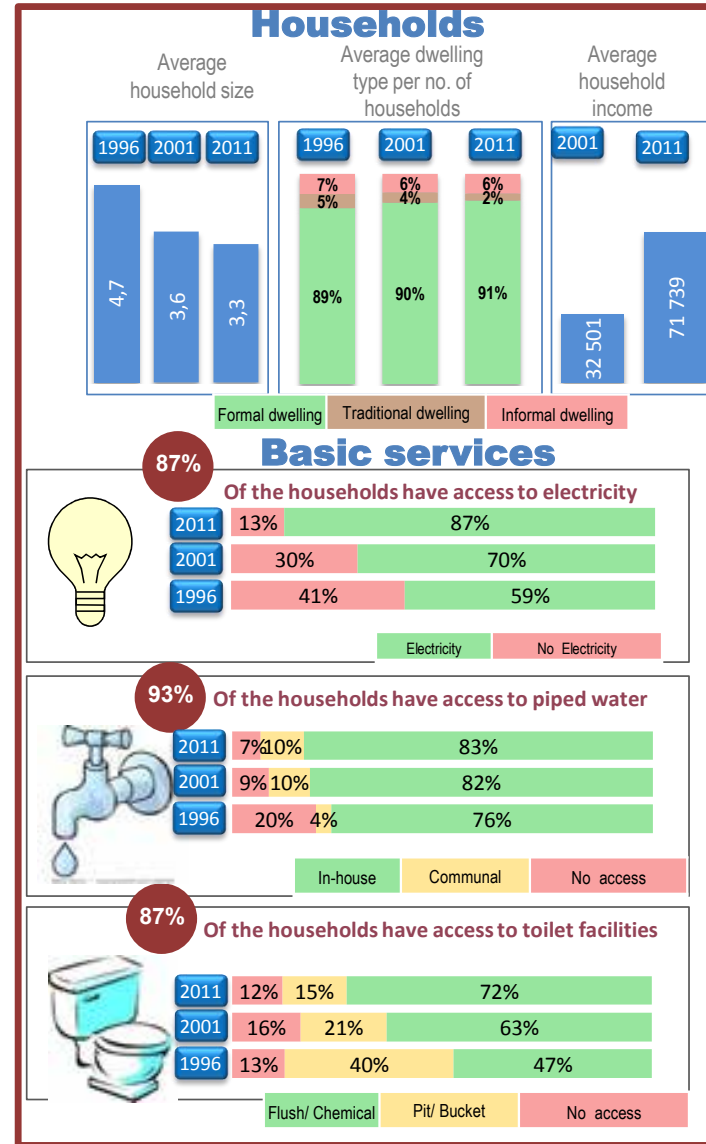
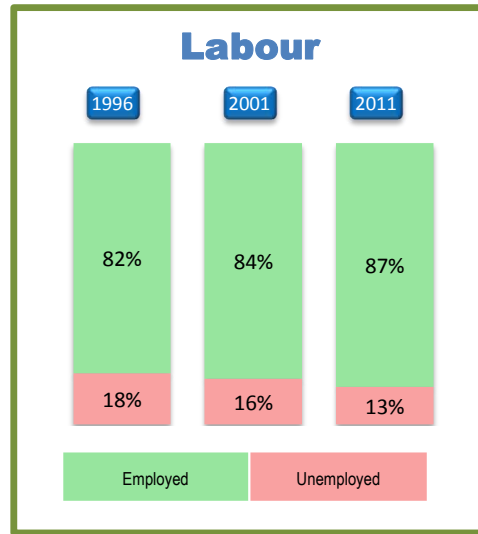
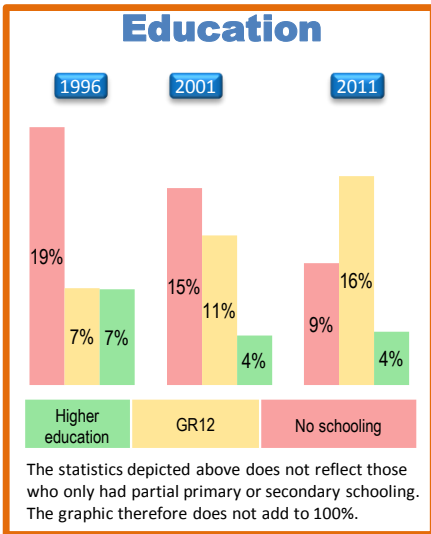
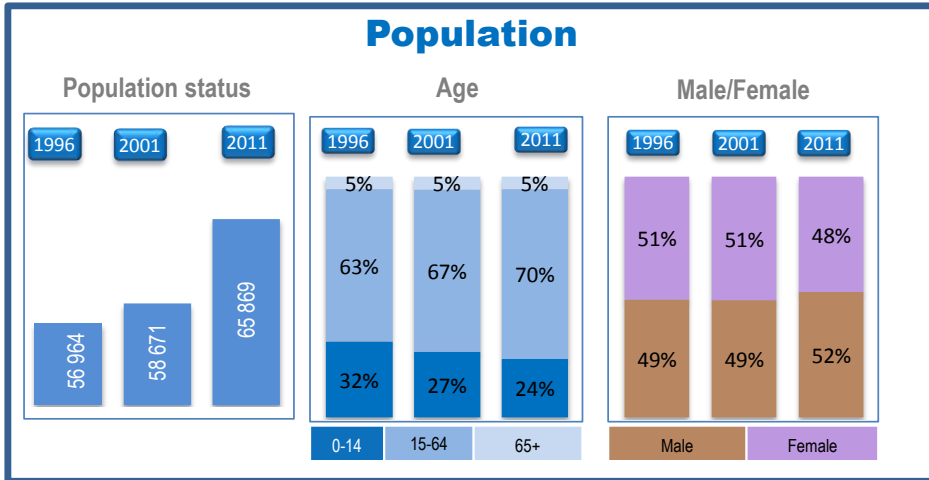
The commitment made by the mayor was fully implemented by leadership. No new commitments were obtained, but it is essential that leadership continue monitoring the policies and procedures that enabled the municipality to obtain a clean audit. It is important that the new municipal manager familiarise himself with these controls and continue monitoring them as vigorously as the previous municipal manager did.

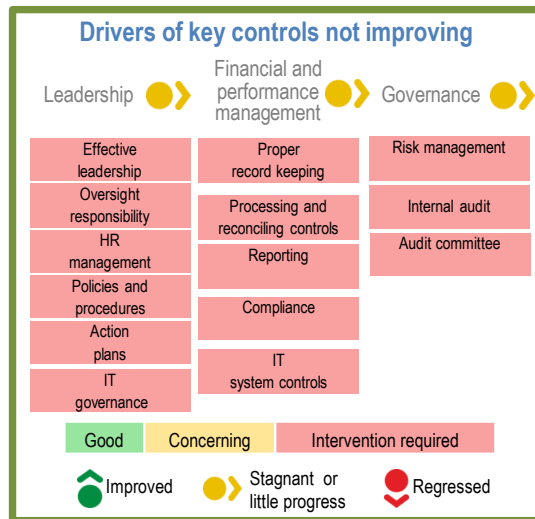
A district municipality needs to have an outward focus and will only achieve the purpose of its existence if it is able to influence the local municipalities in its district to also improve their audit outcomes. Now that the district municipality has achieved a clean audit, the focus should be on being a centre of excellence from which the local municipalities in the district can learn and benefit. Plans should be

implemented to ensure that the district municipality fulfils their oversight role and provides a quality service to the local municipalities in the district.

1.24 Kai !Garib Local Municipality

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

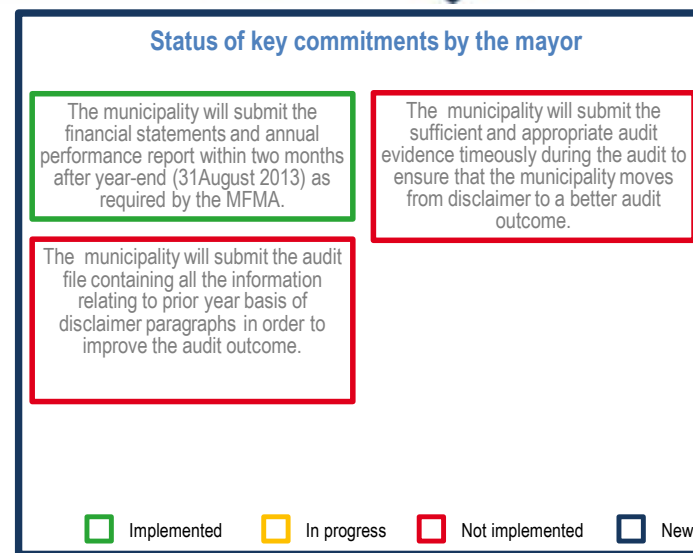
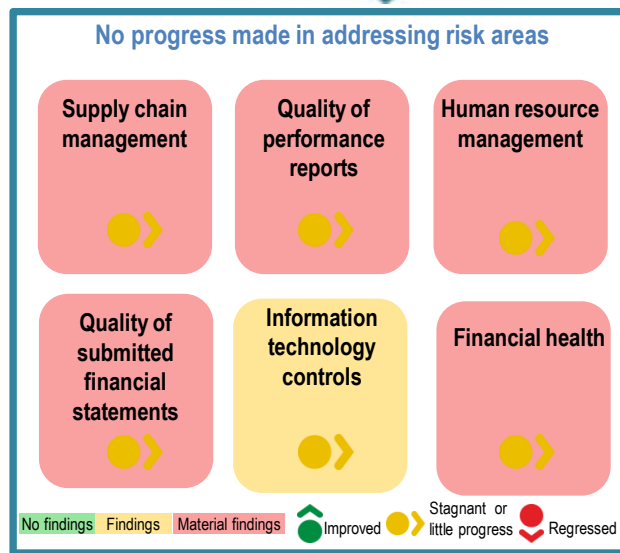




The current **audit outcomes** are the result of the attention given to the **six key risk areas**,

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**.



No change in audit outcome

The lack of improvement in the audit outcome was due to failure to address prior year findings that led to a qualified audit opinion and failure to address material findings on the annual performance report and findings relating to non-compliance with laws and regulations.

Six key risk areas

Overall, the six key risk areas have stagnated due to lack of progress made by the municipality in addressing prior year material audit findings

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

The limitations that were placed on the work of the auditors due to the unavailability of supporting documentation on key components impacted the financial health focus area to the extent that a proper evaluation of the municipality's financial health was not possible.

Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of audit opinion.

Due to limitations on the scope of the audit it was not possible to determine the increase in the overall vacancy rate; however, as at 30 June 2013 it was 39%. An HR plan based on the strategic plan of the municipality was not in place.

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

Consultants were again engaged to assist with financial reporting (preparation of financial statements, update of the asset register, performing reconciliations and assistance on accounting work) at a cost of R6 817 705 (2012: R887 751). Our concerns relating to the continued assistance sought from consultants include their ineffective management, consultants being appointed for requirements which can be addressed by internal resources, over-dependency on consultants as a result of unfilled vacancies and lack of transfer of skills resulting in continued dependence on consultants.

Key controls and root causes

The lack of improvement in the key controls was due to the leadership's failure to address weaknesses in the three key control areas, although management was reminded of these weaknesses on a quarterly basis.

The municipal manager must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Implement effective human resource management to ensure that adequate and sufficiently skilled officials are in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored. Compliance with laws and regulations must be reviewed and monitored on an ongoing basis to ensure that non-compliance identified is addressed immediately.
- Ensure that adequate record keeping is implemented in a timely manner so that complete, relevant and accurate information is accessible and available.

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

- Vacancies in key positions (CFO, SM: Human resources and manager: Procurement) should be filled and adequate training plan should be developed, implemented and monitored.
- There should be consequences for staff who perform poorly and fail to comply with laws and regulations.
- The development, monitoring and implementation of action plans to address internal control deficiencies identified in the current and the prior years.

Impact of key role players on audit outcomes

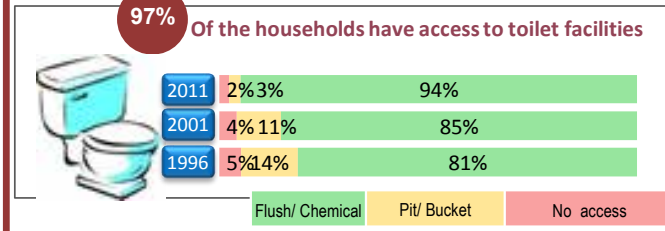
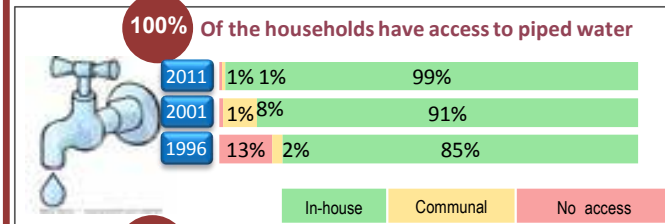
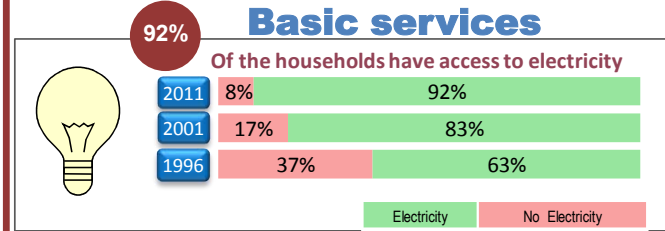
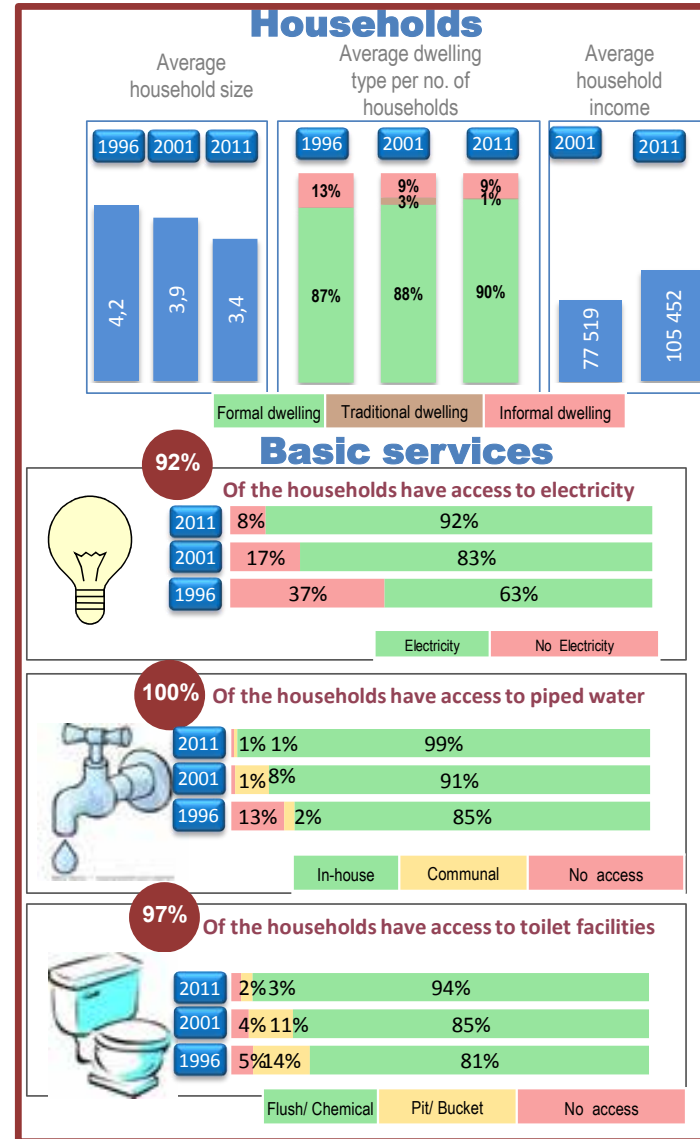
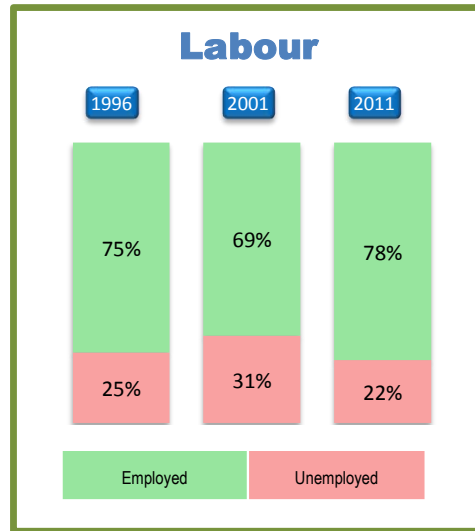
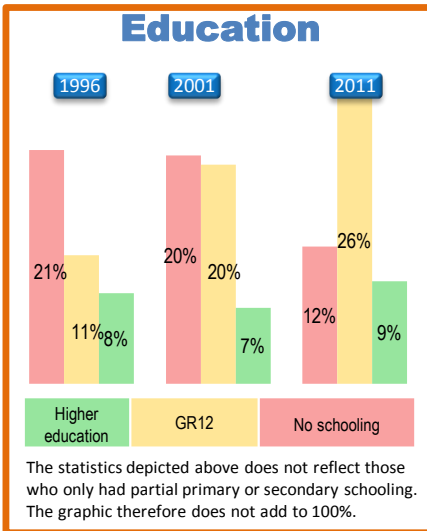
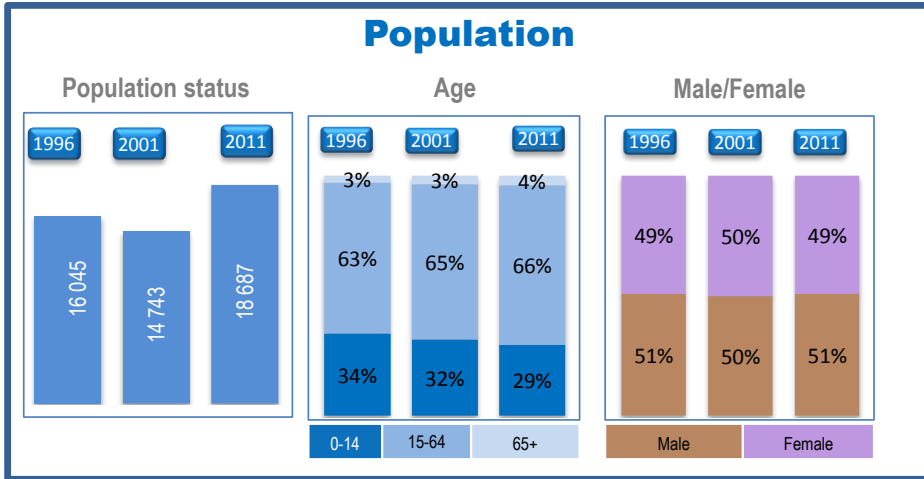
Assurance levels should be improved by ensuring stability at the level of municipal manager and senior management and the establishment of an internal audit unit and by responding to the issues brought to management's attention by the audit committee. Once an internal audit unit has been established, this unit will only be effective if the municipality is able to implement controls to ensure accurate and complete supporting documentation for all transactions.

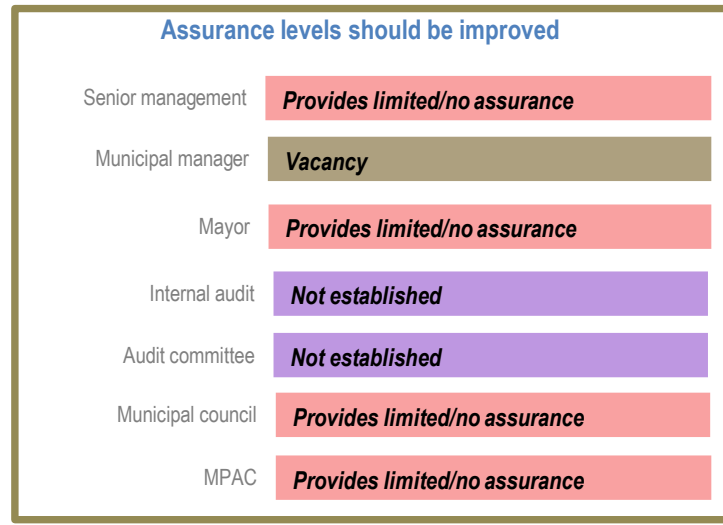
We met with the mayor only once during the financial year but this interaction had no impact on the audit outcomes. The reason for our assessment is the lack of impact the mayor had on the controls of the municipality.

The mayor undertook to submit the financial statements and annual performance report within two months after year-end, as required by the Municipal Finance Management Act. This commitment was not honoured. The mayor further undertook to submit an audit file containing all the information relating to the prior year basis of disclaimer paragraphs and to submit sufficient and appropriate audit evidence timeously during the audit. These commitments were not implemented and no new commitments were obtained. This is a clear indication that leadership is not serious about improving service delivery and its audit outcomes. It is important that leadership start focusing on implementing basic controls that will ensure that proper accounting records are kept. This will be a starting point towards achieving an improved audit outcome.

1.25 Kgatlopele Local Municipality

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

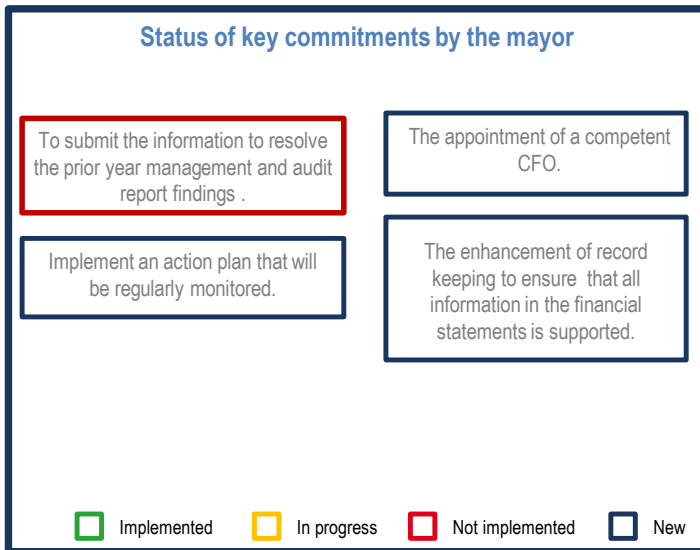
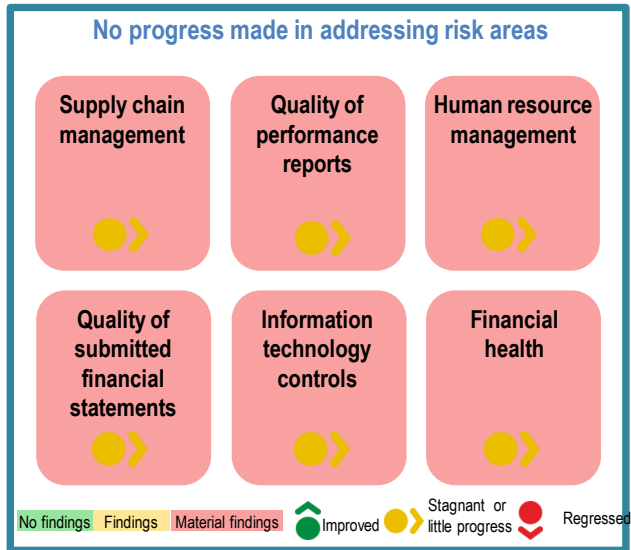




The current **audit outcomes** are the result of the attention given to the **six key risk areas**.

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**.



No change in audit outcome

The lack of improvement in the audit outcome was due to management's failure to address the prior year audit findings. This can be partly attributed to the fact that the prior year audit was finalised very late due to the quality of the financial statements that were submitted. There has not been any significant improvement in compliance with laws and regulations and performance reporting.

Six key risk areas

Overall, the six key risk areas showed a lack of progress due to little or no progress made in addressing key findings. The municipality does not have capacity and sufficient skills to address key risk areas

The limitations that were placed on the work of the auditors impacted the financial health focus area to the extent that a proper evaluation of the municipality's financial health was not possible.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances failed to comply with the legislative requirement to obtain three quotations and/or to procure goods and services through a competitive bidding process.

Consultants were again engaged to assist with financial reporting (preparation of financial statements and responding to audit findings) and revenue management at a cost of R1 547 276 (2012: R1 403 775). Our concerns relating to the continued assistance sought from consultants include vacancies in management, ineffective management and lack of transfer of skills resulting in continued dependence on consultants.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Key controls and root causes

The lack of progress in respect of key controls was due to failure by the leadership to address weaknesses in the three key control areas although management was reminded of these weaknesses on a quarterly basis.

The municipal manager must strength the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight of financial and performance management.

- Ensure that proper record keeping is implemented in a timely manner so that complete, relevant and accurate information is accessible and available.
- Develop and monitor the implementation of action plans to address internal control deficiencies identified in the current and the prior years.

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

- An audit action plan should be developed, implemented and monitored to ensure prior year audit findings are addressed.
- The competencies of the current financial, performance and supply chain management officials should be assessed in order to identify and address gaps in competency levels.
- The municipality should have a proper system to track non-performance and deviation from laws and regulations by officials and ensure that proper steps are taken to address identified deficiencies.

Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring stability at the level of municipal manager and senior management and establishing an audit committee and internal audit unit.

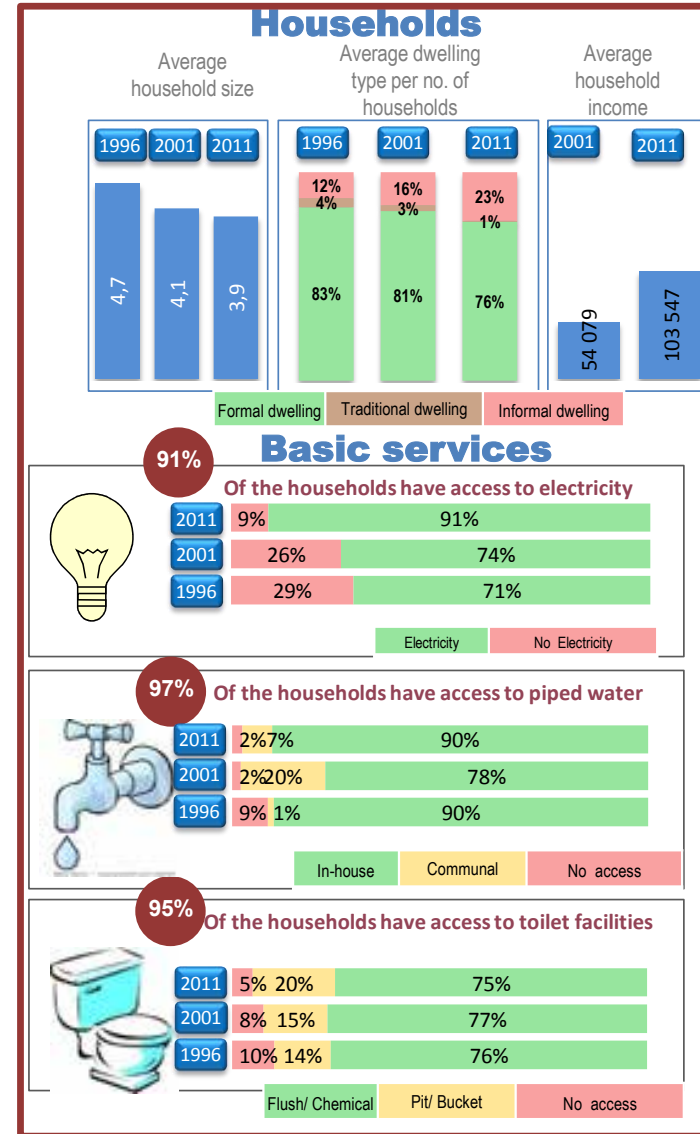
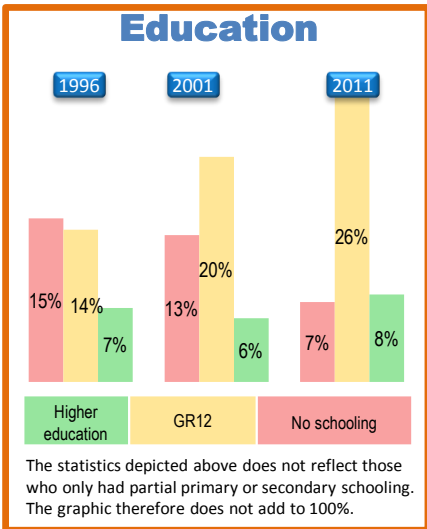
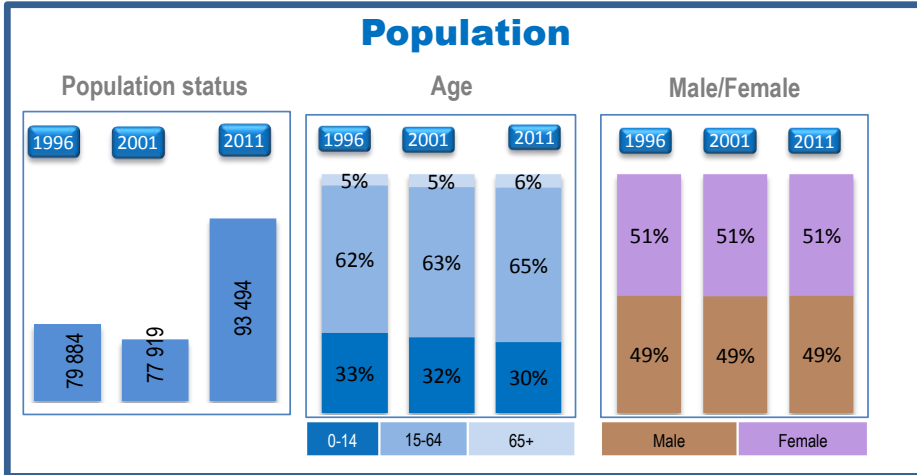
We met with the mayor twice during the financial year but these interactions had a no impact on the audit outcomes. The reason for our assessment is based on the impact that the mayor had on the controls of the municipality as well as the status and impact of commitments previously given.

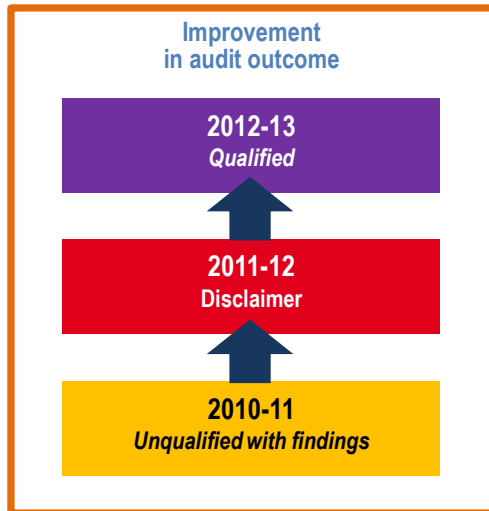
The mayor's commitment of the previous year to submit the information to resolve the prior year management and audit report findings was not implemented. This is of concern and indicates that leadership is not taking the messages from my office seriously. This also raises questions about leadership's commitment to improve service delivery and their audit outcome. This matter needs to be prioritised by implementing an audit action plan that is monitored by the municipal manager and overseen by the mayor. Senior managers need to be held accountable for their responsibilities in terms of this plan and consequences should be instated if non-performance is detected.

The prior year commitment to appoint a municipal manager was only implemented after year end, while the appointment of a chief financial officer and the enhancement of record keeping will also be priorities for the new financial year.

1.26 \ \ Khara Hais Local Municipality

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





Drivers of key controls improving

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

Good Concerning Intervention required

Improved Stagnant or little progress Regressed

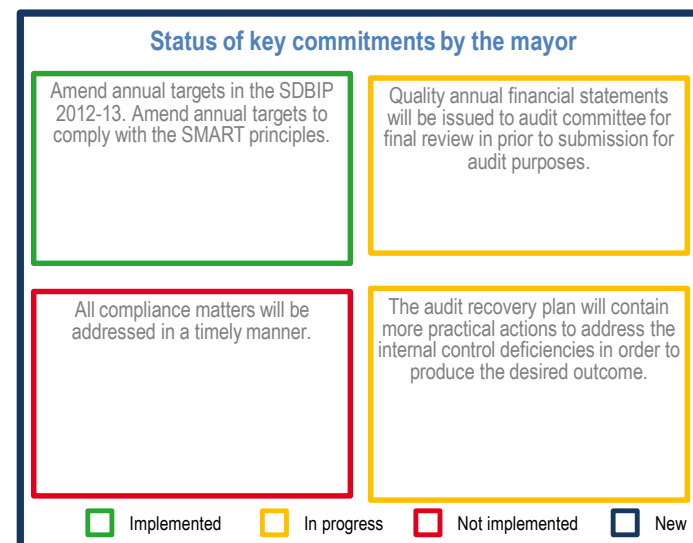
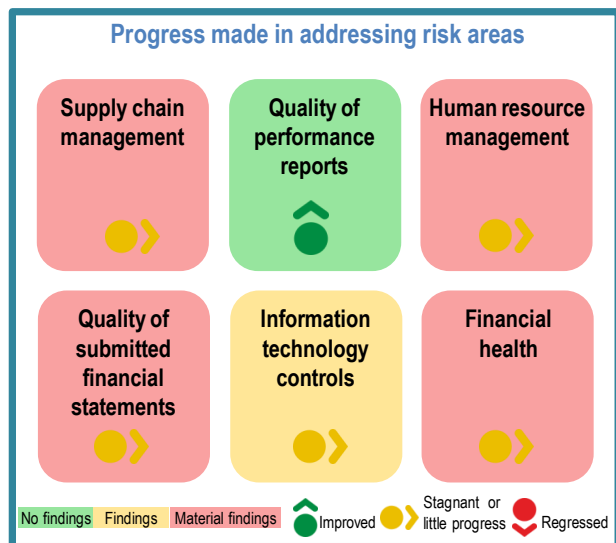
Assurance levels should be improved

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

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

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

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



Significant movement in audit outcome

The improvement in the audit outcomes was due to the municipality addressing the qualification on assets.

Six key risk areas

Overall, the six key risk areas improved due to progress made in addressing the key risk areas, most notably in the area of quality of performance reports. The reason for the improvement in performance reports was that the municipality had honoured their commitment to review the reports quarterly. Internal audit played a part, as did their involvement in ensuring the quality of the quarterly performance reports.

The municipality made material amendments to the annual financial statements that were identified by the auditor, which led to the quality of submitted financial statements being unsatisfactory.

The municipality had the following material financial health indicators:

- Disclosure of a material uncertainty with regard to its ability to operate in the foreseeable future.
- Current liabilities exceed its current assets.
- There was a net loss for the year.

The status of supply chain management remains unsatisfactory, primarily because the municipality failed to comply with the legislative requirement to obtain three quotations.

The status of human resource management remains unsatisfactory, primarily because the municipality failed to comply with the legislative requirements. Findings were noted on new appointments where these individuals did not have the required qualifications or experience and where appointments were made without proper verification processes being followed.

Key controls and root causes

The overall improvement in the key controls was due to the mayor improving leadership controls and oversight.

The municipal manager must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight of financial management by timely review of work performed by junior staff. Consequences should follow where work of poor quality is performed.
- Review and monitor compliance with applicable laws and regulations.
- Develop and monitor the implementation of action plans to address internal control deficiencies.

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

- Hold staff accountable for shortcomings identified during the internal and external audit processes.
- Implement effective human resource management to ensure that sufficiently skilled officials are appointed, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored.
- The development, monitoring and implementation of action plans to address internal control deficiencies identified in the current and prior years.

Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring stability at the level of municipal manager and senior management.

The municipality should continue to apply the following best practices:

- All relevant municipal staff were involved in the audit process and as soon as an issue was raised, the response time was adequate for the municipality to address the finding.
- Positions were filled where vacancies existed, specifically the CFO position.
- Utilisation of the internal audit within the municipality to identify any weaknesses in their controls.

We met with the mayor four times during the financial year and these interactions had some impact on the audit outcomes. The reason for our assessment was that the mayor was fully involved during the audit process by requesting meetings with the auditor to address any shortcomings on the part of the municipal staff and setting a tone among all staff with the emphasis on improvement within the municipality. The mayor is committed to improving audit outcomes for the next year, which is evidenced by the appointment of a new municipal manager who

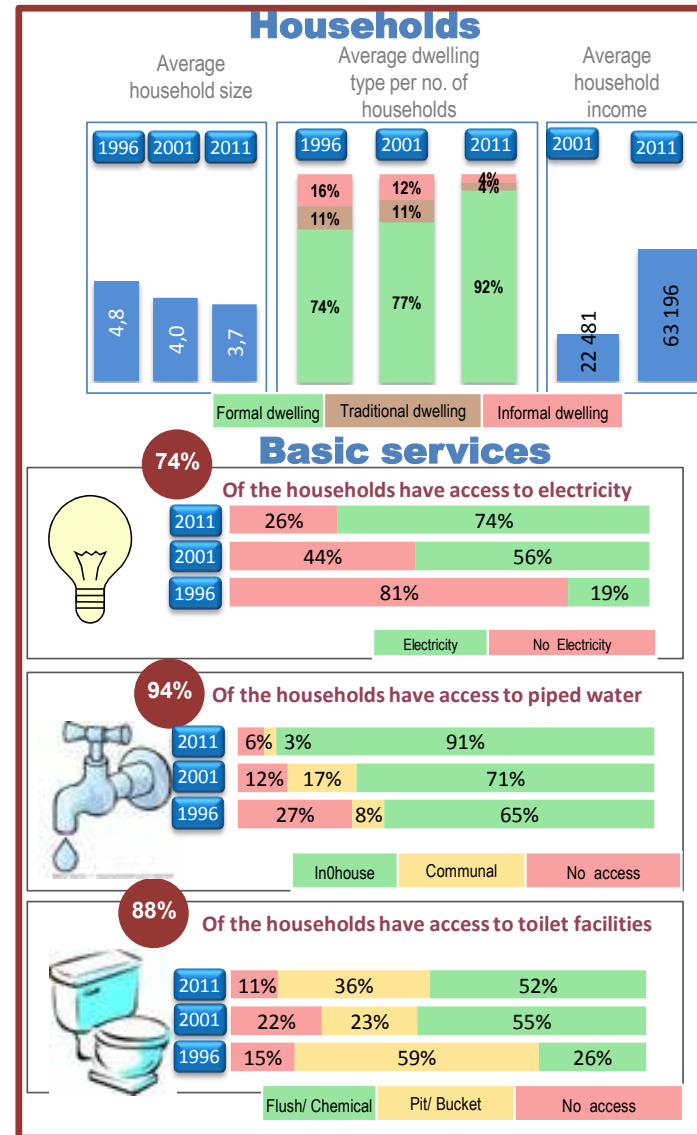
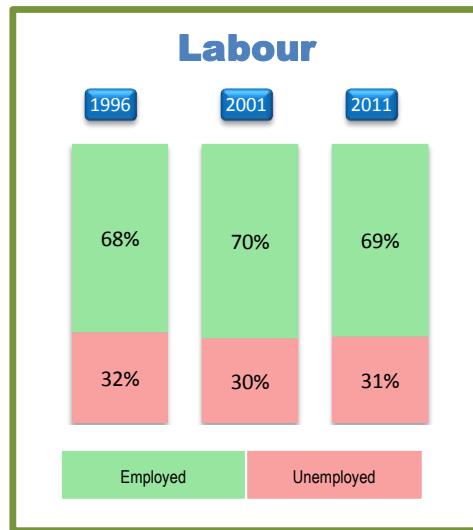
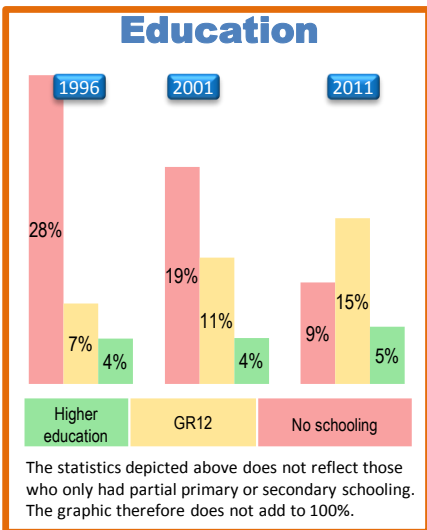
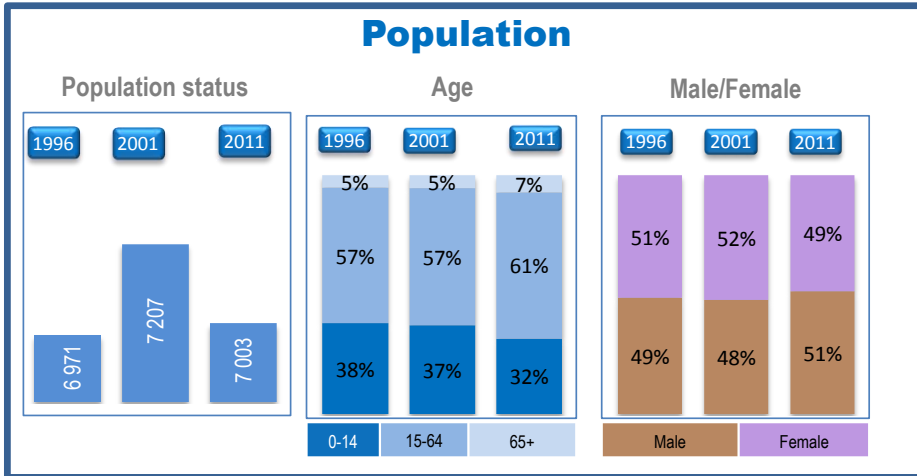
had served as municipal manager of their district municipality which received a clean audit outcome.

The mayor committed to amend the annual targets in the SDBIP 2012-13 to comply with the SMART principles. This commitment was implemented. The mayor further undertook to ensure quality financial statements that will be issued to the audit committee for final review before submission for audit purposes. He also undertook to implement an audit action plan to address the internal control deficiencies. These commitments are in the process of being implemented.

The commitment to address compliance matters was not implemented and leadership needs to track this commitment to ensure further improvements in the municipality's audit outcome. Addressing the issues that resulted in qualifications on the audit report also needs to be prioritised and tracked.

1.27 Mier Local Municipality

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





Drivers of key controls not improving

Leadership Financial and performance management Governance

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

Good
Concerning
Intervention required

Improved
 Stagnant or little progress
 Regressed

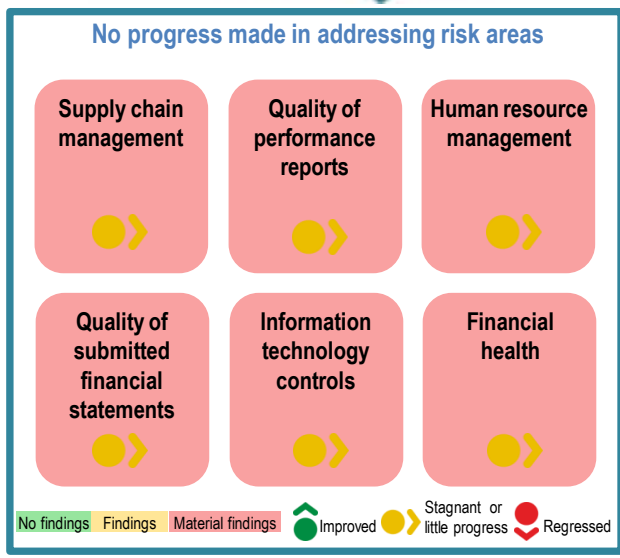
Assurance levels should be improved

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

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

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

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



- ### Root causes to be addressed
- Key positions vacant or key officials lacking appropriate competencies
 - Lack of consequences for poor performance and transgressions
 - Slow response by political leadership in addressing the root causes of poor audit outcomes



Significant movement in audit outcome start here

The regression in audit outcomes was due to the municipality's inability to provide sufficient supporting documentation for the financial statements and performance information. Furthermore, the municipality could not prevent non-compliance with laws and regulations.

Six key risk areas

Overall, the six key risk areas stagnated due to lack of progress made in addressing shortcomings relating to the key risk areas.

The municipality did not report on their actual performance as they do not have a proper performance management system in place.

The municipality made material amendments to the financial statements, but despite this, the final set of financial statements still contained material misstatements as reported in the audit report.

The limitations that were placed on the work of the auditors impacted the financial health focus area to the extent that a proper evaluation of the municipality's financial health was not possible.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances failed to comply with the legislative requirement to obtain three quotations or to procure from suppliers whose tax matters were in order.

The status of human resource management remains unsatisfactory, primarily because the municipality failed to comply with legislative requirements. Findings related to senior managers acting for a period longer than three months, leave approval processes that were not in place and SM positions that were vacant for a period longer than 12 months.

Consultants were engaged to assist with financial reporting (preparation of financial statements) at a cost of R400 000. Our concerns relating to the continued assistance sought from consultants include the municipality's ineffective management, over-dependency on consultants as a result of unfilled vacancies and lack of competencies and transfer of skills resulting in continued dependence on consultants.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Key controls and root causes

The overall stagnation in the key controls was due to the unwillingness of leadership to take ownership of improving audit outcomes.

The municipal manager and senior management should strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Exercise oversight of financial and performance management, compliance and internal controls.
- Implement effective human resource management to ensure that adequate and sufficiently skilled officials are in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored.
- Introduce policies and procedures that will ensure improved record management. These policies need to be implemented and monitored and the internal audit unit should assist with the monitoring of these policies and procedures.

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

- The municipality should have a proper system to track non-performance and deviation from laws and regulations by officials and ensure that proper steps are taken to address identified deficiencies.
- Fill the vacancies that exist in order to hold staff accountable for shortcomings identified during the internal and external audit processes.
- An action plan must be developed and monitored to ensure that all the internal control deficiencies identified are addressed. The mayor should request feedback on a monthly basis.

Impact of key role players on audit outcomes

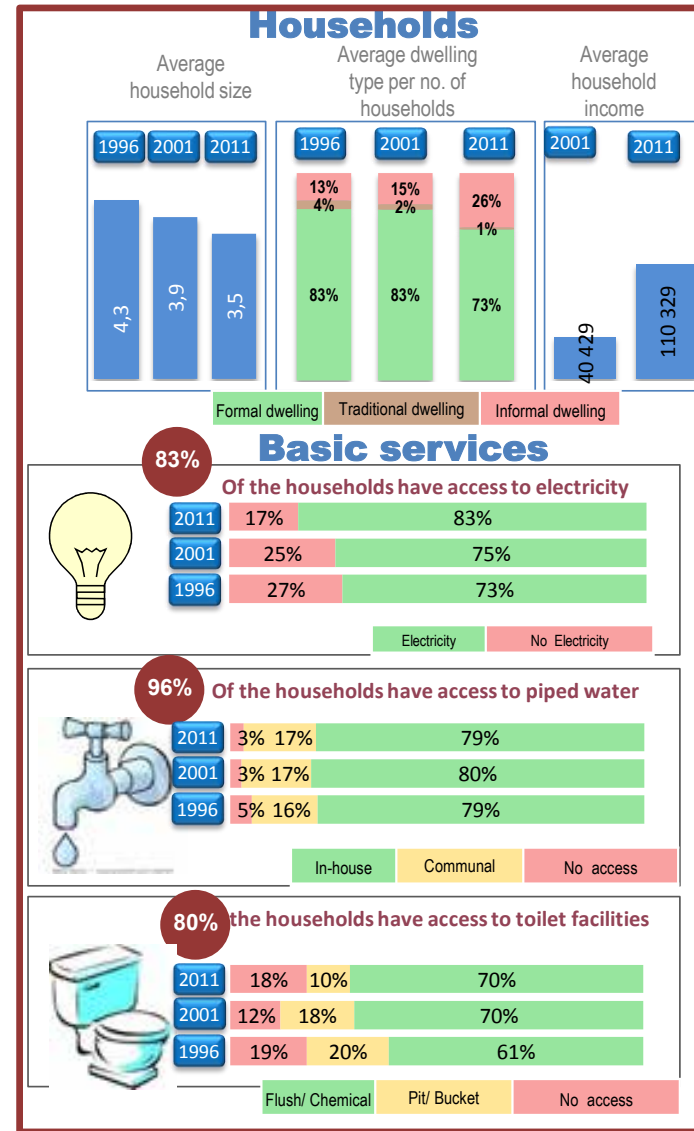
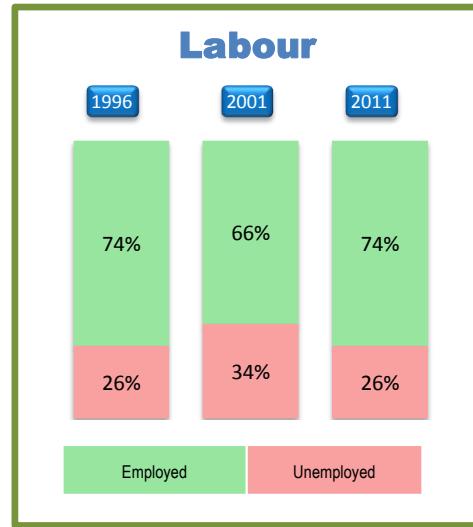
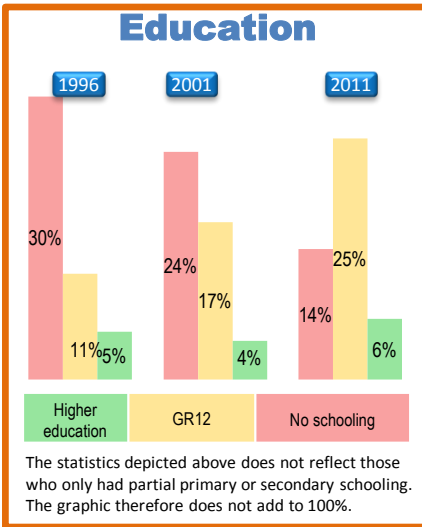
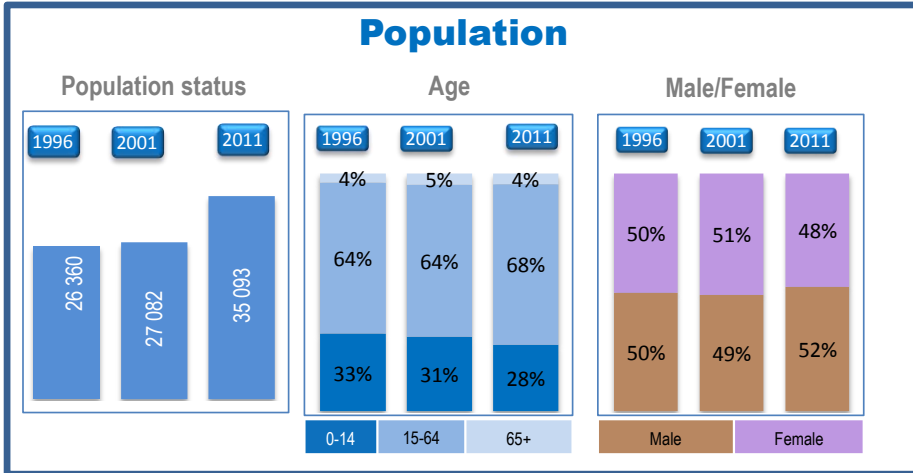
Assurance levels should be improved by appointing an audit committee and ensuring the effective functioning of the internal audit unit. The internal audit unit was not effective as it was not capacitated.

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

None of the commitments made by the mayor were implemented during the year, which indicates that leadership is not serious about improving the municipality's audit outcome. An action plan needs to be developed to ensure that prior year audit findings are addressed.

1.28 Tsantsabane Local Municipality

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

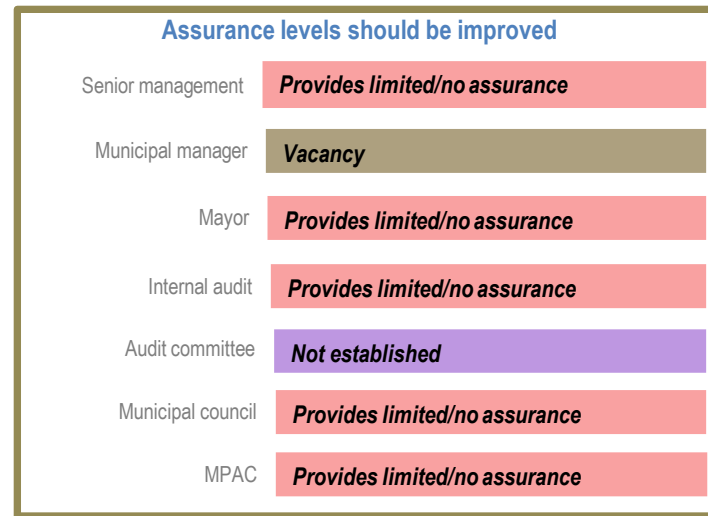




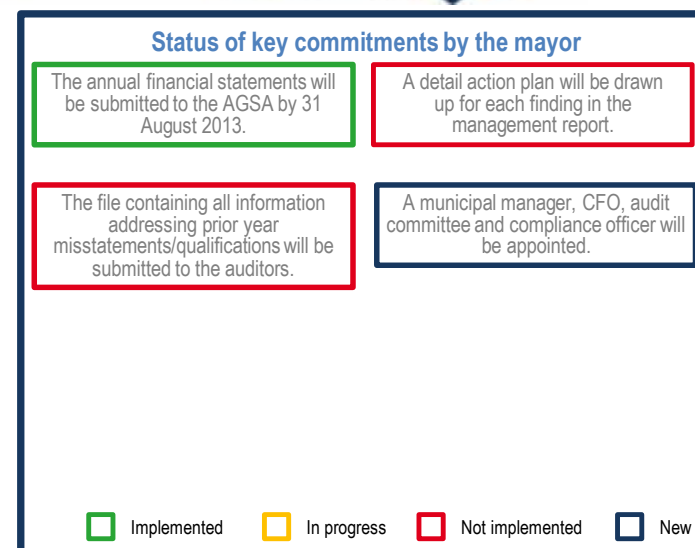
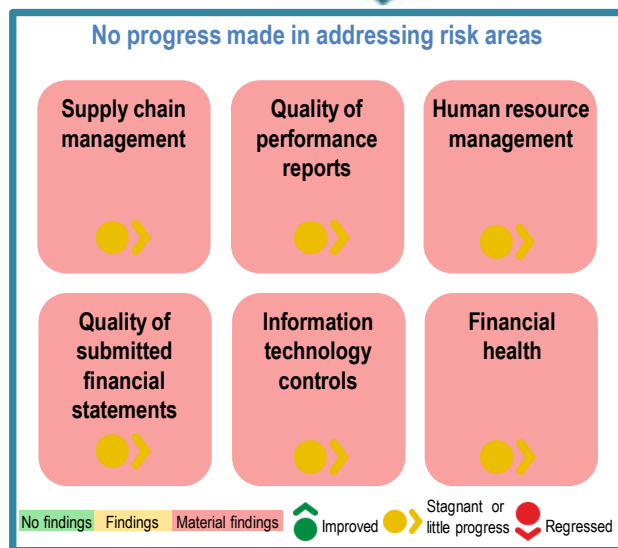
The current *audit outcomes* are the result of the attention given to the *six key risk areas*,



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*.



No change in audit outcome

The lack of improvement in the audit outcome was due to the municipality's inability to provide sufficient supporting documentation for the financial statements and performance information. Furthermore, the municipality could not prevent non-compliance with laws and regulations.

Six key risk areas

Overall, the six key risk areas stagnated due to lack of progress made in addressing shortcomings relating to the key risk areas.

The municipality did not report on the actual performance for the year under review; therefore we were unable to assess the reliability of the performance report.

The municipality made material amendments to the financial statements, but despite this, the final set of financial statements still contained material misstatements as reported in the audit report.

The limitations that were placed on the work of the auditors due to the unavailability of supporting documentation on key components impacted the financial health focus area to the extent that a proper evaluation of the municipality's financial health was not possible.

The status of supply chain management remains unsatisfactory, primarily because the municipality in many instances failed to comply with the legislative requirement to obtain three quotations or to procure goods and services through a competitive bidding process.

Consultants were engaged to assist with financial reporting and preparation of performance information (preparation of financial statements and updated of the asset register) amounting to R2 332 000 (2012: Rnil). Our concerns relating to the assistance sought from consultants include the municipality's ineffective management, consultants being appointed for requirements which can be addressed by internal resources, over-dependency on consultants as a result of unfilled vacancies and lack of transfer of skills resulting in continued dependence on consultants.

IT controls in the areas of user access, security management and IT service continuity were not properly designed and the implementation of these controls was therefore not tested.

Key controls and root causes

The lack of improvement in the key controls was due to the failure of leadership to address weaknesses in the three key control areas, although management was reminded of these weaknesses on a quarterly basis.

The municipal manager must strengthen the following controls to create a control environment that supports reliable financial and performance reporting and compliance with legislation:

- Effective human resource management to ensure that adequate and sufficiently skilled staff is in place, specifically in the key positions of municipal manager, CFO and head of Supply Chain Management. It is important that the performance of these officials be properly monitored.
- Implementation of a proper records management system to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- The appointment of a designated compliance officer who will review and monitor compliance with applicable laws and regulations.

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

- The competencies of the current financial, performance and supply chain management officials should be assessed in order to identify and address gaps in competency levels.
- The municipality should have a proper system to track non-performance and deviation from laws and regulations by officials and ensure that proper steps are taken to address identified deficiencies.
- The development, monitoring and implementation of action plans to address internal control deficiencies identified in the current and the prior years

Impact of key role players on audit outcomes

Assurance levels should be improved by ensuring stability at the level of municipal manager and senior management, implementing the recommendations of internal auditors and establishing an audit committee.

Assurance levels should be improved by appointing an audit committee and ensuring the effective functioning of the internal audit unit. The internal audit unit is currently not functioning effectively due to capacity restraints.

We met with the mayor twice during the financial year but these interactions had minimal impact on the audit outcome. The reason for our assessment is the lack of impact that the mayor had on the controls of the municipality as well as the status and impact of the commitments previously given. The mayor should be more visible at audit steering committee meetings as this will help the mayor to understand the reasons for the audit outcome.

The mayor's commitment of the previous year to provide a file containing the information that will resolve the prior year qualifications, as well as the commitment to implement an audit action plan, was not implemented. This indicates that leadership is not serious about improving service delivery or the municipality's audit outcomes. This matter needs to be prioritised by the implementation of an audit action plan that is monitored by the municipal manager and overseen by the mayor. Senior managers need to be held accountable for their responsibilities in terms of this plan and consequences should be instated if non-performance is detected.

The only prior year commitment that was implemented relates to the submission of the financial statements within the legislative deadline. The mayor has committed to appoint a municipal manager, CFO, audit committee and a compliance officer.

ANNEXURES

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Annexure 2: Municipalities' five-year audit opinions

No.	Auditee	Audit outcome 2012-13			Audit outcome 2011-12			Audit outcome 2010-11			Audit outcome 2009-10			Audit outcome 2008-09		
		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings	
			PDO	Compliance		PDO	Compliance		PDO	Compliance		PDO	Compliance		PDO	Compliance
Financial audits																
District municipalities																
1	Frances Baard District	Unqualified with findings			Unqualified with findings			Qualified			Unqualified with no findings			Unqualified with no findings		
2	John Taolo Gaetsewe District	Qualified			Qualified			Qualified			Qualified			Unqualified with findings		
3	Namakwa District	Qualified			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
4	Pixley Ka Seme District Municipality	Qualified			Qualified			Unqualified with findings			Qualified			Qualified		
5	ZF Mgcawu District	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Qualified			Disclaimer		
Local municipalities																
6	!Kheis	Audit not finalised at legislated date			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
7	Khara Hais	Qualified			Disclaimer			Unqualified with findings			Unqualified with findings			Qualified		
8	Dikgatlong	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
9	Emthanjeni	Unqualified with findings			Qualified			Qualified			Disclaimer			Disclaimer		
10	Gamagara	Qualified			Disclaimer			Unqualified with findings			Unqualified with findings			Qualified		
11	Ga-Segonyana	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
12	Hantam	Qualified			Qualified			Qualified			Unqualified with findings			Qualified		
13	Joe Morolong	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
14	Kai !Garib	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
15	Kamiesberg	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
16	Kareeberg	Qualified			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with no findings		
17	Karoo Hoogland	Audit not finalised at legislated date			Audit not finalised at legislated date			Qualified			Qualified			Disclaimer		
18	Kgatelopele	Disclaimer			Disclaimer			Disclaimer			Qualified			Disclaimer		
19	Khai-Ma	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
20	Magareng	Audit not finalised at legislated date			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
21	Mier	Disclaimer			Qualified			Disclaimer			Disclaimer			Disclaimer		
22	Nama Khoi	Audit not finalised at legislated date			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
23	Phokwane	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
24	Renosterberg	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
25	Richtersveld	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
26	Siyancuma	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
27	Siyathemba	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
28	Soi Plaatje	Qualified			Qualified			Qualified			Disclaimer			Disclaimer		
29	Thembelihle	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
30	Tsantsabane	Disclaimer			Disclaimer			Disclaimer			Disclaimer			Disclaimer		
31	Ubuntu	Unqualified with findings			Qualified			Disclaimer			Qualified			Disclaimer		
32	Umsobomvu	Unqualified with findings			Unqualified with findings			Disclaimer			Qualified			Disclaimer		

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.

<i>Conditional grants</i>	Money transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements.
<i>Consolidated financial statements</i>	Financial statements that reflect the combined financial position and results of a municipality and those of the municipal entities under its control.
<i>Creditors</i>	Persons, companies or organisations that the auditee owes money to for goods and services procured from them.
<i>Current assets (in financial statements)</i>	These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, infrastructure and equipment as well as long-term investments.
<i>Disclaimer of opinion (on financial statements)</i>	The auditee provided insufficient evidence in the form of documentation on which we could base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.
<i>Financial and performance management (as one of the drivers of internal control)</i>	The performance of internal control and monitoring-related tasks by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee. These controls include the basic daily and monthly controls for processing and reconciling transactions, preparing regular and credible financial and performance reports as well as reviewing and monitoring compliance with legislation.
<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.

The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.

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.

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

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

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

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

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.

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

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.

Governance (as one of the drivers of internal control)

Human resource (HR) management

Information technology (IT)

IT controls

IT governance

IT security management

IT service continuity

IT user access management

Internal control / key controls

Irregular expenditure

Expenditure incurred without complying with applicable legislation.

Key drivers of internal control

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

Leadership (as one of the drivers of internal control)

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

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

Material finding (from the audit)

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

Material misstatement (in financial statements or annual performance reports)

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

Misstatement (in financial statements or annual performance reports)

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

Net current liability

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

Net deficit (incurred by auditee)

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

Operational budget / operating budget

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

Oversight structures as well as coordinating and monitoring departments

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

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

Property, infrastructure and equipment (in financial statements)

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

Qualified audit opinion (on financial statements)

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

Receivables / debtors (in financial statements)

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

Reconciliation (of accounting records)

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

Root causes (of audit outcomes)

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

Supply chain management (SCM)

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

Unauthorised expenditure

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

Acronyms and abbreviations

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

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

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



AUDITOR - GENERAL
SOUTH AFRICA

PR203/2014
ISBN: 978-0-621-42879-7

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recyclable and biodegradable paper 